

## **Questions & Answers: Dependent Care Reimbursement Account**

A dependent care reimbursement account allows you to put money aside through payroll deductions before taxes are withheld to pay the cost of dependent care. By doing so, you reduce your taxable income, which increases your take-home pay. The information below describes the dependent care reimbursement account and explains how to use it.

### **What qualifies as dependent care costs?**

Qualifying expenses generally include costs for:

- licensed day care centers
- day camps
- dependent care provided at your home or another location, as long as the provider is not your child under age 19 or any other person you claim as a dependent

### **Who is considered my dependent?**

In general, a dependent is:

- your child up to age 12
- your child 13 and over, your parent or your spouse if they are disabled or unable to care for themselves because of physical or mental impairment

Generally, to be considered your dependent, the person must:

- live in your home
- be claimed as a dependent on your federal income tax return

### **How much can I save through the dependent care reimbursement account?**

You can save up to \$5,000 per calendar year in pretax contributions for qualifying child and dependent care expenses that are necessary for you (and your spouse, if you are married) to work.

If you are married, and file a joint return, you and your spouse can deposit up to a maximum of \$5,000 per year. If you and your spouse file separate tax returns, you can each deposit up to \$2,500 per year.

### **How do I use the money in my account?**

As you incur qualified expenses, you should complete and mail a claim form along with appropriate documentation to Crosby Benefit Systems. Crosby will send you a reimbursement check or deposit your reimbursement into your checking account.

### **What happens to money I have left over in my account at the end of the year?**

It's important that you estimate your expenses carefully and conservatively, as according to IRS rules, you will forfeit any money remaining in your dependent care account at the end of the plan year. There is a 90-day grace period (through March 31 following the end of the plan year) in which you may file claims for reimbursement. However, please remember that claims must be incurred during the plan year to be qualified. After the grace period, you will forfeit the remaining balance in your account. This is called the "use it or lose it" rule.

### **Are there any tax implications if I participate in the dependent care reimbursement account?**

Because your payroll contributions are not subject to Social Security (FICA) tax, your future Social Security benefits could be slightly reduced as a result of your participation in this plan.

Also, when you file your taxes for the year you received dependent care, you must include the provider's or center's name, address, and taxpayer identification number. The exception to this is if your dependent care provider is a church or other tax-exempt dependent care center.

You have a choice between participating in the dependent care reimbursement account or claiming a Dependent Care Tax Credit under Code §21. There is a comparison explanation available for you in this package. You may not claim any other tax benefits for the tax-free amounts received under the dependent care account, although the balance of your dependent care expenses may be eligible for the dependent care tax credit.

### **Can I make a change to my participation in the dependent care reimbursement account during the year?**

You can only make changes to your dependent care reimbursement account during the company's annual open enrollment (January 1st) or if you have a change in family status, which includes:

- the birth of a child
- marriage
- divorce or legal separation
- you or your spouse switching from part-time employment status to full-time status (or vice versa)
- any other qualified change allowed under IRS Code section 125 and included in your plan document
- A list of Qualified Status/Change Events is in you Summary Plan Description.

## **How do I enroll in the dependent care reimbursement account?**

To enroll in the program, complete the Benefits Enrollment Form available from Human Resources and indicate the amount you want deducted from each paycheck.

### **QUALIFICATIONS FOR USING THE DEPENDENT CARE PLAN**

- You must be at work while your child or other dependent is receiving care. If you are married, your spouse must be either employed in a paying job, a full-time student, or disabled.
- The cut-off age for eligible children is age 12. Other dependents (such as children age 13 or over, parents, or a spouse) can receive care only if they are disabled, or cannot otherwise care for themselves because of physical or mental impairment.
- The child or other dependent receiving care must live in your home, and must be eligible to be claimed as a dependent on your federal income tax return.
- You must pay a “qualified person” to care for your eligible dependent at your home, at a licensed day care center, at a day camp, or at another location (except any overnight camp, or any school for first grade or above). A “qualified person” providing dependent care does not include any of your children under age 19, or any other person whom you claims as a dependent.
- You must show on your federal income tax return (for the year in which the care is provided) the name, address, and (except for churches or other tax-exempt dependent care centers) the taxpayer identification number of any persons or dependent care centers that you pay to provide dependent care.
- The Dependent Care Plan allows up to \$5,000 worth of dependent care expenses to one or more of your dependents in a calendar year to be handled on a “pre-tax basis”.
- Because your salary reduction contributions to the Dependent Care Plan are not subjected to FICA tax, your future Social Security benefits could be slightly reduced as a result of your participation in this plan.