

Dependent Day Care

Flexible Spending Account



Paying for Unreimbursed Dependent Day Care Expenses With Pre-Tax Payroll Reductions

DFSA Basics

A Dependent Day Care Flexible Spending Account (DFSA) allows you to set aside a portion of your salary, before-tax, to reimburse certain amounts spent for eligible dependent day care expenses that are necessary in order for you, and if you are married, your spouse, to work or look for work.

Participating in a DFSA can help save you money on taxes since the money you set aside is not subject to federal income or Social Security tax. This allows you to benefit more from the money you earn.

Your maximum annual DFSA contribution under federal tax law may be up to \$5,000 (\$2,500 maximum if you are married, filing separate income tax returns) (for 2024, these amounts are subject to change). The terms of your employer's plan may set lower contribution limits. Your contribution may not exceed your earned income or your spouse's earned income, whichever is less, unless your spouse is disabled or a full-time student, in which case certain income-attribution rules apply.

What are Eligible DFSA Expenses?

Expenses for the following services may be reimbursed from a DFSA, provided they are necessary for the protection and care of your dependent while you work or look for work:

1. Child day care centers
2. Babysitters
3. Preschool / Nursery School (not kindergarten)
4. Non-educational before or after school care programs
5. Adult day care centers
6. Family day care centers
7. Summer day camp (non-educational)

You may claim expenses for services given inside or outside your home. However, payments are not reimbursable if they are made to certain related individuals, including your child under age 19, your spouse, the child's parent, or certain other relatives.

If the service is provided by a day care center that offers care for at least six people (other than residents), the center must comply with all local and state laws and licensing requirements.

Important Note: You must report your dependent care provider's taxpayer identification number (or Social Security number), name, and address on the DFSA claim form, in order for your eligible expenses to be reimbursed from your DFSA.

Whose Expenses are Eligible for Reimbursement?

An eligible dependent is any dependent who is:

1. A child under age 13 who is your dependent under federal tax rules.
2. A child, spouse or parent who is physically or mentally incapable of caring for himself or herself and has your same place of residence for more than half of the year.

A dependent generally has to spend at least 8 hours a day in your household for the dependent's expenses to be reimbursable.

How Does the DFSA Work?

The DFSA allows you to set aside before-tax dollars from your paycheck to pay for your out-of-pocket dependent day care expenses.

To participate in the DFSA, you must designate the total amount you would like to contribute for the plan year. A portion of your total contribution will be deducted with each paycheck you receive during the plan year. When you incur an eligible dependent day care expense, submit a claim for the expense with proper documentation and you will be reimbursed tax-free from the account, up to the amount you have already contributed for the year.

When making your calculation, it is important to conservatively estimate the expenses that you will incur within the plan year, and any grace period, if permitted by the terms of your plan. According to IRS regulations, any money remaining in your account at the end of the plan year (and grace period, if any) will be forfeited.

The plan may set a time after the end of the plan year (generally 3 months) for gathering your documentation and submitting your expenses for reimbursement. Check the terms of your plan. If you do not use amounts during the plan year or the subsequent grace period (if any), and timely submit your claims for reimbursement, you will lose any amounts remaining in your account.

Elections Changes

Because of the special tax advantages that the DFSA provides, the IRS places certain restrictions on contributions to and distributions from the DFSA.

Once you authorize deposits to the DFSA for the plan year, federal rules prohibit you from stopping or changing your election until the next plan year, unless you experience a "Change of Status Event" recognized by your plan.

Examples of Change in Status Events

1. Change in legal marital status
2. Change in number of dependents
3. Change in employment status of employee, spouse or dependent that affects eligibility
4. Reduction or increase in hours of employment of employee, spouse or that affects eligibility
5. Dependent satisfies (or ceases to satisfy) eligibility requirements

Examples of Ineligible Expenses

The IRS decides what is and is not an eligible DFSA expense. For example, the following expenses are not eligible to be reimbursed from your DFSA:

1. Non-employment related care (i.e., evening baby-sitting);
2. 24-hour nursing home expenses;
3. Overnight camp expenses;
4. Education expenses for a child in kindergarten, first grade or higher;
5. Education programs and camps;
6. Childcare expenses that enable your spouse to perform volunteer work;
7. Expenses during non-work hours.

All dependent day care expenses must be properly substantiated, consistent with IRS guidelines, and submitted timely to be reimbursed from your DFSA.

Rules to Remember

After you elect to participate in the DFSA, your contributions are set for the plan year unless you experience a Change of Status Event recognized by your plan.

You must submit claims for reimbursement in accordance with the timing set by your plan.

If you do not use the money you contribute to the DFSA for expenses you incur during the plan year (and grace period, if any), remaining amounts cannot be returned to you. If you do not use it, you lose it.

Submitting Claims

When submitting a claim for reimbursement from the DFSA, you must provide appropriate documentation. An acceptable DFSA claim submission contains a separate, signed and dated claim form for each qualified dependent. The claim form must include a description of services, the dollar amount of the claim, a taxpayer ID number for the provider, the provider's signature (or receipt), along with supporting documentation. Supporting documentation requires the following elements (cancelled checks are not sufficient): name of qualifying dependent; name and address of provider; date of service; description of service; provider's taxpayer identification number.

Which to Use: Dependent Day Care FSA or the Child and Dependent Care Tax Credit?

If you have paid dependent day care expenses in the past, you may be familiar with the federal tax credit allowed for these expenses when you file your federal income tax return. The DFSA is an alternative to the child and dependent care tax credit. You may not use the same expenses for both the tax credit and the DFSA.

Review your situation with your personal tax advisor to determine if you will benefit more from participating in the DFSA or from taking the child and dependent care tax credit on your income tax return.

	Without DFSA Plan After Tax	With DFSA Plan Before Tax
Annual Gross Pay	\$40,000.00	\$40,000.00
Before Dependent Day Care Expense	\$0.00	-\$4,000.00
Taxable Gross Pay	\$40,000.00	\$36,000.00
Federal Income Tax (12%)*	-\$4,800.00	-\$4,320.00
FICA Tax (7.65%)*	-\$3,060.00	-\$2,754.00
After-tax Dependent Day Care Expense	-\$4,000.00	\$0.00
Net Take-home Pay	\$28,140.00	\$28,926.00

Total Annual Savings: \$786.00

*Note – Your FICA and/or Federal Income Tax rate may differ. Consult your tax advisor.