Dependent Care Flexible Spending Accounts (FSA)

A tax-free way to plan, save and pay for dependent care expenses

A dependent care flexible spending account, or dependent care FSA, offers a simple way to plan, save and pay for ongoing dependent care expenses and stretch your paycheck. Every dollar you contribute to a dependent care FSA decreases your taxable income by the same amount.

You set aside regular, pre-tax contributions to pay for babysitting services, enrollment in a child care program, nursery or preschool expenses, summer day camps for children under the age of 13, or adult day care for dependents who are mentally or physically incapable of caring for themselves.

How a dependent care FSA works

When you enroll in a dependent care FSA, your employer will deduct a regular amount from each paycheck, before federal, Social Security, Medicare (FICA) and state (if applicable) taxes. These funds will be held in the account until you request reimbursement for an eligible out-of-pocket expense.

Examples of eligible dependent care expenses:

- Licensed nursery schools, qualified child care centers and preschool programs
- After school programs
- Baby-sitters inside or outside the home while you are at work (as long as the individual is not your child under age 19, or anyone you or your spouse can claim as a dependent for federal income tax purposes)
- FICA and other taxes you pay on behalf of a day care provider
- Meal and lodging expenses provided for your care giver (includes additional rent and utilities as well as food)
- Adult day care facilities

Keep in mind that the IRS and/or your employer may, from time to time, modify its list of eligible expenses. Please contact your benefits representative for a list of eligible expenses.

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How to enroll in a dependent care FSA

You can enroll in your company's dependent care FSA during the annual benefits enrollment period. At that time, you must tell your employer how much you want to set aside for dependent care during the upcoming benefits plan year. You may be able to revise your contribution amount if you experience a qualified "change in status," such as the birth or adoption of a child or if you assume responsibility for an adult who is mentally or physically incapable of caring for him or herself. Consult your benefits representation for a list of "change in status" events.

Things to consider when determining your contribution

- The type of dependent care services you are likely to require during the year
- The extent and frequency of the services you are likely to use during the year
- How much these expenses will cost during the year
- The IRS under its "use-or-lose" rule, requires you to forfeit any funds remaining in a dependent care FSA at the end of a plan year and you should plan your annual dependent care FSA contributions or grace period, if applicable accordingly.

Accessing your dependent care FSA

You request a reimbursement by completing and submitting a claim form, along with appropriate documentation, online or via fax, email or mail. Once your request has been processed, a reimbursement check for the appropriate amount will be mailed to you or that amount will be transferred from your dependent care FSA and deposited directly into your savings or checking account that you have specified.

How a dependent care FSA impacts your tax returns

If you choose to have eligible dependent care services reimbursed by your FSA, they cannot be claimed for a dependent care tax credit on your federal income tax return. Depending on your family's total annual income, a dependent care FSA may save you additional money. Consult a tax advisor to see which option is best for you.

Note: The IRS limits the amount you can contribute to a dependent care FSA. Please refer to your employer's FSA benefit information for specific details or see IRS Publication 503 at irs.gov.

To take advantage of the dependent care flexible spending account offered by your employer, contact your benefits representative.

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