TASC FSA Self-Administration Plan

CLIENT ADMINISTRATION MANUAL

FX-5292-042721

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This Administration Manual provides all the guidance you need to properly manage your TASC FSA Self-Administration Plan. You will also receive an invitation to attend a webinar or a one-on-one phone call. This will help educate you on the requirements necessary to keep your plan compliant and all the benefits we offer to help you do so. In the meantime, if you have any questions pertaining to your plan, call us toll-free at 800.422.4661. While not required, the 12-digit TASC ID provided in this welcome kit will help get you to the right contact quickly.

Client Forms

Welcome

Dear Valued Customer:

Thank you for choosing TASC to administer your Section 125 Self-Administration Plan. We appreciate your business.

This manual contains everything you need to implement your plan, including important forms located in the "Client Forms" section of this Manual.

Visit our TASC client news blog at **www.tasctracker.com** and subscribe to receive news updates via email. Must-know information regarding TASC products is posted regularly on this site.

Feel free to call 1-800-422-4661 for any customer assistance you may need.

We look forward to serving you and your employees!

WELCOME TO THE PLAN!

Introduction to Cafeteria Plans

What is a Section 125 Cafeteria Plan?

Section 125 Cafeteria Plans (also called Flexible Spending Accounts or FSAs) allow Participants to elect or set aside pretax dollars to pay for their portion of the employer-sponsored health insurance premiums, healthcare out-of-pocket expenses, dependent daycare expenses, and non-employer sponsored (NESP) health insurance premiums. In addition, a Health Savings Account can be set up under a Section 125 Cafeteria Plan. The amount deducted from the Participant's salary to pay for these expenses is called an election. Because these expenses are paid with pretax dollars, Participants are taxed on a lower gross salary, thereby saving money that would otherwise be spent on federal, state, and FICA taxes. As the employing company, you save on your portion of FICA taxes (7.65 percent for every dollar a Participant runs through the Plan).

Who is eligible?

The FSA Plan regulations require all participants in the Plan to be employees of the employer. As such, eligibility to participate is generally limited to common-law employees of the employer and the specific eligibility requirements for the Plan are set out in the Plan Document and Summary Plan Description. It is important to note there are individuals who are specifically excluded from participating in an FSA Plan. For instance, a sole proprietor can sponsor an FSA Plan; however, the sole proprietor is not considered an employee and thus cannot participate. The same holds true for Partners in a partnership. In addition, more-than-2% shareholders of an S-Corporation are not eligible to participate and due to attribution rules, the shareholder's spouse, children, parents, and grandparents are also excluded from participation.

How can a company benefit from an FSA?

The FSA Plan controls benefits costs without restricting choices and reduces your Social Security tax payments for every dollar of employee participation. It also saves your employees money because their necessary benefits are purchased with pretax money. An FSA puts more money in your employees' pockets and, at the same time, helps your business! Employees know FSA Plans make good financial sense. For very little cost, you can provide a benefits package with their interests in mind.

How does the Plan work?

Participants must enroll in an FSA Plan at the start-up of a new Plan or at the time they become first eligible for a Plan, and must renew (re-enroll) at the start of each subsequent Plan Year. At that time, all eligible Participants must choose their election(s) for each benefit in which they will be participating. The elections are specific to each type of FSA, meaning that dollars set aside for dependent care can be used for dependent care only, and not for healthcare out-of-pocket expenses, etc. With an FSA Plan, the employee's portion of group-sponsored premiums can also be deducted pretax.

Uniform Coverage Rule

In accordance with the Internal Revenue Service's Uniform Coverage Rule, a Participant's total annual health FSA election amount must be available at all times during the Participant's period of coverage (less any prior reimbursements). Therefore, a Participant's Healthcare FSA annual election cannot relate to the amount contributed to the Healthcare FSA during their active coverage period and any negative contribution balances are the responsibility of the Employer. In sum, when a Participant terminates their health FSA and the reimbursements to the Participant exceed the amount of contributions taken, the Employer is responsible for funding the difference. This is the Employer's part of the risk feature required of a Cafeteria Plan. The risk to the Participant is when they are not able to use all of the funds they contributed to the Plan (the Use-it-or-Lose-it Rule).

Runout Period; Use-It-or-Lose-It Rule:

Typically, an Employer allows a three-month transitional period following the end of the Plan Year (a Runout Period) for Participant's to continue to submit reimbursement requests for expenses incurred during the previous Plan Year or during any elected Grace Period. The Plan Year officially closes following the end of the Runout Period. Participants with funds remaining after that date forfeit those funds to the Employer (Use-It-or-Lose-It Rule). If an Employer offers a Carryover, the amount a Participant has remaining that exceeds the Carryover maximum is forfeited.

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Cafeteria Plans (continued)

Carryover Option

At the end of the Plan Year, you may allow a Healthcare FSA Carryover during which Participants may carry over a portion of their unused Healthcare FSA balance to the next Plan Year, even if the participant did not re-enroll. An Employer may allow the maximum Carryover, a lessor amount or no Carryover. Any unused Healthcare FSA funds (exceeding the Carryover maximum) are forfeited to you, the Employer. During the Runout period, Participants in the prior and current Plan Year may request reimbursements from both respective Plan Years. When the Carryover option is elected, it is chosen in lieu of the Grace Period, as you cannot offer both for the same benefit plan. You must choose one or the other, or neither for the benefit plan.

Please note, the Consolidated Appropriations Act, 2021 (CAA), allows a temporary provision for an Employer to implement the Carryover for a Dependent Care FSA in addition to the Healthcare FSA. This is applicable to plans that ended in 2020 or in 2021. Contact TASC for additional information.

Grace Period Option

Even though you are not allowed to have a Carryover and a Grace Period for the same FSA benefit plan, you may have a Grace Period for your other FSA benefits that do not have a Carryover. During the Grace Period, Participants may continue to incur and submit eligible expenses against the just-ended Plan Year.

While the maximum Grace Period is two months and 15 days, you may choose a shorter Grace Period to better suit your business. Please note, the CAA temporary legislation allows an Employer to have a Grace Period that extends up to 12 months after the plan year ends. Contact TASC for additional information.

Health Insurance Portability and Accountability Act (HIPAA)

As a result of HIPAA, employers who sponsor a healthcare reimbursement plan are subject to regulations that ensure the privacy and confidentiality of individual health information, otherwise known as Protected Health Information (PHI). Contact TASC if you would like information on TASC's HIPAA Compliance services.

Employer Tax Savings

To estimate the potential payroll savings realized by implementing a Section 125 Plan, determine the total number of employees: _____

A. Estimated Health Premiums (Group Health, Vision, Dental, Group Term Life, etc.)

Total monthly amount paid by all eligible employees = $_____
(total of A)

B. Estimated Eligible Healthcare FSA Expenses

Number of Employees _____ x $_____/month = $_____
(total of B)

C. Estimated Dependent Care FSA Expenses

Number of (Families) _____ x 20% x $250/month = $_____
(total of C)

Based on current figures, 20% of family employees take advantage of Dependent Care Accounts, with an average cost of $250/month.

D. Estimated Healthcare Premium (NESP) Reimbursement Account Expenses

Number of Employees x $_____/month = $_____
(total of D)

E. Calculated Payroll Tax Savings

Totals of A, B, C, and D = $_____

x 8%

Estimated Potential $_____

Payroll Savings per month $_____

x 12

Yearly Savings $ _____

The average payroll savings is 8%, which may include Social Security contributions, Unemployment Taxes, and Worker's Compensations Insurance. All figures are estimated and not guaranteed.

Getting Started

Section 125 Plan Document Adoption

To implement a Section 125 (Self-Administration) Plan, a Plan Document must be adopted. Download your plan document from the link provided in your Welcome Email. This is very important! In order for this plan to be tax advantaged, the IRS requires an employer to have an individual authorized by the employer's corporate charter or bylaws to officially adopt the Cafeteria Plan. To do so, download the document, the adoption instructions and complete Article XI as instructed. Keep the documents for your records. Do not return to TASC.

Important: Please remember to contact TASC anytime you have changes to your Plan. The required documents must be updated and, in some cases, must be formerly adopted to be tax advantaged. TASC recommends making updates at each plan renewal to ensure you have the current terms for your Plan at the start of the Plan Year.

Summary Plan Description

A Summary Plan Description (SPD) is a summary of the benefit(s) your company selected in the TASC USA Purchaser Details. In accordance with IRS regulations, the SPD must be provided annually to all employees eligible for participation in your FSA Plan. The SPD must be distributed within 90 days of the start date of the Plan and from the time a Participant be-comes covered under the Plan (new hires and existing employees joining the Plan).

Print out the SPD and distribute copies to your eligible employees.

Enrollment

Employees must make their elections prior to the start date of the Plan Year. Select your dates for an open enrollment period and communicate the dates to all eligible employees. Distribute communication materials and enrollment forms to eligible employees. Collect all enrollment forms at the end of the open enrollment period.

Contributions

To determine a Participant's payroll deduction amount, divide the Participant's election equally across the number of payrolls within the Plan Year. This is the amount to deduct pretax each payroll. Start taking the deductions on the first payroll date in the Plan Year.

Reimbursements

A Participant may request reimbursement any time a qualified expense has been incurred. The service related to the expense needs only to have taken place; it need not be paid before requesting reimbursement. The Participant simply needs to complete and submit a Request for Reimbursement Form.

The Participant may only claim reimbursement (a) for eligible expenses incurred during the applicable Plan Year, or subsequent Grace Period (if applicable) (b) made by eligible Plan Participants, (c) for expenses that have been neither previously reimbursed under this or any other benefit plan nor claimed as an income tax deduction.

Eligible Healthcare FSA reimbursement requests are reimbursed up to the Participant's elected amount regardless of the amount of funds contributed. For dependent care or healthcare premium (NESP) reimbursement (independent insurance premiums), a Participant must have sufficient funds in his/her account in order for the full request to be reimbursed.

Non-Discrimination Assessment

Section 125 of the Internal Revenue Code requires that Cafeteria Plans benefits be offered to employees on a nondiscriminatory basis.

To ensure that your Plan complies with all the rules and regulations of the Internal Revenue Services, you must complete the Non-Discrimination Assessment each year for your Self-Admin Plan. The assessment is provided on an annual basis. TASC will send an assessment request to you annually. This request includes instructions on how to gather and complete the data worksheet. Once received, please submit this information within 30 days to TASC in order that the assessment can be performed in a timely manner.

IRS Form 5500

In general, Employers with 100 or more Participants in the Healthcare Flexible Spending Account (FSA) at the beginning of any given Plan Year must file an Internal Revenue Service (IRS) Form 5500 after the close of that Plan Year. Compliance is the employer's responsibility and failure to file an annual return can result in penalties. Form 5500 must be filed by the last day of the seventh month after the Plan Year ends. If needed, a one-time extension may be requested by filing IRS Form 5558 by the date of the original filing deadline.

Employers may file a consolidated Form 5500 with their other benefits or file one separate for each specific benefit. If you have purchased the Compliance Add-on package for an applicable benefit TASC will prepare the Form 5500 and Summary Annual Report (SAR) for that benefit. As the Employer, it is your responsibility to sign and submit the Form 5500 electronically. Once TASC has prepared the forms, an email will be sent to you with instructions on how to electronically sign and submit your Form 5500 under the ERISA Filing Acceptance System (EFAST). If you do not purchase the Compliance Add-On package, it is assumed you are not required to file or will be filing the Form 5500 on your own.

Your Plan is Operational

Your TASC Self-Administration Plan is in place and operating. If you or your Participants have questions or need assistance, contact TASC Customer Care at 1-800-422-4661.

Plan Renewal

To retain the pretax advantages of your TASC Self-Administration Plan, you must renew your Plan each year. Each renewal includes the following services:

- Plan Document
- Summary Plan Description (SPD)
- Non-Discrimination Assessment
- Toll-Free Support
- Compliance Guidance

Renewal notifications are sent approximately 75 days prior to your Plan effective date. This is the time to ensure we have up-to-date account information for you and on your Plan Benefit offerings.

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TASC Invoicing Practices

Purpose

TASC's Invoicing Practices aim to foster a clear understanding by communicating expectations to all Clients and Providers, ensuring compliance to TASC Plans and services, creating consistency between all of TASC's divisions, and ensuring the continuation of services.

Philosophy

To ensure that TASC operations continue to run smoothly, various actions need to occur in a timely manner, including the payment of TASC administrative fees. Paying in advance demonstrates that the Plan is for the benefit of employees, provides further evidence that the Plan has been established on a pre-thought basis, and ensures coverage under TASC's Audit Guarantees. TASC invoices in advance for two reasons:

1. TASC requires a commitment in advance of the business being processed, and
2. TASC requires a payment history for its Clients, so as to determine the Clients' status of good standing.

Types of Payments

- **Check**
  Clients may pay by check.
- **E-Pay**
  Clients may pay administrative fees electronically as long as they use E-Pay, and as long as these fees are debited seven (7) days prior to their service period start date. Therefore, if a service period begins January 1, Clients will be debited on December 23.
- **ACH Credit**
  Clients may pay administrative fees via an electronic ACH Credit transfer. A $40 per transaction Service Charge will be assessed. Clients should contact their Provider for details.
- **ACH Debit**
  Clients may pay administrative fees via an electronic ACH Debit transfer.

Types of Invoices

- **Administration Fee**
  Generated annually, quarterly, or monthly for TASC Services that are provided during a pre-determined service period.
- **Premium Services Fee**
  This invoice is generated when a Client has elected a Premium Service.

Standard Procedures Across all Divisions

- **Invoice**
  Generated and sent forty-five (45) days prior to the Service Period start.
- **Due Date**
  Will be seven (7) days from the date the invoice was generated.
- **Service Charge Date**
  An additional $20 fee will be assessed sixty (60) days from the original Invoice Date if the invoice is not paid by the Service Charge due date, and the account will be placed on hold.
- **Statement**
  A Statement (second notice) of unpaid invoices will be mailed fifteen (15) days prior to the start of the Service Period.
- **Past Due Email Notification**
  On the first day of the Service Period or forty-five (45) days after the original invoice date (whichever comes first), an email will be sent to any account with unpaid invoices older than forty (40) days. This email will inform the Client that the account will be put on hold and that a $20 service fee will be charged if the invoice is not paid within sixty (60) days of the original invoice issue date.
  Exception: TASC FSA invoices will receive notification of Past Due at 15 days after the date of invoice.
- **Final Notice Statement** A Final Notice Statement (third notice) will be mailed out fifteen (15) days into the Service Period, with a Service Charge of $20.00, a notice of "default" status, and a notice that all account services have been placed on hold.
- **Collections** The account will be placed in Collections forty-five (45) days into the Service Period start, or ninety (90) days after the original invoice date, whichever comes first.

- **Plan Termination** The account will be terminated one hundred four (104) days into the Service Period start. Letters will be provided to each Client being terminated.
- **Fee Calculations** Fees are calculated on the number of known Participants at the time the invoice is generated. Administration fees are either the minimum fee or the number of Participants multiplied by the per Participant fee, whichever is higher. If the number of Participants is unknown the minimum fee will be charged.

Client Responsibilities

- Mail invoices and payments in the envelope provided (goldenrod color) to:
  TASC - Client Invoices
  PO Box 88278
  Milwaukee, WI 53288-0001
  - All invoice payments must be submitted separately from all other payments and transactions.
  - All invoice payments must be made separately (i.e. one check with one invoice).
- Notify TASC of any disputes or any changes.

CLIENT FORMS

These forms are for reference only.
Please copy as needed.

Employer Checklist

The Employer and Plan Administrator (if other than the employer) should complete the following steps:

- [ ] 1. Complete the **TASC Plan Application**, sign, date, and return it to TASC.
- [ ] 2. Download your **plan document** (refer to the link in your Welcome Email)
- [ ] 3. Review the Adoption section on the plan document's **Introduction and Instructions** page.
- [ ] 4. Download and review the **Terms of Use** (refer to your Welcome email).
- [ ] 5. Review the **Summary Plan Description (SPD)** upon receipt from TASC.
- [ ] 6. Set your open enrollment period and communicate to employees.
- [ ] 7. Distribute the enrollment materials to all eligible employees.

  Find our Eligible Expenses Flyers at: www.tasconline.com/eligible-expenses/
- [ ] 8. Collect enrollments and record elections.
- [ ] 9. Adjust payroll to reflect the pretax salary reductions.
- [ ] 10. Participants may begin requesting reimbursements on the start date of the Plan Year.
- [ ] 11. Distribute the SPD to participants within 90 days of the start of the plan and from the time a Participant becomes covered under the Plan (new hires and existing employees joining the Plan).

FSA Enrollment Form

Make sure to sign, date, and complete each line on the Flexible Compensation Enrollment Form. Please enter zero (0) whereno amount is being deducted. Return the completed and signed form to your employer.

PARTICIPANT/EMPLOYEE INFORMATION

Participant First Name:		MI:		Participant Last Name:	
Participant's Plan Effective Date:				Date of First Payroll:	
Participant Email:				Participant Phone:	
Primary Address:	Address 1:			Suite:	
	Address 2:				
	City:				
	State:		ZIP/Postal Code:	+4	

ELECTION AMOUNTS

Prior to completing your election amounts, refer to the instructions and frequently asked questions on page 2.

I request the following amount(s) to be deducted pre-tax:	Employee Annual Salary Reduction Election	Employer Annual Contribution
Healthcare FSA Expenses	$	$
☐ I elect to exclude my spouse (for HSA eligibility reasons).		
Limited or Limited Post-Deductible Healthcare FSA Expenses	$	$
Dependent Care FSA (Daycare Expenses)	$	$
Healthcare Premium (NESP) Reimbursement Account	$	$

AUTHORIZATION

I certify the above information to be true to the best of my knowledge and that the children for whom I will be claiming dependent or child care expenses either reside with me in a parent-child relationship or are legally dependent on me for their support. I agree to have my compensation reduced by the deduction amount(s) stated above. I understand amounts remaining in my flexible spending account(s) not used for qualified expenses incurred during the plan year will be forfeited in accordance with current Plan provisions and tax laws. I further understand that the Flexible Compensation deduction(s) will be in effect for the entire Plan Year and cannot be changed or revoked except as permitted by federal law. I understand that my share of eligible group premium(s) will be automatically deducted before taxes. I also understand that if I do not wish to have my eligible insurance contributions deducted pre-tax and prefer to be taxed on these dollars, I will contact my payroll department.

Signature:

Print Name

Signature **Date**

ENROLLMENT FORM INSTRUCTIONS

1. Healthcare FSA Election:
   This amount is usually paid per year toward deductible and co-insurance portions of health insurance, dental expenses, orthodontic expenses, eye care, and other miscellaneous healthcare expenses. Per IRS regulations, a Participant may salary reduce the maximum based on the current IRS Plan Year limits. Your employer may have a Plan Year maximum less than the IRS allowed amount. Review your Summary Plan Description (SPD) or check with your employer for your Plan's maximum amount.
2. Limited or Limited Post-Deductible Healthcare FSA Election:
   Limited Healthcare FSA eligible expenses are those you expect to pay out-of-pocket for dental and vision expenses throughout the Plan Year. Limited Post-Deductible Healthcare FSA eligible expenses are also out-of-pocket dental and vision expenses. However once you meet the IRS statutory minimum annual HDHP deductible amount, you may also submit qualified out-of-pocket medical care expenses such as medical insurance copays and deductibles, prescriptions and OTC medicines for the remainder of the plan year. A Participant may salary reduce the maximum based on the current IRS Plan Year limits. Your employer may have a Plan Year maximum less that the IRS allowed amount. Review your SPD or check with your employer for your Plan's maximum amount.
3. Dependent Care FSA Election:
   Amount you expect to pay for eligible day care expenses per Plan Year. The maximum allowable amount under IRS regulations is $5,000 per calendar year per family; $2,500 per calendar year for married individuals filing single.
4. Healthcare Premium (NESP) Reimbursement Account:
   Pre-tax reimbursement of privately purchased insurance premiums such as health, disability, and cancer insurance. Examples of insurance premiums NOT eligible are employer sponsored group insurance (premiums deducted from your paycheck or your spouse's paycheck), life insurance, long-term care insurance, and premiums for coverage under the federal exchange "Marketplace" program. Please note, when disability premiums are pre-taxed, the benefits received are taxable.

ENROLLMENT FORM INSTRUCTIONS

1. What does a Section 125 Plan offer?
   It offers you a choice to pay for certain qualified benefits on a pre-tax basis. Paying for certain benefits with pre-tax dollars reduces the amount you pay in taxes and increases your take-home pay. Every dollar paid on a pre-tax basis results in a savings to you. (See example.)
2. Any cost or fee to me? No.
3. Must I participate in my employer's health insurance?
   No. You may participate in an FSA regardless of your particular insurance provider.
4. What are qualified medical expenses?
   These expenses include dental care, prescriptions, eyeglasses, out-of-pocket medical expenses not covered by insurance and over-the-counter (OTC) medicines. However, vitamins and other dietary supplements taken for general health purposes are not eligible

Pre-Tax Example		
	Without an FSA	With an FSA
Gross Pay	$3500/month	$3500/month
Pre-Tax Benefits		
Medical/Dental Premiums	0	300
Medical Expenses	0	100
Dependent Care Expenses	0	400
TOTAL	**0**	**800**
Wages subject to tax	3500	2700
Federal Tax	525	405
FICA Tax (Social Security)	268	207
State Tax	175	135
Out-of-Pocket expenses	800	0
Spendable Income	1732	1953
Net Increase in Take-Home Pay = $221/month		
This is just an illustration and actual numbers may vary. Paying certain qualified expenses before tax increases your take-home pay.		

5. How does the Dependent Care Account compare with the tax credit available on the individual Form 1040?
   The circumstances that determine which option offers greater savings vary from family to family, as such, the decision to choose the tax credit or the dependent care deduction may be made on a case by case basis only. Participation in an FSA results in an immediate savings on Federal, State, and Social Security tax, whereas the Federal credit will affect Federal Income Tax only and will be taken at year-end.
6. How does a Section 125 Plan affect Social Security benefits?
   Reduction of your Social Security benefits will be minimal and is offset by the tax savings and lower health care costs available under an FSA. To compensate for this minimal reduction, you may consider increasing your retirement plan funding.
7. Under what circumstances can the annual election be changed?
   The elections may be changed only if there is a change in family or employment status. See the Change of Elections Form for more detail.
8. What is the Use-or-Lose Rule?
   To avoid an account balance at year-end, be conservative when making elections. Any funds left unused at the end of the Plan Year are forfeited, unless your employer offers a Carryover (for Healthcare FSA Expenses Benefit only). Refer to your Summary Plan Description for details specific to your Plan.

FSA Reimbursement Request Form

Complete all sections of the Request for Reimbursement and submit with supporting documentation to your employer:

(Please Print)

INDIVIDUAL/PARTICIPANT INFORMATION

Employee/Participant First Name:		MI:		Last Name:		
Employer Name:				Email Address:		
Primary Phone #:				Mobile Phone #:		
Primary Address:	Address Line 1:				Apt:	
	Address Line 2:					
	City:					
	State:		ZIP/Postal Code:		+4	

HEALTHCARE (OUT OF POCKET) EXPENSES

☐ **Check here if Limited Healthcare or Limited Post-Deductible Healthcare Expenses**

An Explanation of Benefits (EOB) or receipt must be attached.

Date of Service (mm/dd/yyyy)	Patient Name	Provider Name	Description of Service	Amount Requested
				$
				$
				$
				$
			Total Amount Requested	**$**

DEPENDENT DAY CARE EXPENSES

An Itemized receipt must be attached.

Date of Service (mm/dd/yyyy)	Dependent Name	Dep Age	Provider Name	Provider Tax ID# (TIN or SSN)	Amount Requested
					$
					$
					$
					$
				Total Amount Requested	**$**

****AUTHORIZATION SIGNATURE REQUIRED ON PAGE 2****

HEALTHCARE PREMIUM (NESP) EXPENSES

Evidence of ongoing coverage showing amount of premium due (such as a carrier invoice) or receipt must be attached.

Date of Service (mm/dd/yyyy)	Policy Holder Name	Insurance Provider	Type of Premium	Amount Requested
				$
				$
				$
				$
			Total Amount Requested	**$**

AUTHRIZATION INFORMATION

To the best of my knowledge and belief, all statements and information provided on this Reimbursement Request Form are complete and true. I am requesting reimbursement only for eligible expenses incurred during the applicable Plan Year and for eligible Plan Participants. I certify that these expenses have not been previously reimbursed under this or any other benefit plan and will not be claimed as an income tax deduction. I understand that the IRS regulates my Flexible Spending Account and that these guidelines are implemented as a means of ensuring compliance and approval for reimbursement. I further understand that it is my responsibility to comply with these guidelines and to avoid submitting duplicate or ineligible requests. I authorize my Flexible Spending Account balanceto be reduced by the amount requested.

Signature:

Print Name

Participant Signature *(Required)*

Date (MM/DD/YYYY)

Dependent Care Qualifications

A Section 125 Cafeteria Plan allows for the inclusion of Dependent Care (Section 129 of the Internal Revenue Code) benefits. Eligibility for the dependent care benefit requires that certain criteria be met with respect to the expense, the provider, etc.

A. The dependent care expenses must be work related. The care must be necessary for the employee and the employee's spouse to work, to look for work, or to attend school full-time, or if they are physically unable to care for their children.

B. The dependent care expenses provided during a calendar year cannot exceed $5,000. In the case of a separate return by a married individual, the limit is $2,500. This amount may be less if the employee's earned income or spouse's earned income is less than $5,000.

The dependent care expenses must be for the care of one or more qualifying persons. A qualifying person is one of the following:

A. A dependent who was under age 13 when the care was provided and for whom an exemption can be claimed.

B. A spouse who was physically or mentally not able to care for himself or herself, and lived with you for more than half the year.

C. A dependent who was physically or mentally not able to care for himself or herself and for whom an exemption can be claimed, and lived with you for more than half the year.

To receive the dependent care benefit, one must follow these procedures:

A. All persons and organizations that provide dependent care for a qualified person must be identified. This information is requested on Form 2441. The name, address, and tax payer identification number of the provider must be included. Under certain circumstances the taxpayer identification number will be a social security number.

B. If the care is being provided by a center that cares for more than six persons, the center must comply with all state and local regulations.

C. Payments made to relatives who are not dependents can be included. However, do not include amounts paid to a dependent for whom you can claim an exemption or for your child who is under age 19 at the end of the year, regardless of whether he or she is your dependent.

D. Use Form W-10 to request the required information from the care provider.

Special rules apply to children of divorced or separated parents:

Even if you cannot claim your child as a dependent, he or she is treated as your qualifying person if all of the following are true:

- The child was under age 13 or was not physically or mentally able to care for himself or herself
- One or both parents provided more than half of the child's support for the year and are divorced, legally separated, or lived apart at all times during the last 6 months of the calendar year.
- One or both parents had custody of the child for more than half of the year
- You were the child's custodial parent. The custodial parent is the parent having custody for the greater portion of the calendar year. If the child was with both parents for an equal number of nights, the parent with the higher adjusted gross income is the custodial parent.

NOTE: A non-custodial parent that is entitled to claim the child as a dependent on their tax return may not treat the child as a qualifying individual for the dependent care benefit even when that parent is financially responsible for providing the care. Only one parent (the custodial parent) may qualify for the dependent care benefit for a taxable year. The regulations do not provide any relief for a non-custodial parent that incurs dependent care expenses for the portion of the year in which they have custody of the child to enable the non-custodial parent to work.

Dependent Care Qualifications

Eligible and Ineligible Expenses for FSA Dependent Care (partial list):

Eligible Expenses (must be work-related)

- FICA/FUTA taxes of dependent care provider
- Nanny expenses attributed to dependent care
- Nursery school (preschool)
- Late pick up fees
- Day Camp – primary purpose must be custodial care and not educational in nature
- Day care when one parent is working and the other is sleeping during daytime hours

Ineligible Expenses

- Kindergarten
- Activity fees/supplies
- Late payment charges
- Overnight camp
- Transportation
- Fees paid to a provider not reporting the income to the IRS

For more information regarding dependent care expenses, please review IRS Publication 503.

Dependent Care FSA vs. Dependent Care Credit

Individuals who incur dependent care costs have two choices for saving taxes on these costs. One option is to utilize the income tax credit that is available from the federal government (IRS Form 2441). The other option is available only to individuals who are participating in a Cafeteria Plan sponsored by their employer (i.e., Dependent Care FSA). Finally, both options are available for many individuals, who must choose the option that provides the most savings.

Many factors must be considered by the individual and/or their family when determining the best option. As a general rule, under a Cafeteria Plan the employee will save approximately 27.65 percent of each dollar that is run through the Plan. This percentage is an average based on an employee with income in the lowest tax bracket; therefore the savings may be larger for an employee with higher earnings.

Meanwhile, the savings realized by the dependent care credit will vary and again will depend on the family's total income. The chart at right helps to estimate the amount of this credit; the credit column represents the multiplier. For example, if income is between 25,000 and 27,000, you will save 29 percent of each dollar that you spend on qualified dependent care expenses.

Any true and thorough comparison of the two options should consider expense limitations. To elaborate, the dependent care benefit under a Cafeteria Plan may not exceed $5,000, regardless of the number of children. In sum: $5,000 is the maximum, whether for one child or more. In contrast, the income tax credit is $3,000 for one child or $6,000 for two or more children (not to exceed $6,000).

The above options make it clear that the difference between these two plans is most vital to families with one or two children. Let us consider… While a family with one child may merit a maximum of $5,000 through a Cafeteria Plan, the equivalent maximum possible with the income tax credit is $3,000. For families with two or more children, the corresponding numbers are $5,000 maximum (cafeteria) and $6,000 maximum (tax credit).

Child and Dependent Care Credit Table*

INCOME	CREDIT	INCOME	CREDIT
0-15,000	.35	29,000-31,000	.27
15,000-17,000	.34	31,000-33,000	.26
17,000-19,000	.33	33,000-35,000	.25
19,000-21,000	.32	35,000-37,000	.24
21,000-23,000	.31	37,000-39,000	.23
23,000-25,000	.30	39,000-41,000	.22
25,000-27,000	.29	41,000-43,000	.21
27,000-29,000	.28	43,000-no limit	.20

*Indexed

The next step is to consider the amount of income in order to estimate their savings. For the Cafeteria Plan, the minimum savings will be 27.65 percent of each dollar. This amount may be greater for employees in a higher income tax bracket. For the credit, the percentage of savings is based on the combined income of both spouses if they file a joint return. For example, in looking at the illustrative chart, a husband and wife who jointly earn $40,000 will save 22 percent of each dollar through the tax credit. Under a Cafeteria Plan, this family would instead save 27.65 percent of each dollar. It is important to note here that an employee and spouse with a joint income of $30,000 or less and only one child will likely realize a greater savings by taking advantage of the credit. (For the credit, the less the income, the greater the savings).

One final item to consider concerns the actual time it takes to realize the savings. By participating in the dependent care benefit under a Cafeteria Plan, the savings will be realized immediately. Conversely, the savings by taking the dependent care tax credit is realized only when the employee files their yearly tax return.

Healthcare Premium (NESP) Reimbursement Account

We most often see employees pretax their insurance premiums that are sponsored by their employers through the Cafeteria Plan. However, the Cafeteria Plan does allow employees to include and fund for insurance premiums that are not employer sponsored, but rather individually purchased by the employee on their own. These individual insurance premiums can only be reimbursed through a separate Healthcare Premium (NESP) Reimbursement Account. Reimbursement of premiums through a Healthcare FSA is not allowed.

Participant elections are irrevocable for the Plan Year unless there is a qualifying event. Changes made to the election mid-Plan Year must also be consistent with the qualifying event.

Eligible Premiums

- Individually purchased health insurance for the employee, spouse, or dependent.
- COBRA premiums (these are not considered "employer sponsored" and therefore are eligible).
- Health insurance that may be deducted from retirement benefits that are provided through a previous employer.
- Individually purchased disability insurance. (Benefits received are taxable when premiums are paid pretax.)
- Individually purchased dreaded disease insurance (e.g. cancer or stroke; must not contain a premium refund feature).
- Medicare Part B, D or Medicare supplement premiums (only if the employer is not subject to Medicare Secondary Payor (MSP) rules)

Ineligible Premiums

- Policies that defer compensation (e.g. cancer and hospital indemnity policies with a premium refund feature).
- Any product which is advertised, marketed or offered as long-term care insurance.
- Health Insurance coverage provided by another employer. (Spouse or dependent's insurance premium through their employer would not be allowed.)
- Individual life insurance policies.
- Premiums for Plans purchased through the Marketplace (federal or state exchange programs).
- Medicare Part B, D or supplement premiums (if the employer is subject to (MSP) rules)

Health Savings Account (HSA)

Health Savings Accounts (HSA) are an excellent way to help fund medical expenses. The tax-favored treatment of HSAs was established under 2003 Medicare legislation. The law authorizes individuals and employers alike to use a tax-advantage HSA in conjunction with high-deductible health insurance plans. Individuals who establish HSA to pay for qualified medical expenses deposit funds into the account tax-free via salary reductions. The funds are held in a custodial account until a qualified medical expense is incurred, at which time reimbursement funds may be withdrawn from the account. At the end of the Plan Year, unused balances are retained in the account and may be carried over to subsequent Plan Years. In addition, funds in the account belong to the individual and are portable from employer to employer. (This portability is in effect regardless of who contributes to the fund.)

High Deductible Health Plan

A High Deductible Health Plan (HDHP) is a health plan with a set annual deductible for individuals and for families. (Contact TASC Customer Care for the current limits.) Out-of-pocket expenses are limited under the health insurance plan. All these limitations are subject to annual cost of living adjustments.

Eligibility

The Participant must first have a qualifying High Deductible Health Plan in order to be eligible for an HSA, and must not be covered by another health insurance plan (other than a plan providing certain limited types of coverage, such as accident or scheduled benefit plans). For example, a Participant in a general-purpose Healthcare FSA is not eligible for HSA contributions. In contrast, participating in a limited-purpose Healthcare FSA, where only dental and vision expenses are reimbursed does not prevent HSA eligibility.

Tax Deductions

Contributions to HSAs are limited. The deduction limit for individual and family coverage is set and indexed annually. (Find all IRS limits on our resource web page: www.tasconline.com/benefits-limits/.)

In addition, Participants age 55 or older may contribute an additional per person amount.

Withdrawals

The money in the HSA accumulates on a tax-deferred basis. While withdrawals for qualified medical expenses are not taxable, withdrawals prior to age 65 that are made for reasons other than qualified medical expenses are taxable and also subject to a 20 percent penalty. Upon death, disability, or reaching age 65, or upon Medicare eligibility, funds may be withdrawn for non-medical reasons without penalty, but the distributions will be subject to income taxes.

Rollovers

Funds from a Medical Savings Account (MSA) may be rolled over into an HSA on a tax-free basis.

Qualified Medical Expenses

A qualified medical expense includes costs incurred for medical care that meet the requirements of Code 213(d), which are the same requirements for an eligible expense under a Healthcare FSA, but for a few exceptions. For example, under the HSA, Qualified Long-Term Care Insurance Premiums and COBRA Healthcare Premiums are eligible.

Participant Responsibilities

Each individual Participant must make certain that contributions to the HSA do not exceed the maximum limits. In addition, Participants must ensure that their withdrawals are for qualified medical expenses in order to meet tax deductibility requirements.

Non-Discrimination Requirements

HSA contributions under a Cafeteria Plan are made pre-tax and are subject to the Section 125 Non-discrimination rules.

Flexible Spending Accounts (FSA)
Health Savings Accounts (HSA)
Health Reimbursement Arrangements (HRA)
Funded HRA (FHRA)
COBRA Administration
FMLA Administration
ERISA Compliance Services
PCORI Compliance Services
HIPAA Compliance Services
Medicare Part D Notices
Non-Discrimination Testing
Form 5500 Preparation
ACA Employer Reporting
PayPath Payroll Services
GiveBack Workplace Giving

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