Dependent Care FSA - Tax Advantaged Account

A Dependent Care Flexible Spending Account allows employees to save on eligible dependent care expenses such as preschool, summer day camp, before/after school programs, and child or adult daycare. Dependent Care FSAs can save participants as much as 30% on dependent care expenses.

Participant Benefits	Employer Benefits
Participants contribute pretax, which reduces taxable income and increases take home pay.	Reduce FICA/Payroll taxes by 7.65% for every pretax dollar employees contribute.

How the plan works...

Eligibility

An employer must offer group health insurance to offer a Healthcare FSA.

- Employees must meet the eligibility requirements of the employer's plan to be eligible to participate.
- Self-employed individuals (partners, sole proprietors, more-than-2% shareholders in a sub-chapter S Corp and independent contractors) are ineligible to participate.

Enrollment

Eligible employees typically enroll during the annual enrollment period. Mid-year enrollments are possible when eligibility requirements (ex. new hire or qualifying event) are met.

- Mid-year enrollment is possible when eligibility requirements are met. Requirements like:
  - Newly hired employee
  - Employees with status changes/qualifying events

Funding

Dependent care FSAs are funded by pre-tax payroll deductions.

Annual Elections

At enrollment, participants choose an annual election amount. This is the amount they want to contribute to the dependent care FSA for the year. The annual election amount is divided across the number of paychecks throughout the year.

Money In, Money Out

Unlike healthcare FSA annual elections, dependent care elections are not available at the beginning of the year. The participant can only be reimbursed for expenses up to the amount they have contributed into their account and currently have available.

Contributions and Limits

The IRS allows for a maximum of $5,000 in contributions per household (not per employee) for the Dependent Care benefit per calendar year. IRS limits are:

- Married and filing jointly: $5,000 per calendar year
- Single parent: $5,000 per calendar year
- Married and filing separately: each parent is allowed $2,500 per calendar year

- Participant's 'earned income' for the calendar year is less than $5,000: amount equal to participant's 'earned income'
- Participant's spouse's 'earned income' is less than $5,000: amount equal to spouse's 'earned income'. (If participant's earned income is also less than $5,000, the IRS maximum is the lesser amount.)
- There are additional special rules for divorced or separated parents

Eligible Expenses

Dependent Care expenses must be work related – allow participant to work, look for work, or attend school full-time. A Dependent Care FSA is used to pay for child daycare or care of a disabled spouse or elderly parent who is a dependent and incapable of self-care.

Eligibility

- Dependents must be under age 13 or a disabled spouse, child or elderly parent who is unable to care for self.
- Plans in which the end of regular enrollment for the plan was before January 31, 2020: The Consolidated Appropriations Act (CAA) increases the age limit for children covered by a Dependent Care FSA from 13 years old to 14 years old for the purposes of receiving funds carried over from the previous plan year.
- Spouse or dependent that is disabled must live with the participant for more than half the year.
- Dependent Care expenses must be work related – allow participant to work, look for work or attend school full-time.
- It cannot be used for out-of-pocket medical expenses for a dependent.

Plan Design Options – Summary Plan Description (SPD) Required

Money not used at the end of the plan year is forfeited to the plan, unless a Grace Period and Runout are elected by the employer. See below.

Runout Period	Grace Period (optional)
Runout allows for participants to submit claims with a date of service (DOS) from the previous plan year. Elected by the employer, most commonly set to 90 days from the end of the plan year.	Determined by the employer, this provides a period of time after the plan year to continue to use funds from the previous plan year for current expenses. Essentially an extension of the plan year and cannot be offered with the Carryover option.