

Dependent Care Assistance Plan (DCAP)

How Does It Work?

The Dependent Care Assistance Plan (DCAP) allows you to pay for eligible dependent day care expenses on a pre-tax, salary reduction basis. After you enroll, the DCAP works like this:

1. The amount of money you specify when you enroll is taken from your paychecks in equal amounts and deposited in your DCAP account
2. You pay your dependent care expenses as usual
3. After the dependent care has been provided, you file a claim form and receipts for reimbursement and you will be reimbursed up to the amount actually in your account at the time your claim is processed. When future contributions are made to your DCAP, you automatically receive another reimbursement until your total claim has been reimbursed or you reach your election amount for the plan year.

Did You Know?

The DCAP can save you money on your taxes—your contributions are deducted from your paycheck on a pre-tax basis (before federal, state, and Social Security (FICA) taxes are taken out). For example, if you earn \$3,000 a month and contribute \$200/month to the DCAP, you only pay income taxes on \$2,800 a month. The tax savings are reflected in your paycheck each month.

You may be able to reduce your taxes further by using the dependent care tax credit *instead of* the DCAP. The tax credit is a percentage of allowable expenses, which varies according to your income level. Expenses reimbursed under the DCAP reduce, dollar-for-dollar, the expenses eligible for the tax credit on your income tax return. The savings depend on your particular tax situation.

How to Use Your DCAP

The DCAP account is used to pay for day care expenses for your dependents who require care while you (and your spouse if you're married) go to work or attend school full-time. Eligible dependents include:

- Your children **under age 13**
- Disabled dependents who require care (such as a spouse, parent or other eligible dependent who is incapable of self-care and qualifies as your tax dependent on your federal tax return)

If you participate in the DCAP, you decide how much money you want to put into your account while taking in to consideration the limits to the amount you can contribute. If you're married and file a separate tax return, you can contribute up to \$2,500 a year into your DCAP account. If you're single/head of household or married/filing jointly, you can contribute up to \$5,000 a year (this is to enforce a limit of \$5,000 per household).

DCAP – What Is Covered

Eligible expenses (subject to the limitations described in this section) include:

- Day care center fees

- Before- or after-school care for your children under age 13
- Care in your home, including salary and the Social Security taxes you pay for your dependent care provider. Keep in mind, expenses are not covered if the care is provided by someone you can claim as a dependent on your tax return, or by your child or stepchild under age 19 at the end of the calendar year.

Remember to estimate your expenses carefully; the DCAP also has a “use it or lose it” feature, so any money you do not claim before the deadline will be lost.

More Details

Keep the following limitations in mind when making your election for the year:

Limitation for Contributions	
If...	Then...
You and your spouse both work, regardless of your income tax filing status...	...your maximum annual contribution cannot be more than what you or your spouse earns (or is expected to earn), whichever is less
If your spouse does not have any earned income but is disabled or a full-time student...	...your spouse will be considered to earn \$3,000 a year (if you have one eligible dependent) or \$6,000 a year (if you have two or more eligible dependents)
If you and your spouse file a joint income tax return...	...you may contribute up to \$5,000 for the year, regardless of the number of eligible dependents you have
If you and your working spouse file separate income tax returns...	...the maximum annual contribution you can make is \$2,500

The DCAP Account vs. the Federal Tax Credit

The City is not permitted by law to provide legal, tax or accounting advice. Our purpose is to provide the information and the perspective for you to make sound decisions based on your personal situation. Federal tax laws allow you to reduce your income taxes if you pay someone to care for your child or other dependent so that you may work. You may reduce your taxes by participating in the DCAP account or by using the federal tax credit, but not a combination of the two, unless they are used for different dependent care expenses.

The amount you save on taxes will vary depending on the method you use, your salary, your expenses and your tax status. Different tax-savings methods affect your cash flow, financial flexibility and federal income tax return preparation in different ways. You should see your tax advisor for help determining what’s best for you.

Frequently Asked Questions About the Flexible Spending Accounts

1. **If I leave the City, when will my DCAP expire?** If you terminate employment or cease to be an eligible employee for any reason, your contributions to the Dependent Care Assistance Plan terminate on your last day of work. You may, however, be able to seek reimbursement for eligible expenses you incurred during the remainder of the plan year (June 30th) at any time until the last day of the three-month period following the end of the plan year. No reimbursement shall exceed the

balance in your Dependent Care Account for the plan year in which expenses were incurred. If you are subsequently re-employed during the same plan year (and after 30 days following your termination) no new election may be made until the next plan year

2. **What are some examples of dependent care expenses that are not eligible for reimbursement through the DCAP?** Non-eligible expenses include babysitting during non-working hours, transportation costs to and from a day care facility, education supplies and activities (such as field trips).
3. **Can I change my DCAP contribution amount mid-year?** Depending on the cause of the mid-year change, you may be eligible to change your DCAP election for the balance of the plan year. Contact the Benefit Information Line at **503-823-6031** within 60 days of the date of the change.
4. **My disabled parent lives with me and is dependent on me for support—and can't be left alone while I am at work. Can the care required for him be covered by my DCAP funds?** Yes, as long as he is your tax dependent.