

You May Use An Eligible Dependent Care FSA or Take A Dependent Care Tax Credit On Your Taxes To Help Pay For Childcare

A Dependent Care FSA lets you use pretax dollars to pay for eligible expenses related to care for your child, disabled spouse, elderly parent, or other dependent who is physically or mentally incapable of self-care, so you can work, or if you're married, for your spouse to work, look for work or attend school full time.

The alternative to using a Dependent Care FSA is to take a dependent care tax credit when you file your federal income taxes. Your preferred method depends on your income, number of eligible dependents, and other factors; however, Dependent Care FSAs usually provide the greater tax advantage for most people, especially as income increases. Check with a tax advisor to help decide which is best for you.

How Much You Can Contribute: The minimum and maximum amounts you can contribute to the Dependent Care FSA are set by your employer, although the maximum allowed by the IRS is \$5,000 a year for individuals or married couples filing jointly, or \$2,500 for a married person filing separately. Please note: married couples have a combined \$5,000 limit, even if each has access to a separate FSA through his or her employer.

Keep in mind that the IRS allows an income tax credit of up to \$3,000 for dependent care expenses if you have one dependent, or up to \$6,000 if you have two or more dependents. The amount of the credit is based on your adjusted gross income and applies only to your federal income taxes. So, while the maximum allowed under a Dependent Care FSA is \$5,000, you may be able to apply the Child and Dependent Care Tax Credit for amounts over that limit – up to your tax credit limit – depending on your tax situation. For more information on how the tax credit works, see [IRS Form 2441](#), available at www.irs.gov, or consult a tax professional.

Unlike Health Care FSAs, with Dependent Care FSAs you can be reimbursed only for expenses that fall within your current account balance, so you may have to wait until the account balance builds to sufficiently cover a large claim early in the year. Also, you may not submit an expense for reimbursement that has been covered, paid or reimbursed from any other source.

Eligibility Rules for Dependent Care FSAs relating to Childcare

Your qualified dependents for a Dependent Care FSA may include:

- Your child(ren) under age 13.
- Dependents of any age who are mentally or physically incapable of caring for themselves, and whom you claim as a dependent on your federal income tax return.

Expenses for care of a qualified dependent are only eligible if the care enables you (or you and your spouse) to work, look for work, or go to school full-time. If your spouse is a stay-at-home mom or dad, you cannot participate in Dependent care FSAs.

Eligible expenses include:

- Fees for licensed day care or adult care facilities.
- Amounts paid for services (including babysitters or nursery school) – provided in or outside of your home – for the care of a qualified dependent necessary to allow you and your spouse to work, look for work, or attend school full-time.
- Placement fees for a dependent care provider, such as an au pair.
- Summer day camp for children under age 13 qualifies if attendance allows you and your spouse to work, look for work, or for your spouse to attend school full-time.
- Before and after school care programs for dependents under age 13.
- Payment to a relative (age 19 or older who is not your dependent) who cares for your qualified dependent.
- Payment to a housekeeper whose duties also include dependent day care.

Expenses that are NOT eligible for Dependent Care FSA payment include:

- Baby-sitter in or out of your home for reasons other than to enable you to work.
- Food, clothing, and entertainment.
- Activity fees and educational supplies.
- Late Payment Fees.
- Child support payments.
- Cleaning and cooking services not provided by a caregiver.
- Overnight camp

You must submit a claim every time you wish to request reimbursement of an expense. There is no automated process. Many people file claims monthly to eliminate weekly claim submission, but that is up to the individual. Regardless of the amount on your claim, you will be reimbursed only up to the amount in your account at that time.

Note that payments for dependent care are NOT reimbursable from a Dependent Care FSA if the caregiver is your spouse, someone you claim as a dependent on your tax return or your child who is under age 19 (i.e., one child babysitting another.)

Learn More: Ask your employer about your Health Care and Dependent Care Summary Plan Description and for open enrollment materials.

If your company does not offer FSAs, talk to a financial advisor about other ways to save taxes on health and dependent care-related expenses. A few minutes of your time filling out a simple form can add up to big savings for you next year.

In addition, the Internal Revenue Service has documents on its Web site that: List eligible medical and dental expenses for the Health Care FSA (Publication 502, Medical and Dental Expenses, at www.irs.gov/pub/irs-pdf/p502.pdf); and explain how the Child and Dependent Care Tax Credit works (www.irs.gov/pub/irs-pdf/t2441.pdf). Always consult your tax advisor for help in determining your best options.