

## Dependent Care Flexible Spending Account (FSA) Eligible Expense Worksheet

The Dependent Care FSA allows you to set aside pre-tax dollars to pay for daycare expenses for children under the age of 13 or for adult daycare for a disabled spouse or other disabled dependent. The primary purpose of the expense is to care for the dependent so the parent can work (or look for work). If you are married, your spouse must be working in a job for pay or actively seeking employment, or be a full-time student or be physically or mentally unable to care for himself/herself. The following is a list of allowable dependent care expenses. Expenses must be custodial in nature and **not** strictly educational.

### Examples of Reimbursable Dependent Expenses

- Au pair Expenses – excludes airfare or fixed costs
- Amounts paid to a minor babysitter - unless babysitter is a (step)child of employee or spouse under age 19, or is claimed as a dependent by the employee or spouse
- Amounts paid to a relative of participant, e.g. parent grandparent
- Before and after school care or extended day programs
- Custodial or eldercare expenses – not eligible if expenses are attributable to medical services. Individual must spend at least 8 hours a day in participant's household
- Day camp (summer or holiday)
- Dependent Care Center
- FICA and FUTA taxes of daycare provider
- Nanny expenses
- Overnight care for night worker
- Pre-School/nursery school/Montessori (as long as the care is for pre-kindergarten expenses)
- Registration, application and agency fees
- Sick-child center
- Transportation expenses (if transportation is provided by the daycare provider)

### Examples of Non-Reimbursable Dependent Care Expenses

- Clothing
- Custodial care for child age 13 or older
- Expenses paid to a child of participant – unless child is age 19 or older and not considered a dependent
- Expenses incurred while the participant and/or spouse is on a leave of absence.
- Kindergarten and beyond (educational expenses)
- Overnight camp expenses
- Tuition

### Comparing the Dependent Care FSA to the Dependent Care Tax Credits

Due to the increasing complexity of the Federal and state tax codes, deciding which of these two options is most advantageous is a very complex issue. Generally, *the more taxable income a person has, the greater the likelihood that the Dependent Care FSA results in the greatest tax advantage.* But there are other factors to consider, such as the number of eligible dependents you have, or the amount of qualifying dependent care expenses you incur. If you have one eligible dependent, up to \$3,000 of qualifying expenses may be used to calculate the credit; alternatively, you could set aside up to \$5,000 in the Dependent Care FSA. If you have two or more eligible dependents, up to \$6,000 of qualifying expenses may be used to calculate the credit, while you can still only set aside up to \$5,000 in the *Dependent Care FSA*.

*Additionally, these examples do not consider the effect of the Earned Income Tax Credit (EITC), which bases both eligibility for the credit and the calculation of the amount of the credit on your Adjusted Gross Income (AGI). Generally, families with AGI under \$53,930 are eligible for the EITC. Because the Dependent Care FSA is a reduction in AGI, contributing to the Dependent Care FSA has the potential to increase the amount of EITC you could receive. If you are eligible for the EITC, this will have a significant impact on your choice.*

There is no definite line at which a person should take the credit vs. contribute to the Dependent Care FSA; it is all based on your individual situation. You should consult your tax advisor to determine the best choice for you. Below are a few situations which highlight the complexity of the issue and touch on only a few of the factors to consider.

**SITUATION 1**

A married couple, 2 children, \$80,000 in adjusted gross income, \$20,000 in itemized deductions and \$5,000 in dependent care expenses. The dependent care credits would result in a \$1,000 reduction of tax, while contributing and paying these expenses through a Dependent Care FSA results in a \$1,486 reduction of tax.

**SITUATION 2**

A single parent with 1 child, \$30,000 in adjusted gross income, \$10,000 in itemized deductions and \$3,000 in dependent care expenses. The dependent care credits would result in an \$823 reduction of tax, while contributing and paying these expenses through a Dependent Care FSA results in a \$710 reduction of tax.

	Situation 1			Situation 2		
	No Dependent Care FSA or Credit	Dependent Care FSA	Credit	NO Dependent Care FSA or Credit	Dependent Care FSA	Credit
<b>Adjusted Gross Income without Dependent Care FSA</b>	\$80,000	\$80,000	\$80,000	\$30,000	\$30,000	\$30,000
<b>Minus Dependent Care FSA Contribution</b>	-	(5,000)	-	-	(3,000)	-
<b>Adjusted Gross Income Minus Deductions<sup>1</sup></b>	80,000 (20,000)	75,000 (20,000)	80,000 (20,000)	30,000 (10,000)	27,000 (10,000)	30,000 (10,000)
<b>Minus Personal Exemptions<sup>2</sup></b>	(16,200)	(16,200)	(16,200)	(8,100)	(8,100)	(8,100)
<b>Taxable Income</b>	43,800	38,800	43,800	11,900	8,900	11,900
<b>Federal Tax (Table A)</b>	5,638	4,888	5,638	1,319	890	1,319
<b>State Tax (Table B)</b>	2,972	2,619	2,972	832	671	832
<b>Minus FICA Tax Savings<sup>3</sup></b>	-	(383)	-	-	(230)	-
<b>Total Taxes</b>	8,610	7,124	8,610	2,151	1,331	2,151
<b>Minus Child Tax Credit<sup>4</sup></b>	(2,000)	(2,000)	(2,000)	(1,000)	(890)	(509)
<b>Minus Federal Dependent Care Credit<sup>5</sup></b>	-	-	(1,000)	-	-	(810)
<b>Minus MN Dependent Care Credit<sup>6</sup></b>	-	-	-	-	-	(504)
<b>Net Tax After Credits</b>	<b>\$6,610</b>	<b>\$5,124</b>	<b>\$5,610</b>	<b>\$1,151</b>	<b>\$441</b>	<b>\$328</b>

<sup>1</sup>- This is the greater of a taxpayer's total itemized deductions or standard deduction. Current standard deductions are: Married filing jointly and surviving spouse/domestic partner \$12,700; Married filing separately \$6,350; Head of Household \$9,350; Single \$6,350

<sup>2</sup>- Multiply the # of exemptions claimed by \$4,050

<sup>3</sup>- The Dependent Care FSA contribution is not subject to FICA taxes which are: Social Security tax of 6.2% on the first \$127,200 of wages per taxpayer; Medicare Tax of 1.45% on all wages

<sup>4</sup>- The child tax credit is a non-refundable Federal Credit of up to \$1,000 per child in 2017. A refundable credit is also available, and is calculated using Form 8812. (See IRS Publication 972 for additional information)

<sup>5</sup>- The Dependent Care Credit is a non-refundable federal credit computed on Form 2441 using both AGI and dependent care expenses. (Table C)

<sup>6</sup>- The MN Dependent Care Credit is a refundable MN credit computed on MN Form M1CD using both AGI and the Federal Dependent Care Credit. (Table C)