HCAP Strategies
Adding the Human Touch

Dependent Care Reimbursement Account

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Dependent Care Reimbursement Account

Extend your income by using the Dependent Care Reimbursement Account (DCRA) to pay for work-related dependent care expenses with income tax-free dollars. You can save a significant amount of money by participating in this account.

If you are paying for day care expenses now, you are paying in taxable dollars and probably taking the Federal Tax Credit at the end of the year. If you use the Dependent Care Reimbursement Account, you will pay these expenses in pre-tax dollars throughout the year, eliminating the need to use the tax credit at the end of the year.

Who Should Enroll?

The Dependent Care Reimbursement Account is generally beneficial to anyone who has a qualified dependent and eligible day care expenses.

Use the Dependent Care Reimbursement Account if your dependent and elder care expenses make up a significant part of your...FAMILY BUDGET.

Who Is a Qualified Dependent?

Dependents are defined as children under 13 years of age, or children 13 or over who are physically or mentally unable to care for themselves. A spouse or an elderly parent residing in your home, who is physically, or mentally unable to care for himself or herself, also qualifies.

What Expenses Are Eligible?

Expenses incurred which allow you (and your spouse, if married) to work, look for work or attend school as a full-time student are eligible. Below are expenses which qualify.

- Day care facility fees (excluding transportation, lunches, educational services)
- Before-school and after-school care
- Local day camp
- In-home babysitting fees (income must be claimed by your care provider)
- Nursery school and preschool (preschool expenses are eligible if the amount you pay for schooling cannot be separated from the cost of care)

Who Is an Eligible Provider?

You may use any care provider you choose, except a dependent child who is claimed as a dependent and is under the age of 19. The care provider must meet the requirements of your state. The services may be as informal as care provided by your neighbor, as long as the provider claims the money received for services as income when determining their taxes at the end of the year. **You will need to obtain the provider's Federal Identification/Social Security Number for inclusion on your tax filing.**

Can I Change My Election?

In line with Internal Revenue Service guidelines, you can change your election if you have a **qualifying change in status** during the Plan Year. This includes marriage, divorce, death, change in coverage, change in cost (except when the provider is a relative), dependent enrolled in school, birth/adoption or a change in employment. However, the adjustment in your election must be relevant to the change in status and the requested election change has to be in line and consistent with the event. All requests must be submitted to HCap Strategies for approval.

What Are the Advantages of the Dependent Care Reimbursement Account?

Most important, your personal taxes will be reduced. The amount you contribute to your DCRA is not subject to Federal, State, or FICA taxes. Generally, this will mean a tax savings of 15% to 40% depending on your tax bracket. As a direct result of the personal tax savings, you can actually increase your spendable income by changing the payment of those expenses from an after-tax to a pre-tax basis.

Participation in DCRA will reduce or in some cases, may eliminate the ability to use the Federal Tax Credit for Dependent Care. However, as you can determine from the comparison chart on the back of this brochure, for most taxpayers the DCRA results in a greater tax savings. **If you participate in DCRA, IRS Form 2441 must be completed as part of your tax return.**

How Does It Work?

The program is simple. Decide how much money you want to place in your account based on your estimate of dependent care expenses for the coming Plan Year. Keep in mind the time in which your dependent is not receiving care, such as vacation or sick time. The amount to be deducted from your pay cannot be greater than your income or that of your spouse, whichever is lower. The maximum contribution allowed by the IRS is $5,000 ($2,500 each for married individuals filing separate returns). **You will need to plan carefully as the IRS requires that any unused money left in your account at the end of the plan year will be forfeited.** Identify an annual election that you are comfortable with. This amount will be deducted on a pre-tax basis each pay period and contributed to your Dependent Care Reimbursement Account.

When you have expenses to be reimbursed, simply complete a claim form indicating that the expense has been **incurred during the Plan Year,** along with a bill or itemized receipt from the provider. Copies of the bill or an itemized receipt are good examples of proof of your dependent care expenses. If none of these are available, you may have the care provider acknowledge receipt by signing directly on the claim form. That's it! Mail it to HCap Strategies and your claim will be processed on your next reimbursement date. Advance reimbursement of future or projected dependent care expenses is not permitted. Accordingly, you will receive Dependent Care Reimbursement up to the amount that has been deducted from your payroll earnings and contributed to your Dependent Care Reimbursement Account.

What Are the Disadvantages of the Dependent Care Reimbursement Account?

By not paying FICA taxes, you will be reducing your Social Security contribution. Studies on this matter have determined that your tax savings generally outweigh your Social Security benefit reduction.

Any money in your DCRA that is not used by the end of the plan year will be **forfeited.** Therefore, it is in your best interest to be conservative when estimating your contribution.

Based on group participation, highly compensated and/or key employees' participation may be restricted. You will be notified if this applies to you.

Worksheets

Estimate Your Savings

The following worksheets allow you the opportunity to compare the potential tax savings available through the Dependent Care Reimbursement Account vs. Federal Income Tax Credit. The general rule of thumb is that if your adjusted gross family income exceeds approximately $39,000 to $41,000, you will receive a greater tax savings through the Dependent Care Reimbursement Account. The tax credit applies to Federal Taxes while the Dependent Care Reimbursement Account saves you Federal Income Taxes, State and Local Income Taxes, and Social Security (FICA) taxes. You are encouraged to discuss the DCRA with a tax expert to determine the method which best serves your needs. The better "value" must also consider number of dependents, amount of dependent care expenses, your Adjusted Gross Income, and the effect of state and local tax laws.

Federal Income Tax Credit Worksheet

1. The amount of expenses for dependent care (cannot exceed your income or that of your spouse, whichever is less) $______________
2. Maximum expenses eligible for tax credit ($3,000 for one dependent; $6,000 for more than one dependent) $______________
3. Estimated Adjusted Gross Income for you (and spouse if applicable) $______________
4. Percentage from table at right based on Adjusted Gross Income ______________%
5. Estimated tax credit (multiply line 4 by the smaller of line 1 or line 2) $______________

Adjusted Gross Income	Percentage
Up to $15,000	35%
$15,001 - $17,000	34%
$17,001 - $19,000	33%
$19,001 - $21,000	32%
$21,001 - $23,000	31%
$23,001 - $25,000	30%
$25,001 - $27.000	29%
$27,001 - $29.000	28%
$29,001 - $31,000	27%
$31,001 - $33,000	26%
$33,001 - $35,000	25%
$35,001 - $37,000	24%
$37,001 - $39,000	23%
$39,001 - $41,000	22%
$41,001 - $43,000	21%
$43,001 and Over	20%

Dependent Care Reimbursement Worksheet

1. The amount of deposit to your Dependent Care Reimbursement Account (must not exceed your income, your spouse's income, or $5,000 or $2,500, if married and filing a separate return) $______________
2. Your Federal Tax Rate from the table at right (using combined income for you and your spouse) ______________%
3. Social Security tax rate:
   Enter 7.65% for earnings up to $87,000* (2003 limit) ______________%
   Enter 1.45% for earnings over $87,000* (2003 limit) ______________%
4. State and City tax rate** ______________%
5. Total tax rate savings (line 2 + line 3 + line 4) ______________%
6. Estimated tax savings (multiply line 5 by line 1) $______________

Federal Tax Rate	Single	Married Filing Jointly
15%	$7,151– $29,050	$14,301– $58,100
25%	$29,051– $70,350	$58,101– $117,250
28%	$70,351– $146,750	$117,251– $178,650

The table amounts are based on Adjusted Gross Income (after exemptions and deductions). Do not confuse Adjusted Gross Income with gross income. NOTE – Based on 2003 Federal Income Tax Rates

* This amount is adjusted annually by the Federal Government.

** Deposits to your Dependent Care Reimbursement Account are generally exempt from state and city taxes. This exemption is dependent, however, on the state and city in which you reside.

If line 6 on the Dependent Care Reimbursement Account Worksheet is larger than Line 5 on the Federal Income Tax Credit Worksheet, then the Dependent Care Reimbursement Account can be expected to provide you a greater tax savings than the tax credit.

If your contributions to your Dependent Care Reimbursement Account are less than the amount of your actual dependent care expenses, you may, based on income, be able to use the Federal Income Tax Credit for the balance, however, the total amount of your expenses reimbursed under the plan and those claimed on the Tax Credit cannot exceed the limits set forth in the Tax Credit ($3,000/$6,000).

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You Have a Choice to Make!

Dependent Care Reimbursement Account or Dependent Care Tax Credit

The increased dependent care tax credit, as provided under the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), was effective January 1, 2003.

What are the changes to the dependent care tax credit?

The maximum amount of dependent care expenses eligible for credit increased from $2,400 to $3,000 for one dependent and $4,800 to $6,000 for two or more dependents.

How do I take advantage of this tax credit?

The dependent care tax credit applies ONLY to federal taxes, so you calculate the tax credit with your income tax filings after year end.

Good News! You may still choose the Dependent Care Reimbursement Account (DCRA) to provide a way to pay for dependent care expenses with income tax-free dollars. The maximum annual benefit remains at $5,000 for one or more dependents.

How do I take advantage of the DCRA benefit?

Decide how much money you would like placed in your dependent care account based upon your estimated dependent care expenses for the coming year. Simply make this election on your enrollment form, and it will be deducted on a pre-tax basis for each pay period and contributed to your dependent care account. See the Dependent Care Reimbursement Account brochure for more information!

Like the tax credit, will the DCRA save me from federal taxes?

Yes, and it will do more than that! The DCRA saves you federal, state and local income taxes, and Social Security (FICA) taxes. In addition, you receive the pre-tax advantage immediately, lowering taxable income and providing timely reimbursements.

How do I decide which benefit is right for me?

The general rule is that if your adjusted gross income exceeds approximately $39,000 you will receive a greater tax savings through the Dependent Care Reimbursement Account. However, since many other factors should also be considered, you are encouraged to seek the advice of a tax expert to determine which method is best for you.