

## Eide Bailly Employee Benefits

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## Dependent Care 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 CARE 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 or 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-kindergarten/nursery school/Montessori  
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

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 \$48,362 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 a \$1,134 reduction of tax, while contributing and paying these expenses through a Dependent Care FSA results in an \$728 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
Adjusted Gross Income without Dependent Care FSA	\$80,000	\$80,000	\$80,000	\$30,000	\$30,000	\$30,000
Minus Dependent Care FSA Contribution	-	(5,000)	-	-	(3,000)	-
Adjusted Gross Income	80,000	75,000	80,000	30,000	27,000	30,000
Minus Deductions <sup>1</sup>	(20,000)	(20,000)	(20,000)	(10,000)	(10,000)	(10,000)
Minus Personal Exemptions <sup>2</sup>	(14,600)	(14,600)	(14,600)	(7,300)	(7,300)	(7,300)
Taxable Income	45,400	40,400	45,400	12,700	9,700	12,700
Federal Tax (Table A)	5,975	5,225	5,975	1,308	970	1,308
State Tax (Table B)	2,636	2,283	2,636	679	519	679
Minus FICA Tax Savings <sup>3</sup>	-	(383)	-	-	(230)	-
Total Taxes	8,611	7,125	8,611	1,987	1,259	1,987
Minus Child Tax Credit <sup>4</sup>	(2,000)	(2,000)	(2,000)	(1,000)	(1,000)	(1,000)
Minus Federal Dependent Care Credit <sup>5</sup>	-	-	(1,000)	-	-	(810)
Minus MN Dependent Care Credit <sup>6</sup>	-	-	-	-	-	(324)
<b>Net Tax After Credits</b>	<b>\$6,611</b>	<b>\$5,125</b>	<b>\$5,611</b>	<b>\$987</b>	<b>\$259</b>	<b>(\$147)</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 \$11,400; Married filing separately \$5,700; Head of Household \$8,400; Single \$5,700

<sup>2</sup> - Multiply the # of exemptions claimed by \$3,650

<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 \$106,800 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 2010. 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)