



***** IMPORTANT REMINDERS *****

✓ To enroll in DCAP, complete a DCAP Enrollment Form and return to the Employee Benefits Services Unit **before the required deadline. All forms must be received before the filing deadlines.**



READ!

✓ **Your DCAP enrollment ends on December 31st of the plan year. You must re-enroll each calendar year.**

✓ **It is extremely important to accurately estimate eligible dependent care expenses since IRS rules limit changes during the plan year and require that you forfeit money at calendar year end if you don't submit dependent care expenses that qualify for reimbursement.**



Contra Costa County
Employee Benefits Services Unit
651 Pine Street, 5th Floor
Martinez, CA 94553
(925) 335-1746



2013 Dependent Care Assistance Program

Effective January 1, 2013

Contra Costa County

Dependent Care Assistance Program

To help make child care or care for other family members more affordable, we provide a special program which allows you to set aside up to \$5,000 of your annual salary--before taxes--to reimburse yourself for eligible dependent care expenses.

When you use the Contra Costa County Dependent Care Assistance Program (DCAP) you take advantage of special tax savings available through Section 129 of the Internal Revenue Code. The money you put aside is not subject to federal, state, or Medicare and Social Security (FICA) taxes.

Eldercare Alert: Remember the DCAP is not only for child care expenses. For example, if a family member needs care during the day due to Alzheimer's or other conditions, the cost of their care may be eligible under DCAP.



An Overview: How does DCAP Work?

The Dependent Care Assistance Program allows you to reimburse yourself for eligible dependent care expenses with before-tax dollars. It works like this:

§ When you enroll in this program you decide how much of your pay will go to your dependent care reimbursement (DCAP) account for the plan year. The County deposits that money in your DCAP account instead of paying it to you in taxable cash. Your contribution shows as a before-tax deduction from your paycheck. The County takes deductions in equal installments on the 10th of each month.

§ You can use your account balance to reimburse yourself for eligible dependent care expenses during the calendar year. You still pay dependent care expenses directly to the provider, once the services have been rendered you then submit a Reimbursement Account Claim Form to the Employee Benefits Services Unit with the following information provided:

§ Section I: An itemized statement/invoice of dependent care expenses that displays the provider's name, address, and taxpayer ID number along with the name of the dependent, dates of service and amount charged.

OR

§ Section II: If an itemized statement/invoice can not be provided, the **provider** must complete this section and also provide a taxpayer ID number.

It is extremely important to accurately estimate eligible dependent care expenses, since IRS rules limit changes during the plan year and require that you forfeit money at calendar year end if you don't have dependent care expenses that qualify for reimbursement.

Listed below are some tax examples to help you determine which is best for you.

Example 1

	With DCAP	Without DCAP
Your Combined Family Income:	\$30,000	\$30,000
Annual Election (before tax):	<u>4,000</u>	<u>0</u>
Gross Taxable Income:	\$26,000	\$30,000
Annual Deduction (after tax):	0	4,000
Estimated Federal and FICA Taxes:*	<u>\$ 2,783</u>	<u>\$ 3,915</u>
Spendable Income:	\$23,217	\$22,085

INCREASE IN SPENDABLE INCOME WHEN USING THE PRE-TAX DCAP PROGRAM: \$1,132

* You can also save on state taxes when you participate in DCAP.

Example 2

	With DCAP	Without DCAP
Your Combined Family Income:	\$60,000	\$60,000
Annual Election (before tax):	<u>\$ 5,000</u>	<u>\$ 0</u>
Gross Taxable Income:	\$55,000	\$60,000
Annual Deduction (after tax):	\$ 0	\$ 5,000
Estimated Federal and FICA Taxes:*	<u>\$9,578</u>	<u>\$10,710</u>
Spendable Income:	\$45,422	\$44,290

INCREASE IN SPENDABLE INCOME WHEN USING THE PRE-TAX DCAP PROGRAM: \$1,132

* You can also save on state taxes when you participate in DCAP.

How does DCAP compare to the dependent care tax credit?

When you have dependent care expenses, the Internal Revenue Code gives you two income tax options -- a spending account or a tax credit. The same rules about allowable expenses apply to both. Other options differ in the way they apply to your taxes:

- ◆ If you use a dependent care reimbursement account, the before-tax payroll deductions which fund your DCAP account are subtracted from your pay before income taxes and FICA are computed. Depending on your tax bracket, federal income taxes and FICA savings can amount to 20 - 40% of your spending account balance. You can contribute up to \$5,000 per year (\$2,500 per year if married filing separate returns).
- ◆ If you claim a tax credit for your eligible dependent care expenses you subtract the credit from any income tax owed when you file your tax return. The credit you can take depends on your salary, and applies up to :

\$3,000 in annual expenses if you have one eligible dependent;
\$6,000 for two or more eligible dependents.

For some individuals, using the dependent care tax credit produces more favorable tax results. This is often true for individuals earning less than \$30,000 per year, or for families earning between \$25,000 and \$35,000. The following examples illustrate how the tax credit and the DCAP account compare.

Expenses reimbursed from your DCAP account reduce dollar-for-dollar the amount to which you can apply a tax credit. For example:

Suppose you have two children under age thirteen, your actual day care expenses total \$7,000 and you contribute \$5,000 to your DCAP account for the plan year. If you did not have a spending account, you would qualify for a tax credit on \$6,000 of eligible dependent care expenses. However, the \$5,000 spending account contribution represents a direct offset against that \$6,000. In this example, you might be eligible to claim up to \$1,000 of the tax credit for the year, even though you have \$2,000 in expenses not covered by the spending account.

Eligibility and Enrollment Who's Eligible?

All regular full-time or part-time employees of the County are eligible to participate in the Dependent Care Assistance Program. You may enroll:

- Û Within the first 60 days from your hire date; **OR**
- Û Within the first 60 days of transferring into a regular benefited position; **OR**
- Û Within the first 60 days after a qualifying change in family status; **OR**
- Û During the annual open enrollment held each fall for the following calendar year.

If you enroll during open enrollment, DCAP payroll deductions begin with your January 10th paycheck. **Your annual election will be taken out of your paychecks in equal amounts for the entire plan year.** You can use your account to reimburse yourself for eligible expenses incurred (that is, for services received) between January 1st and December 31st.

If you become eligible at any other time, you have 60 days to complete and send in an enrollment form. DCAP payroll deductions begin the first day of the month after the Employee Benefits Service Unit receives the completed form and will continue for the remainder of that calendar plan year.

You may not use the money in your account for expenses incurred before you became a plan participant or after your payroll deductions stop.

If your employment with Contra Costa County ends before the end of the plan year, your participation in the plan will end on the last day of the month in which your employment ends.

How to Enroll

To enroll, complete the Dependent Care Assistance Program enrollment form and return it to the Employee Benefits Service Unit before the deadline, as outlined above.

When can I use a DCAP account?

According to IRS guidelines, you qualify for the tax advantages provided under Section 129 of the Internal Revenue Code when:

- ✘ You need dependent care services so you (and your spouse if married) can work. You may qualify to use the DCAP account if your spouse is disabled or a full-time student at an educational institution.* If your spouse is unemployed or only doing volunteer work, your dependent care expenses do not qualify for reimbursement.
- ✘ Services are provided on behalf of your eligible dependents. Those dependents must be in your custody at least six months of the calendar year for which you claim benefits. Eligible dependents include:
 - ✘ Your dependent children under age 13.
 - ✘ Your spouse, if he or she is physically or mentally incapable of self-care.
 - ✘ A parent, child, or other person who resides with you, qualified as your dependent under IRS tax guidelines, and is physically or mentally incapable of self-care.
- ✘ Your dependent care provider has a tax ID number - a Social Security or Employer Identification Number - and reports your dependent care payments as income unless your provider is a tax-exempt organization. You also have to include the Social Security number of any dependent claimed as an exemption.

* **To be considered a full-time student, your spouse must attend school at least 5 months of the year as more than a night student.**

Isn't DCAP only for parents of small children?

No. While DCAP can certainly help parents of young children, there are many other employees who could benefit from the program. For example, suppose your mother lives with you because she can no longer care for herself. If you hire a caregiver to watch over her during your working hours, those expenses may qualify under DCAP. Similarly, daytime center-based programs for Alzheimer's patients or other handicapped individuals may qualify.

How does DCAP affect my taxes?

You do not pay federal or state income taxes, or Social Security (FICA) taxes on money set aside in your DCAP account. For example, if you normally earn \$2,500 per month and decide to direct \$300 per month to your DCAP account, you pay taxes only on the remaining \$2,200. You should see an immediate difference in your withholding taxes and, depending on your personal tax situation, a lower income tax bill at year end.

How does participating in DCAP affect my Social Security, retirement or unemployment insurance?

Participation in DCAP does not affect your retirement contributions or any pay related benefit such as supplemental life insurance. It may affect any Social Security and unemployment insurance benefits you receive.

If your annual salary after DCAP contributions is at or above the annual Social Security wage base, your FICA taxes for the year remain the same. Your monthly tax is lower, but deductions continue for a greater part of the year.

If your salary after DCAP contributions is below the wage base, you'll pay less FICA taxes. Your future Social Security benefits may be slightly reduced if your salaries from the years you participate in DCAP are used to calculate your average earnings and Social Security benefits



“The IRS has ruled that any amount of money left in your DCAP at the end of the calendar year must be forfeited.”

Can I change my contributions during the year?

IRS rules governing reimbursement accounts strictly limit your ability to change your contribution amount. Once you're enrolled for a calendar year, you can only make changes:

- ∅ During open enrollment for the following year;
- OR**
- ∅ Within 60 days of a change in family status such as:
 - ∅ Birth, adoption or placement of a child;
 - ∅ Marriage, divorce, or legal separation;
 - ∅ Death of your spouse or child;
 - ∅ Spouse's employment status changes (for example, your spouse starts or stops a job or takes a leave of absence);
 - ∅ Leave of absence;
 - ∅ Change in employment status.

→ What if the Cost of Care Changes? ←

DCAP rules will allow you to change your election if you switch providers or if your costs change. In the case of a cost change, you can adjust your election only if the care provider is not a member of your family. In order to change your election, you must submit documentation from your provider (such as a statement on the provider's letterhead). You must request the change to your DCAP election within 60 days of the change in costs. Otherwise, you must wait until the next open enrollment to change your annual election.



What dependent care expenses are covered?

You may use your DCAP account to pay for dependent care expenses approved by the IRS. Examples include:

- ↵ Care supplied outside your home by a baby-sitter or licensed day care center (for a qualified dependent who lives with you).
- ↵ Care provided by a baby-sitter, nurse, or housekeeper in your home.
- ↵ Preschool care, before or after school care, and day camp during school vacation.

What dependent care expenses are not covered?

The IRS does **not** let you use your DCAP account to pay for the following:

- ∅ The cost of food, clothing or education, unless those costs are incidental to the dependent's care (i.e., when a nursery school provides lunch and some education that cannot be separated from the cost of day care);
- ∅ Education expenses for a child in kindergarten or above;
- ∅ Transportation;
- ∅ Care provided by a person you claim as a dependent on your tax return, or by one of your children or stepchildren under age nineteen (even if he or she is no longer considered a dependent for tax purposes);
- ∅ A dependent child's care when you are divorced or legally separated and the child is in your custody less than half the year;
- ∅ Care paid or reimbursed under another County program, or amounts the County contributed on your behalf under any dependent care assistance program;
- ∅ Care paid for by your spouse's employer or by the educational institution where your spouse attends school;
- ∅ Amounts claimed as a dependent care tax credit on your income tax return (see "How does DCAP compare to the dependent care tax credit?" on page ten).
- ∅ Nursing home or assisted living expense—You can only use DCAP for persons who spend at least 8 hours each day in your home.

Reimbursements

Reimbursements will be processed provided you have submitted an eligible claim and you have available funds in your account. All Services must be rendered before a reimbursement can be processed. For Example, if you submit a claim on May 2nd for services received from May 1st—May 31st, the claim will not be processed until the May 31st batch.

Claims will be processed according to the following schedule:

-  Claims received between the 1st and the 10th of the month will be processed by the 10th working day following the 10th.
-  Claims received between the 11th and the 20th of the month will be processed by the 10th working day following the 20th.
-  Claims received between the 21st and the last day of the month will be processed by the 10th working day following the end of month.

You have until March 31, 2014 to submit 2013 eligible expenses.

****Per IRS regulations, any remaining account balance not claimed by March 31, 2014 will be forfeited****

*** Claim forms can be mailed, faxed or emailed. However, if the forms are not legible or are missing information they will not be processed and will be returned to you**

How much can I contribute to my DCAP account?

The IRS limits the amount you can contribute to the program each year. The maximum amount you can direct to DCAP each calendar year is:

- ➔ \$5,000 per year if you are either a single tax payer or are married and file a joint tax return with your spouse.
- ➔ The limit is \$2,500 per year if you are married and file a separate income tax return.

What if I take a Leave of Absence or Separate/Retire from the County?

While on a Leave of Absence you have the choice of electing to stop your participation or allowing it to continue. We will assume you want to continue with the election on file, unless you inform us otherwise. Please be advise that you will NOT be able to submit claims for the period you are on leave.

- **Contributions** -- While on a leave with pay, deductions will continue as if you were at work. When you go on a leave without pay, your contributions automatically stop then resume when you return to work. The monthly deduction is recalculated to account for the missed deduction unless you inform us otherwise.
- **Claiming Expenses** -- You are able to submit a claim for eligible expenses as outlined on page 4, 5 & 6 of this booklet. You may **NOT** be reimbursed for services rendered during your leave.

Example of when it would not be necessary to stop or change your contribution while on Leave:

Employee's annual (12 month) DCAP deduction election—\$5000
Employee's annual DCAP expenses—\$12,000 (\$1,000 a month)
Employee is on Leave from June through Sept returning Oct 1st
Eligible DCAP expenses—\$8,000 (from Jan-May and Oct-Dec)

Example of when it would be necessary to stop or change your contribution while on Leave:

Employee's annual(12 month) DCAP deduction election- \$5000
Employees annual DCAP expenses- \$6,000 (\$500 a month)
Employee is on Leave from June through Sept returning Oct 1st
Eligible DCAP expenses- \$4,000 (from Jan-May and Oct-Dec)

If you Separate/Retire from the County during the plan year and have not received enough services to claim the balance in your account, you MAY be eligible to submit claims incurred after your Separation/Retirement. Please contact our office with any questions.