

## DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT

The annual enrollment/open change period for the 2010 Dependent Care Flexible Spending Account Program begins at 8:00 a.m. on Friday, October 23, 2009 and closes at 5:00 p.m. on Monday, November 23, 2009. Dependent Care Flexible Spending Account forms are available in the Human Resources Service Center, 3810 Beardshear Hall. You may also attend the vendor fair, call 515-294-4800 / 1-877-477-7485 or email us at: [benefits@iastate.edu](mailto:benefits@iastate.edu) to discuss your options. The new plan year will begin January 1 with the January 2010 payroll.

### What are qualified dependent care expenses?

Dependent care is defined as care necessary for a dependent child (under the age of 13) or if a child over the age of 13, or a dependent parent or spouse; those dependents must be physically or mentally disabled and reside in your home at least eight hours a day and care is needed so you, the employee may work.

An eligible expense is any expense that is allowed by the Internal Revenue Service (IRS) as an itemized deduction. You may refer to IRS Publication 503 (available from the IRS at <http://www.irs.gov/pub/irs-pdf/p503.pdf>) for information on eligible expenses. Eligible expenses include:

- In-home day care,
- In-home nursing care,
- Day care at someone's home,
- Nursery school,
- Pre-school,
- Adult day care,
- Licensed dependent care centers if more than six individuals are cared for,
- Household services needed to care for the dependents as well as run the home. They include the services of a maid, baby-sitter, housekeeper, cook or cleaning person if their services are needed for the care of the dependent(s),
- Boarding school (only that part of the cost used for care of the dependent), and
- Summer day camp (if the cost compares reasonably with other alternatives and if the child does not spend the night.)
- Specialized day camps (even if the camp specializes in a particular activity such as computers or soccer and if the child does not spend the night),
- Transportation to and from care,
- Application fees and deposits (expenses are not reimbursable if the deposit is forfeited),
- Part-time work – employees that must pay for dependent care on a periodic basis that includes both work and non-work days, you can be reimbursed in full for those payments.

Eligible expenses are expenses incurred during the calendar year (January 1 through December 31 or prior to your termination of employment). The determining factor is the actual date of services, not the date of billing or the date the bill is paid.

If you terminate your employment with Iowa State University, your contributions into your Dependent Care Flexible Spending Account plan will terminate at the end of the month in which your employment

ends. If you have contributed funds remaining after your termination date, you can claim dependent care expenses for the remainder of the calendar year until your contributions are exhausted.

### **Restrictions:**

- If you are married, you may not be reimbursed unless your spouse works, attends school fulltime, or is incapable of self-care.
- You cannot be reimbursed for Dependent Care services provided by:
  - A person that you claimed as a dependent during the tax year, or
  - Your child who is under age 19 at the end of the tax year.
- Reimbursements may not be greater than the amount the lower-paid spouse earns. If your spouse is a fulltime student or incapable of self-care, your spouse will be regarded as having income of:
  - \$200 per month if there is one dependent or,
  - \$400 per month if there are two or more dependents.
- Eligible expenses do not include expenses for food or schooling unless these amounts cannot be separated from the total cost of care (e.g. lunch provided in a day care as part of the total cost).

### **Should I enroll in a dependent care flexible spending account?**

Deciding whether to use the Dependent Care Flexible Spending Account or the Federal and State Dependent Care Tax Credits can be complicated. As a general rule, if your family's adjusted gross income is higher than \$39,000, or your tax rate is 28% or higher, or you have one dependent and dependent care expenses exceed \$2,400, the Dependent Care Spending Account may be advantageous. If your annual adjusted gross household income is less than \$39,000, it may be advantageous to take the dependent care tax credit. Consult your tax advisor.

You cannot apply dependent care costs reimbursed through the Dependent Care Flexible Spending Account to the Federal Income Tax Credit for Child and Dependent Care. Furthermore, every dollar used in the Spending Account reduces the amount you can apply toward the Federal Tax Credit by one dollar. For example, if you have two or more children and your total care costs are \$4,800 per year, if you use the Spending Account for \$300 per month or \$3,600 for the year, you would still be able to use the remaining \$1,200 (\$4,800 - \$3,600) as a tax credit. If you use the Spending Account for \$416.66 per month, or the full \$5,000 for the year, you would not be able to claim the Tax Credit.

**Note:** Employees and their spouses with combined net incomes of \$40,000 or more cannot claim Iowa tax credits for dependent care expenses on their State income tax returns. The only way to reduce state tax on those expenses is through the use of the Dependent Care Flexible Spending Account.

