Dependent Care Worksheet

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DCEA ELIGIBLE EXPENSE WORKSHEET

MANAGEMENT AND BUDGET
STATE EMPLOYEE GROUP INSURANCE PROGRAM

The **Dependent Care Expense Account (DCEA)** is a qualified benefit under Internal Revenue Code (IRC) Section 125. A DCEA can help you pay your eligible out-of-pocket dependent care costs while increasing your spendable income.

When you participate in a DCEA, you elect to have a specified amount of tax-free dollars deducted from your gross earnings before taxes are calculated. Internal Revenue Service (IRS) regulations govern the eligibility of expenses. Adequate documentation that verifies the eligibility of an expense must be obtained from the provider. Note that the date a service is provided (not the date of payment) determines the plan year in which an expense is eligible.

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 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-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)

DEPENDENT CARE ELIGIBLE EXPENSES

$	Adult Day Care
$	Before/After School Care
$	Child Day Care
$	In-Home Dependent Care
$	Nursery School
$	TOTAL PLAN YEAR ESTIMATE

The federal government sets the amount that can be contributed per calendar year to a Dependent Care Expense Account.

The current amount is limited to the smallest of the following amounts:

- $5,000 if single or if married and filing jointly
- $2,500 if married and filing separately
- The participant's earned income
- The earned income of the participant's spouse

$ ______ EST. PLAN YEAR TAX SAVINGS (X 25%)

YOU MAY USE THIS ACCOUNT FOR EXPENSES THAT MEET THESE QUALIFICATIONS:

EXPENSES MUST BE FOR THE CARE OF A QUALIFIED PERSON. A qualified person is someone who spends at least eight hours per day in your home and is one of the following:

- Your dependent who was under age 13 when the care was provided and for whom you can claim an exemption. (If divorced or separated, see special regulations in IRS Publication 503.)
- A spouse or dependent who is physically or mentally incapable of self-care, has the same principal place of abode as you for more than half of the year, and for whom you can claim an exemption.

THE CARE MUST ENABLE YOU TO BE GAINFULLY EMPLOYED OR TO LOOK FOR WORK. If you are married, the dependent care must also enable your spouse to work, look for work or attend school full-time.

THE SERVICES MAY BE PROVIDED IN YOUR HOME OR ANOTHER LOCATION. However, they may not be provided by someone who is your minor child or dependent for income tax purposes (e.g. an older child).

SERVICES MUST BE FOR PHYSICAL CARE. Not for education, meals, diapers, etc.

AMOUNT CLAIMED. It must not exceed the lesser of you or your spouse's earned income for the Plan Year.

DAY CARE FACILITY. If the services are provided by a day care facility that cares for six or more individuals at the same time, the facility must comply with state day care regulations.

OVERNIGHT CAMPS AND LESSONS IN LIEU OF DAY CARE. These are not eligible for payment from a Dependent Care Expense Account.

YOU MUST IDENTIFY THE CARE PROVIDER ON YOUR INCOME TAX RETURN. Form 2441 with a 1040 return; Schedule 2 with a 1040A return.

LEAVE OF ABSENCE. Expenses incurred while participant and/or spouse is on a leave of absence are not eligible.

COMPARING THE DEPENDENT CARE EXPENSE ACCOUNT TO 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 Expense Account (DCEA) 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.

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 credit on your Adjusted Gross Income (AGI). Generally, families with AGI under $48,108 are eligible for the EITC. Because the DCEA is a reduction in AGI, contributing to the DCEA 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 DCEA; 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, $30,000 standard deduction and $5,000 in dependent care expenses. The dependent care credits would result in a $1,200 reduction of tax, while contributing and paying these expenses through a Dependent Care Expense Account results in a $1,284 reduction of tax.

SITUATION 2

A single parent with 1 child, $30,000 in adjusted gross income, $15,000 standard deduction and $3,000 in dependent care expenses. The dependent care credits would result in an $690 reduction of tax, while contributing and paying these expenses through a Dependent Care Expense Account results in a $810 reduction of tax.

	SITUATION 1			SITUATION 2		
	NONE	**DCEA**	**TAX CREDIT**	**NONE**	**DCEA**	**TAX CREDIT**
Adjusted Gross Income	$80,000	$80,000	$80,000	$30,000	$30,000	$30,000
- DCEA Contribution	N/A	($5,000)	N/A	N/A	($3,000)	N/A
Adjusted Gross Income	$80,000	$75,000	$80,000	$30,000	$27,000	$30,000
- Deductions[1]	($30,000)	($30,000)	($30,000)	($15,000)	($15,000)	($15,000)
- Personal Exemptions[2]	($0)	($0)	($0)	($0)	($0)	($0)
Taxable Income	$50,000	$45,000	$50,000	$15,000	$12,000	$15,000
Federal Tax (Table A)	$5,523	$4,923	$5,523	$1,500	$1,200	$1,500
+ State Tax (Table B)	$2,709	$2,408	$2,709	$802	$642	$802
- FICA Tax Savings[3]	N/A	($383)	N/A	N/A	($230)	N/A
Total Taxes	$8,232	$6,948	$8,232	$2,302	$1,612	$2,302
- Child Tax Credit[4]	($4,000)	($4,000)	($4,000)	($2,000)	($2,000)	($2,000)
- Federal DCEA Credit[5]	N/A	N/A	($1,200)	N/A	N/A	($810)
- MN DCEA Credit[6]	N/A	($657.50)	($448)	N/A	($600)	($600)
NET TAX AFTER CREDITS	**$4,232**	**$2,290.50**	**$2,584**	**$302**	**-$988**	**-$1,108**

1 - This is the greater of a taxpayer's total itemized deductions or standard deduction. 2025 standard deductions are: Married filing jointly and surviving spouse/domestic partner $30,000; Married filing separately $15,000; Head of Household $22,500; Single $15,000.
2 – The personal exemption is currently suspended under the Tax Reform Act of 2017. The personal exemption will be available again starting January 1, 2026.
3 - The DCEA contribution is not subject to FICA taxes, which are: Social Security tax of 6.2% on the first $137,70 0 of wages per taxpayer; Medicare Tax of 1.45% on all wages.
4 - The child tax credit is a refundable Federal Credit of up to $2,000 per child in 2025. Some families may be eligible for advanced child tax credit payments: See schedule 8812(Form 1040)for additional information.
5 - The Dependent Care Credit is a refundable federal credit in 2025 of up to 35% of $3,000 for 1 child or $6,000 for 2 or more children, and is computed on Form 2441 using both AGI and dependent care expenses (Table C).
6 - 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).

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