FlexSystem | Dependent Care FSA

Dependent Care FSA vs. Income Tax Credit:

Determine the greater savings for you

Individuals who incur dependent care costs have one of **two choices** for saving taxes on those expenses (cannot do both):

1. Utilize the **Income Tax Credit** available from the federal government (IRS Form 2441), or
2. Participate in a Section 125 Cafeteria Plan sponsored by their employer (i.e., **Dependent Care Flexible Spending Account (FSA)**) which offers a pre-tax benefit.

Eligible individuals may only choose one option each year. Many factors must be considered by the individual and/or their family when determining the best option, which are outlined below.

Consider Your Income: Consider the amount of income in order to estimate your savings under each option.

- Dependent Care FSA: The minimum savings will be approximately 27.65% of each dollar that is run through the Plan. This percentage is an average based on an employee with income in the lowest tax bracket; therefore the savings may be larger for an employee with higher earnings.
- Income Tax Credit: The percentage of savings will vary, based on your income (or marital income if filing a joint return). The chart at right helps to estimate the amount of this credit; the credit column represents the savings multiplier (x annual dependent care expenses).

  Example: Based on the chart, a married couple who jointly earn $40,000 will save 22% of each dollar by using the tax credit. Under the FSA, this family would instead save 27.65% on each dollar. So, if daycare expenses total $4,000/yr that would yield a savings of $880 (tax credit) or $1,106 (FSA).

  Note: an employee/couple with a total income of $30,000 or less and *only one child* will likely realize a greater savings by taking advantage of the tax credit (for the credit -- the lesser the income, the greater the savings).

Child and Dependent Care Credit Table*

INCOME	CREDIT	INCOME	CREDIT
0-15,000	.35	29,000-31,000	.27
15,000-17,000	.34	31,000-33,000	.26
17,000-19,000	.33	33,000-35,000	.25
19,000-21,000	.32	35,000-37,000	.24
21,000-23,000	.31	37,000-39,000	.23
23,000-25,000	.30	39,000-41,000	.22
25,000-27,000	.29	41,000-43,000	.21
27,000-29,000	.28	43,000-no limit	.20

*Indexed

CREDIT = multiplier for savings

Consider the Expense Limits and Family Size: Any true and thorough comparison of the two options should consider expense limitations and your number of children receiving dependent care. To contrast and compare:

- Dependent Care FSA: The annual maximum pre-tax contribution may not exceed $5,000 per year, regardless of number of children. In sum: $5,000 is the maximum whether for one child or more.
- Income Tax Credit: The maximum credit for one child is $3,000 per year, or $6,000 for two or more children (not to exceed $6,000).

The above options make it clear that the difference between these two plans is most vital to families with one or two children. Let us consider...

- **A family with one child** may merit an annual maximum of $5,000 through the FSA, or $3,000 with the tax credit.
- **A family with two or more children** would also be limited to the $5,000 maximum (FSA), but would benefit from a higher tax credit at $6,000 maximum ($3,000 per child).

Consider the Timing: One final item to consider concerns the actual time it takes to realize the savings. By participating in the FSA Plan, the savings will be realized immediately. Conversely, the savings by taking the income tax credit is realized only when you file your annual tax return.

TASC
Total Administrative Services Corporation
2302 International Lane I Madison, WI 53704-3140

FX-5578-012516