

# Dependent Care Flexible Spending Accounts: An Introduction

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# Disclaimer

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- These slides have been prepared for informational purposes only. They are not intended to provide, and should not be relied on for tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any financial transaction.
- More details about Dependent Care FSAs can be found in IRS Publication 503 ([www.irs.gov/pub/irs-pdf/p503.pdf](http://www.irs.gov/pub/irs-pdf/p503.pdf))

## What is a Dependent Care FSA?

A Dependent Care Flexible Spending Account is an employee benefit.

Employees can choose to contribute up to \$5,000/year to their DCFSA. The money is pre-tax.

Money in the DCFSA must be used to pay for dependent care (child or disabled adult).

Like a Health FSA, the money in a DCFSA is use-it-or-lose-it.

# Benefit to Employee

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## Without DCFSA

Gross Income	\$5,000
Tax*	\$1,200
Net Income	\$3,800

## With DCFSA

Gross Income	\$5,000
Tax	\$ 0
Net Income	\$5,000

\*Assuming 24% total tax rate (12% federal tax + 7.65% FICA + 4.25% Michigan tax)

**The employee saves \$1,200 by maxing out their DCFSA contribution for the year.**

If the employee is in a higher tax bracket, the savings would be even more.

# Benefit to Employer

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## Without DCFSA

Wage	\$5,000
Employer FICA*	\$ 383
Total Cost	\$5,383

\*7.65% FICA

## With DCFSA

Wage	\$5,000
Employer FICA	\$ 0
Total Cost	\$5,000

**The employer saves \$383 when the employee maxes out their DCFSA contribution.**

There is usually some cost to administering a DCFSA account, but it is likely less than the tax savings.

# Dependent Care FSA

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- The Dependent Care FSA is not going to fix the child care crisis.
- However:
  - It is available NOW.
  - It is easy to administer.
  - It is financially beneficial for the employee and the employer.
  - It can help ease the burden of the cost of child care for employees.
  - It can help employers attract employees.
- To begin offering a DCFSA to your employees, contact your payroll or employee benefit provider.