7. Flexible Spending Account For Dependent Care

A Dependent Care Flexible Spending Account (FSA) offers a convenient way to pay for dependent care expenses on a pre-tax basis.

Highlights

The FSA~~s~~...

Give You Choices

You can contribute to the Dependent Care FSA per Internal Revenue Service (IRS) guidelines. Each year, you can contribute up to the limit~~s~~ set by the IRS for each account. You can use the Dependent Care FSA to pay for day care and elder care expenses for eligible dependents.

Offer Convenience

Your FSA contributions are automatically deducted from each paycheck and credited to your FSA.

Save You Money in Taxes

The money in your accounts is not subject to federal income taxes, Social Security taxes, or Medicare taxes, and, in most places, state and local taxes also do not apply. This means that many of your routine dependent care services will cost you less.

Require Careful Planning

You need to estimate your expenses for the upcoming year carefully, during the annual benefits Open Enrollment, when deciding how much to contribute to the Dependent Care FSA~~s~~. According to IRS rules, any money left in your account will be forfeited.

What happens to your benefits when ...

For more information about what happens to your FSA participation when certain changes or events occur, see “How Changes Affect Your Benefits” in the “About Your Benefits” chapter.

How the FSAs Work

Use these guidelines to put the FSAs to work for you:

Estimate your expenses. Each year, calculate your dependent care expenses. You should estimate carefully because you will forfeit any unused funds. The Dependent Care FSA based on the Plan limits. Once you begin contributing, you may not change or stop your contributions during the year unless you have a Qualifying Life Event as described in the "About Your Benefits" chapter.

When the Dependent Care account is effective. For new hires and newly eligible participants, you may use your accounts for expenses incurred beginning the day you first become eligible. For elections made during the annual Open Enrollment, the accounts are effective beginning the following January 1.

Using your account. The FSA administrator maintains a web-based participant portal that makes account information readily available. On the portal, you can do the following:

- Set up direct deposit for your reimbursements
- Get your account balance
- View payment card charges
- Enter claims and view claim status
- Submit required receipts
- View reimbursement schedule
- Find eligible and ineligible expenses, consumer tools, and frequently asked questions.

Incurring expenses. Expenses must be incurred in the plan year for which the election was made and while you were an active participant in the plan. The deadline for filing claims is March 31 following the plan year for which the election was made.

Receive reimbursement. Reimbursements from your accounts are made with pre-tax dollars.

Should You Participate?

Before you decide to contribute to an FSA ask yourself:

What do you expect your dependent care expenses will be?

Consider any times of the year when you do not have these child care expenses, such as vacation periods. Also, if your child will turn 13 during the year, estimate your expenses only for the portion of the year before your child's thirteenth birthday.

You may also want to use an FSA calculator to help determine how much you should contribute.

Grace Period

IRS regulations provide for a 2½ month grace period for the Dependent Care FSA~~s~~. Under this provision, you are allowed to file claims for expenses incurred through March 15 of the following plan year.

Changing your Contribution

You may not change or stop your contributions to the FSAs during the year unless you have a Qualifying Life Event, such as a birth, a marriage, or a job loss by your spouse. The change in contributions must be consistent with the Qualifying Life Event. For example, with the birth of a child, you can increase your contributions but not decrease them, and the change must be made within 30 days of the Qualifying Life Event.

Changes in Cost for Dependent Care

If you contribute to the Dependent Care FSA, and there is a significant increase or decrease in the cost of services by a day care provider who is not your relative, you may be able to make corresponding changes to your contribution election for your Dependent Care FSA by submitting a new election within 30 days of the change. For example, if mid-year, your mother will begin taking care of your child at no cost and you no longer need your current dependent care center, you can revoke your election to contribute to the Dependent Care FSA due to a significant change in coverage. However, if your mother wants to start receiving an income, you cannot increase your contributions to this account due to a change in cost because she is your relative.

See the “About Your Benefits” chapter for more information on Qualifying Life Events. If you stop contributing to the FSA, you can be reimbursed only for eligible dependent care expenses incurred before you stopped contributing.

Tax Savings

The dependent care FSA is designed for one purpose: to help you save on taxes. Your taxable income is reduced by the amount you contribute to the accounts.

How Much Can You Save on Your Taxes?

Your participation in the FSA may reduce your Social Security retirement benefits, but the current tax advantages generally offset any reduction in Social Security benefits.

To determine the amount of federal tax you will save, multiply the amount of your contribution by your federal tax bracket (percentage). You may also save on Social Security and Medicare taxes—and depending on where you live, state and local taxes.

Health Care FSA

The Health Care FSA was terminated effective December 31, 2023. If you were a participant in the Health Care FSA on December 31, 2023, you have until March 31, 2024 to submit requests for reimbursement for qualifying health care expenses incurred on or after January 1, 2023 and on or before December 31, 2023.

Dependent Care FSA

Contributions

You may contribute to the Dependent Care FSA if you have eligible dependent care expenses (that is, you incur expenses to enable you to work). If you are married, you may contribute to this account only if your spouse is:

- gainfully employed outside the home
- actively searching for a job
- enrolled as a full-time student at least 5 months of the year

  or
- mentally or physically disabled and unable to provide care for himself or herself.

If your spouse's employment ends during the year, or your child turns age 13, you should contact the ORNL Benefit Service Center immediately because you may no longer be eligible to participate in this account.

You can contribute from $100 up to the IRS annual limit in pre-tax dollars to your Dependent Care FSA. In some cases, however, the IRS limits the amount you can contribute, as shown in the following chart. Dependent care contributions are reported on your W-2, according to IRS rules.

Limit for Highly Compensated Employees

Certain highly compensated employees may be limited by the IRS as to how much they can contribute to the Dependent Care FSA each year. You will be notified if this limit applies to you.

Special Dependent Care FSA Limits if You Are Married

If this is your situation …	You will be taxed on reimbursements that exceed …
You or your spouse earn less than $5,000	The amount the lower-paid spouse earns*
Your spouse also participates in a similar dependent care spending account	$5,000 combined
You file separate federal income tax returns	$2,500
* If your spouse is a full-time student for at least 5 months of the year or is disabled, he or she will be treated as earning $250 a month if you have one eligible dependent ($500 a month if you have two or more eligible dependents), adjusted for future years as required by the IRS.	

Eligible Dependents

You may use the Dependent Care FSA to pay for the care of your eligible dependents so that you or, if you are married, you and your spouse, can work. Eligible dependents include:

- your children under age 13
- your spouse, if he or she is physically or mentally incapable of caring for himself or herself and has the same principal place of abode as you for more than one-half of the year

  or
- a disabled dependent of any age (including parents) if he or she is physically or mentally incapable of caring for himself or herself, has the same principal place of abode as you for more than one-half of the year and regularly spends at least 8 hours a day in your home.

An eligible dependent is someone you can claim as a dependent on your federal income tax return.

If you are divorced or legally separated and have custody of your eligible child, you may use the Dependent Care FSA even though you have agreed to let your spouse claim the child as a dependent for tax purposes. If you have joint custody, you may also use the Dependent Care FSA provided you have custody of your child for a longer period during the year than your spouse does.

Eligible Expenses

Expenses eligible for reimbursement are those incurred to enable you to work and include:

- services provided in your home or someone else's home by a babysitter or companion, including wages and related taxes
- services provided by a dependent care center that meets local regulations, and receives a fee for such services, whether or not for profit
- services provided outside your home, such as day camp, preschool tuition, or other outside dependent/child care services, such as before- and after-school programs, but only if the care is for a dependent under age 13 or other eligible dependent.

Generally, eligible dependent care costs include only those for the wellbeing and protection of your dependent, not costs for education, supplies, or meals—unless those costs cannot be separated.

Expenses Not Eligible

Expenses that are not eligible for reimbursement through the Dependent Care FSA include:

- dependent care provided by your child (or stepchild) who is under age 19 at the end of the taxable year or by another dependent whom you can claim as an exemption
- dependent care obtained for non-work-related reasons such as babysitting after your working hours
- dependent care provided while you are away from work because of illness or leave of absence
- dependent care that could be provided by your employed spouse whose work hours differ from yours
- expenses for overnight camp
- dependent care expenses incurred if your spouse does not work, unless your spouse is actively seeking employment, a full-time student, or disabled
- any expenses you claim for the dependent care tax credit on your federal income tax return
- expenses paid by another organization or provided without cost
- transportation to or from the dependent care location
- care provided in a group care center that does not meet state and local laws
- agency finder fees
- charges for referral to dependent care providers
- costs for after-school educational programs
- costs for clothing, entertainment, or food
- educational expenses (such as those for private school) for kindergarten or higher
- expenses incurred before you began contributing to the account or after you stop contributing.

Dependent Care FSA vs. the Federal Tax Credit

Under the current tax law, you can save taxes on dependent care expenses either by claiming a tax credit on your federal income tax return or by participating in the Dependent Care FSA. Both are intended to offer you tax savings. The best method for you depends on your income, the number of eligible dependents you have,

Dependent Care Provider Identification

When you file a claim for reimbursement through the Dependent Care FSA, you must include an original receipt from your dependent care provider. You will have to provide the caregiver's name, address, and taxpayer identification number (or Social Security number) on IRS Form 2441 when you file your federal income tax return and when you submit a claim for reimbursement. If you cannot supply this information, you should not use the dependent care spending account.

To obtain IRS Form 2441, call the IRS at 1-800-829-3676 or visit the IRS website at www.irs.gov.

and other factors. However, for most people, using the Dependent Care FSA provides a greater tax advantage.

You may use both approaches, but you may not “double deduct” the same expense. In addition, the expenses you apply toward the tax credit will be reduced dollar-for-dollar by the amount of expenses reimbursed from your account.

You should consult a personal financial or tax advisor to help you decide whether the tax credit or the Dependent Care FSA is more favorable for you.

Refer to IRS Publication 503 for a discussion of the tax credit. To order a copy, call the IRS toll-free at 1-800-829-3676 or visit the IRS website at www.irs.gov.

Filing Claims

When you have an eligible dependent care expense, you must pay the provider and then submit a claim, along with a bill or receipt, to the FSA administrator. Be sure to include the dependent care provider’s Social Security or tax identification number. **Note: You may be reimbursed only up to the amount available in your account at the time you file a claim.** The annual deadline for filing prior year claims is March 31.

You will be reimbursed only for dependent care services you have already received. For example, if you pay in advance for 3 months of care, you cannot be reimbursed for the entire amount until after the end of the 3 month period. However, you can be reimbursed for a portion of the bill at a time.

You will be reimbursed for the lesser of your current account balance or the amount of the claim. If you submit a claim for an amount that exceeds your account balance, you will be reimbursed for the remainder of the claim after you have made sufficient additional contributions for that year to cover the expenses.

Payment of eligible expenses incurred, received, and processed will be made weekly.

FSA reimbursement request forms are available on the Benefits Enrollment website or from the account administrator.

Remaining Funds

Estimate your FSA contributions carefully. You may continue to file claims for expenses incurred during the plan year until March 31 of the following year. According to IRS rules, you must “use up” amounts deducted from your pay by incurring and filing claims for eligible expenses up to the amount you have had deducted. Otherwise, you lose the money you have left in your account.

Any forfeited amounts will be used to offset the plan’s administrative expenses.

Account Statements

You may obtain account information any time by phone or by accessing the FSA vendor website.

In addition, each time you receive a reimbursement, the attached explanation provides a summary of year-to-date activity.

Administrative Information

Information about the administration of the FSAs can be found in the chapter titled “Administrative Information.”