

UNIVERSITY OF CALIFORNIA

# **Dependent Care Reimbursement Account (DepCare)**

MARCH 2008



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## DepCare Rules

### WHAT IS DEPCARE?

The Dependent Care Reimbursement Account (DepCare) allows you to pay for eligible dependent care expenses on a pretax, salary reduction basis. Dependents can be either children or adults (see “Which Dependents are Eligible?” on page 3). The program is established under Internal Revenue Code (IRC) §129.

### HOW DOES DEPCARE WORK?

After you enroll, DepCare works like this:

- ▶ The amount you specify when you enroll is taken from your paycheck each month and deposited in your DepCare account.
- ▶ You pay your dependent care expenses as usual.
- ▶ After the dependent care has been provided, you submit a claim form and receipts to SHPS, the company UC has hired to administer this program.
- ▶ SHPS sends you a reimbursement payment, either by direct deposit to your bank account or by check.

### HOW DOES DEPCARE SAVE ME MONEY?

Your savings are strictly on taxes. DepCare contributions are deducted from your paycheck on a pretax (tax-free) basis—before federal, state, and Social Security (FICA) taxes are taken out. For example, if you earn \$3,000 a month and contribute \$200 to DepCare, you pay taxes on \$2,800 a month.

The tax savings are reflected in your paycheck each month, all year.

**You may be able, however, to reduce your taxes even more by using the dependent care tax credit instead of DepCare.** The tax credit is a percentage of allowable expenses; the percentage varies according to your income level. Expenses reimbursed under DepCare reduce, dollar for dollar, the expenses eligible for the tax credit on your income tax return.

The savings depend on your particular tax situation. See page 9 for more information. Also, see Internal Revenue Service (IRS) Publication 503, *Child and Dependent Care Expenses*, or consult your tax advisor.

### HOW DOES DEPCARE AFFECT MY SOCIAL SECURITY AND UNEMPLOYMENT INSURANCE BENEFITS?

As discussed in the previous section, DepCare contributions lower your earnings. **Because your Social Security and unemployment insurance benefits are based on earnings, these benefits might be lower, depending on the amount you earn.**

If your earnings after DepCare contributions are above the Social Security wage base (\$97,500 in 2007), there will be little or no effect on your Social Security benefits. However, if your earnings are below the wage base, your future Social Security benefits may be reduced if earnings from your years of participation in DepCare are used to calculate your Social Security benefits.

The amount of your DepCare contribution also reduces the wages used to calculate your unemployment insurance benefits.

See “DepCare and the Tax Credit—How they Differ” on page 10 for more information on Old Age, Survivors, and Disability Insurance (OASDI) taxes.

### DOES DEPCARE AFFECT MY RETIREMENT SAVINGS PROGRAM AND UCRP BENEFITS?

No. Your contributions to DepCare do not reduce the wages used to calculate your UCRP (University of California Retirement Plan) benefits nor do they affect your Tax-Deferred 403(b) Plan or 457(b) Deferred Compensation Plan maximum annual contribution amounts.

### WHO CAN PARTICIPATE?

You may participate in DepCare if

- ▶ You’re an active employee appointed by UC to work at least 50 percent time for one year or more, or 100 percent time for three months or more, or
- ▶ You’re an active employee who has worked 1,000 hours in a 12-month period, or
- ▶ You are appointed to work at least 43.75 percent time, and
- ▶ If you’re married, both you and your spouse must have earned income during the year unless your spouse is incapable of self-care or is a full-time student.

## WHICH DEPENDENTS ARE ELIGIBLE?

Dependents are eligible as defined by IRC §21 and §129. Qualifying dependents include:

- ▶ A child under age 13 in your custody whom you claim as a dependent on your tax return;
- ▶ A legal spouse who is physically or mentally incapable of self-care;
- ▶ A dependent who lives with you—such as a child age 13 or older, parent, sibling, or in-law—who is physically or mentally incapable of self-care, and whom you claim as a dependent on your tax return.

If care is provided outside of your home for a spouse or a dependent age 13 or older, either of whom is incapable of self-care, the spouse or dependent must live in your home at least eight hours each day.

## WHICH EXPENSES ARE ELIGIBLE?

Dependent care expenses must meet the statutory requirements of IRC §21 and §129. **Please note that UC cannot provide tax advice. You are responsible for making sure all expenses submitted for reimbursement are eligible.** For more information, refer to IRS Publication 503 or consult your tax advisor. You can find information on eligible and ineligible expenses on the SHPS website ([www.myshps.com](http://www.myshps.com)).

- ▶ The dependent care must be for an eligible dependent and be necessary so that you (and your spouse, if married) can work or look for work (you must have work income during the year). Or, if your spouse is not working or looking for work, he or she must be a full-time student or be incapable of self-care.
- ▶ If care is provided in a day-care center, the center must charge a fee. If the center cares for six or more dependents who are not residents, it must comply with all state and local licensing laws and applicable regulations.
- ▶ Expenses must be incurred during the DepCare plan year: January 1 of the plan year through March 15 of the following year. You incur expenses when the care is provided, rather than when you are billed or when you pay for the care. **You won't be reimbursed for expenses until after the care is provided.**
- ▶ If you enroll midyear, expenses incurred before your effective date are not eligible. If you enroll in December, your DepCare contributions won't be

credited to your account until January, and you won't be able to claim December dependent care expenses under DepCare.

- ▶ Expenses incurred after your DepCare participation ends aren't eligible. (Also see page 6, "What If I Go on Leave or Separate from the University?")

**NOTE: If IRS requirements for qualifying dependents or expenses are not met, the IRS may require that your contributions be paid on an after-tax basis. Expenses reimbursed under DepCare may not be applied toward the dependent care tax credit on your income tax return.**

### Eligible Expenses: A Partial List

Expenses that meet the requirements of the program include:

- ▶ In-home dependent care,
- ▶ Ordinary and usual household services provided at least in part for the care of the dependent,
- ▶ Care provided at a day-care center or other location outside your home,
- ▶ Before- and after-school care,
- ▶ Summer day camp (if cost is reasonable compared to other alternatives and the main purpose is to provide for the child's well being), and
- ▶ Expenses that relate to but are not directly for the care of a dependent, such as application fees and deposits, if required to obtain the care.

### Ineligible Expenses: A Partial List

Expenses that do not meet the requirements of the program include:

- ▶ School expenses for children in first grade or above. School expenses for children below the first grade may or may not be eligible, depending on your day-care arrangement. Refer to IRS Publication 503 or consult your tax advisor.
- ▶ School expenses for a child in kindergarten that are separately listed on the provider's invoice and that are not incidental to the child's care;
- ▶ Food, clothing, or entertainment provided for your dependent;
- ▶ Care provided by your spouse, your child under age 19, or someone you claim as a dependent for tax purposes;
- ▶ Overnight camp expenses;

- ▶ Transportation expenses to and from the care location;
- ▶ Expenses incurred on or after your child's 13th birthday (unless your child is incapable of self-care as defined by the IRC);
- ▶ Forfeited deposits and other payments such as application fees are not eligible if the care is not provided; and
- ▶ If you are on an absence from work exceeding two weeks, any expenses for daycare exceeding the two week period.

Be aware that expenses submitted for reimbursement must meet IRC regulations. If your dependent care expenses are not clearly eligible, SHPS, Inc., the program administrator, may ask you to submit additional information to determine whether the reimbursement is allowed.

## HOW MUCH CAN I CONTRIBUTE TO MY DEPCARE ACCOUNT?

The IRC limits the amount you can contribute to the program. You may contribute up to the lesser of:

- ▶ \$5,000 per plan year (\$2,500 if you're married and filing a separate income tax return); or
- ▶ Your total earned income (Exception: If your spouse is incapable of self-care or is a full-time student, see below); or
- ▶ Your spouse's total earned income (you may not contribute to DepCare if your spouse's earned income is \$0 and your spouse is capable of self-care or is not a full-time student).

The maximum contribution to DepCare is the same whether you have one, two, or more eligible dependents. These limits apply whether you're single or married. If your spouse is also eligible to participate in DepCare or another employer's dependent care assistance program, your combined contributions should not exceed the above maximums. (This also applies if both you and your spouse are UC employees.)

The IRS does not consider you married for purposes of the DepCare program if you:

- ▶ Are legally separated or divorced, or
- ▶ Are married but your spouse has not lived in your household during the last six months of the taxable year and you:
  - File a separate tax return,

- Maintain a household that is the principal residence of the qualifying dependent for more than half of the taxable year, and
- Pay over half of the cost of maintaining your home for this year.

If your spouse is incapable of self-care or is a full-time student, his or her earned income is considered to be at least \$250 per month (\$3,000 per year) if you claim one dependent, or at least \$500 per month (\$6,000 per year) if you claim two or more. To be considered a full-time student, your spouse must attend school for at least five months of the year and may not be exclusively a student enrolled in night school.

It's important that you estimate your dependent care expenses carefully. **You forfeit any contributions you can't claim for the plan year (see below).**

## IS THERE A MINIMUM CONTRIBUTION AMOUNT?

Yes. To participate in DepCare, you must contribute a minimum of \$180 per year.

## WHAT HAPPENS TO DEPCARE MONEY I DON'T USE?

**The IRS requires you to forfeit any unclaimed money in your DepCare account after the closing date for the plan year.**

DepCare can help you save on your taxes, but only if you:

- ▶ **Carefully estimate your DepCare expenses.** (See page 6, "Can I Change or Cancel My Contribution?")
- ▶ **Recalculate and adjust your DepCare contribution as necessary during Open Enrollment or within a new period of initial eligibility (PIE) because of a change in family or employment status.** To ensure you do not overcontribute to DepCare (and risk loss of contributions), please take into account your child turning age 13, summer months when child care may not be needed, or other special circumstances that might affect your contribution calculations.
- ▶ **Submit claims on time.** The final deadline for the DepCare year is June 15 of the following year (see page 5, "How Do I File Claims?").

**IMPORTANT: All claims for 2008 must be received by SHPS, Inc., UC's DepCare administrator, by June 15, 2009, or you will forfeit any unclaimed balance in your DepCare account. Allow ample time for mailing. Claims must be received, not just postmarked, by the deadline. SHPS will accept faxes. The fax number is 1-866-643-2219.**

In accordance with IRC regulations, UC uses forfeited funds to pay administrative costs of the DepCare program.

## HOW DO I KEEP TRACK OF MY ACCOUNT BALANCE?

SHPS, Inc., maintains a website where you can check your balances ([www.myshps.com](http://www.myshps.com)).

You can also get balance information by calling SHPS's automated phone system: 1-877-270-3915.

If you sign up with SHPS to have your reimbursement automatically deposited to your bank account, SHPS will send you an email each time a reimbursement is sent (if you have provided your email address). If you choose to receive your reimbursement by paper check, you will receive an account statement with each check.

SHPS will send you quarterly account statements.

## WHEN MAY I ENROLL?

You may enroll only at the following times:

- ▶ **When you first become eligible for DepCare.** (See page 2, "Who Can Participate?") You may enroll during your period of initial eligibility (PIE), which begins the day you become eligible and ends 31 days later. If you enroll by paper form, your PIE ends on the last working day of that 31-day period. The effective date is the first day of the month following your enrollment, subject to payroll deadlines.
- ▶ **During Open Enrollment.** If you sign up during Open Enrollment (usually held in November), the effective date is January 1 of the following year.
- ▶ **When you have a change in family or employment status.** You may enroll during the plan year if your circumstances change and qualify as an "eligible change in status." An eligible change creates a new PIE. The effective date is the first day of the month following your enrollment, subject to payroll deadlines. (See page 6, "Can I Change or Cancel My Contribution?")

## DO I HAVE TO ENROLL EVERY YEAR?

Yes. You can enroll in DepCare for only one year at a time. Enrollment for all participants ends on December 31 of each year. To participate in DepCare for the following year, you must enroll during the preceding Open Enrollment.

## HOW DO I ENROLL?

- ▶ **When you first become eligible.** If you're a newly eligible employee, you may enroll in DepCare on UC's At Your Service website ([atyourservice.ucop.edu](http://atyourservice.ucop.edu)). If you don't have access to the Internet, you should complete the *DepCare/HCRA Enrollment Salary Reduction Agreement* form (UPAY 717), available from your local Benefits Office.
- ▶ **During Open Enrollment.** You use UC's At Your Service website to enroll in DepCare. DepCare requires annual enrollment; it does not continue from one year to the next.
- ▶ **When your family or employment status changes.** If you're a current employee and have an eligible change in status, you should complete the *DepCare/HCRA Enrollment, Change or Cancellation Salary Reduction Agreement* form (UPAY 919) to enroll in DepCare or to change or cancel the amount of your DepCare contribution. The form is available on UC's At Your Service website or from your Benefits Office. (See page 6, "Can I Change or Cancel My Contribution?") Send the form to your Payroll or Benefits Office.

## HOW DO I FILE CLAIMS?

You can get a copy of the claim form at the SHPS website ([www.myshps.com](http://www.myshps.com)). You can complete the form online, print and sign it, and then mail or fax it, along with the appropriate documentation, to the address or fax number on the form.

If you don't have access to the Internet, you can get a claim form by calling SHPS's toll-free number: 1-877-270-3915.

You must submit DepCare claims yourself; claims submitted by a spouse or other family member will be returned. With your claim, include a **copy** of your dependent care provider's bill or receipt showing the provider's name, the amount of the expense, and the date(s) the expense was incurred. Be sure to submit copies only; SHPS does not return or keep copies of bills or receipts. SHPS will not accept cancelled checks in lieu of a bill or receipt.

Faxed claims and documentation are acceptable. The fax number for SHPS is 1-866-643-2219.

You must certify on the claim form that your expenses are eligible under the program.

If your claim exceeds your existing DepCare account balance, SHPS will reimburse you up to the balance amount and then hold your claim until your next contribution is deposited in your account. You do not need to file the claim again.

For example, assume that your March expenses total \$600, but your account balance is only \$400. You file a claim for \$600 and attach a copy of the receipt showing the full \$600 expense. You will be reimbursed \$400. The remaining \$200 will be held until your next contribution is credited to your account and will then be reimbursed.

## WHEN CAN I EXPECT MY DEPCARE REIMBURSEMENT EACH MONTH?

Claims are processed within ten business days of receipt by SHPS, and payments are released no later than the following day. In other words, whether you choose to be reimbursed by check or by EFT (Electronic Funds Transfer), SHPS will release your payment in 11 business days or less.

NOTE: In your first month of participation, you may have two out-of-pocket expenses: your DepCare contribution and the payment to the dependent care provider. You will receive your first reimbursement payment in 11 business days or less from the date SHPS receives your claim, so you should budget accordingly.

If your claim is for less than the minimum reimbursement amount of \$25, SHPS will process your claim but hold your reimbursement until you reach the minimum amount.

## IF SHPS ACCEPTS MY CLAIMS, DOES THIS ASSURE THE IRS WILL, TOO?

No. It is your responsibility to make sure that expenses you submit for DepCare reimbursement are eligible under the program. You are responsible for taxes and penalties associated with any ineligible expenses if the IRS audits you.

Note that eligible expenses reimbursed from your DepCare account cannot be claimed as a tax credit on your income tax return. The amount of your salary reduction contribution appears on your annual W-2 statement.

NOTE: When you file your federal income tax return, the IRS requires you to list each care provider's name, address, and taxpayer identification number (usually the Social Security number). If your care provider is a nonprofit organization under IRC §501(c)(3) (such as a day-care center operated by a nonprofit religious or educational organization), indicate "tax exempt."

## CAN I CHANGE OR CANCEL MY CONTRIBUTION?

You can always change your contribution when you re-enroll during Open Enrollment (usually held in November); changes made during Open Enrollment are effective January 1. You can enroll in DepCare for only one year at a time, so if you **do not** enroll during Open Enrollment, your participation in DepCare will end on December 31.

Certain changes in your family or employment may also provide a new 31-day PIE, in which you may start or stop participating in DepCare or change the amount of your contribution during the plan year. See the chart on pages 8 and 9 for eligible changes.

Changes to DepCare participation and/or contribution amounts during the plan year must be made on account of and consistent with an eligible change in status. Once you have specified a DepCare salary reduction, that amount is taken from your paycheck and deposited in your DepCare account each month. **Your new annual contribution amount applies only to expenses incurred on or after the effective date of the change, less any reimbursements made before the change.** Federal rules prohibit retroactive adjustments.

## WHAT IF I GO ON LEAVE OR SEPARATE FROM THE UNIVERSITY?

Your monthly contribution continues only as long as you remain on active pay status. If you leave UC, your participation ends at the end of the pay period in which your last DepCare contribution is deducted from your paycheck. For example, if you are paid monthly and you leave UC employment in February, your last DepCare contribution is taken from your February earnings and your participation in DepCare ends March 31.

You may submit claims for eligible expenses incurred through the last day of participation in the plan. Expenses incurred after this date are not eligible for reimbursement.

If you stop working at UC for 120 days or longer and are then rehired, you have the same re-enrollment options as a new employee (see page 5, “How Do I Enroll?”). If you are rehired in less than 120 days and choose to re-enroll in DepCare for the remainder of the plan year, you must contribute the same monthly amount you were contributing before you left UC.

If you go on leave without pay or are temporarily laid off, your contributions to DepCare stop. While on leave, you may continue to submit claims for eligible expenses incurred before the leave. Expenses incurred during the leave are generally not eligible. In order to participate in DepCare, you (and your spouse) must be working or looking for work.

### **WHAT IF I HAVE A PROBLEM OR QUESTION?**

If you have questions about DepCare, you can call the SHPS toll-free number (1-877-270-3915) to speak with a customer service representative. You can access your DepCare account information through the SHPS

website—[www.myshps.com](http://www.myshps.com)—or by calling the SHPS automated telephone service at 1-877-270-3915.

If your reimbursement check is in error or if you don’t receive it, please call SHPS directly at: 1-877-270-3915.

If you have a problem that SHPS cannot resolve, contact your local Benefits Office or the person in your department who handles benefits.

Please note that individual DepCare account information—contribution amounts, reimbursements, account balance, and claim status—is confidential. This information is available only to the UC employee who is the DepCare participant.

### **ARE THERE ANY DEADLINES I SHOULD WORRY ABOUT?**

Yes. See page 4, “What Happens to DepCare Money I Don’t Use?”

## MIDYEAR ELECTION ACTIONS ALLOWED UNDER DEPCARE

In this chart:

- ▶ “spouse” means your legal spouse
- ▶ “dependent” means the following individuals, providing they live with you, and except for a child under age 13, are physically or mentally incapable of self-care:
  - your legal spouse
  - anyone you claim as a federal tax dependent, such as
    - your child under age 13 in your custody
    - your child age 13 or older, domestic partner, parent, sibling, or in-law.
- ▶ “dependent care FSA” means a dependent care flexible spending account.

Event	Enroll?	Action Allowed		
		Increase Contribution?	De-enroll?	Decrease Contribution?
<b>Change in your marital status</b>				
You marry and gain a dependent	yes	yes		
You marry and your spouse is either not employed, or is enrolled in his or her own employer’s dependent care FSA			yes	yes
You lose your spouse through death, divorce, legal separation or annulment and your spouse was enrolled in his or her own employer’s dependent care FSA	yes	yes		
<b>Gain or loss of a dependent</b>				
You gain an eligible dependent (for example, through birth, adoption, or your spouse becomes incapable of self-care)	yes	yes		
You lose an eligible dependent (for example, through death, a child reaches age 13, or a child is no longer a tax dependent)			yes	yes
<b>Change in employment status of legal spouse or dependent that affects benefits eligibility</b>				
Your spouse gains eligibility for and enrolls in own employer’s dependent care FSA because he/she starts employment, or has an employment status change			yes	yes
Your spouse loses eligibility in own employer’s dependent care FSA because he/she ends employment, or has an employment status change	yes	yes		
Note that in order for a married employee to be or remain eligible for DepCare, the spouse must either be employed or be looking for employment (or, if not, must be a full-time student or incapable of self-care).				
<b>Cost change (does not apply if provider is a relative of the employee by blood or marriage)</b>				
Your dependent care provider increases the cost of services	yes	yes	yes	yes
Your dependent care provider decreases the cost of services.	yes			yes

Event	Action Allowed			
	Enroll?	Increase Contribution?	De-enroll?	Decrease Contribution?
<b>Change in dependent care provider or coverage</b>				
You change dependent care providers	yes	yes	yes	yes
There is a reduction in hours or cessation of dependent care (for example, a child starts attending school)			yes	yes
You change (in whole or in part) from paid care to no care or free care (for example, free care by a neighbor or relative or for state-paid care) or from free or no care to paid care			yes	yes
Your spouse <b>starts</b> employment	yes	yes		
Your spouse <b>ends</b> employment			yes	yes
You or your spouse changes work schedule (for example, going from full-time to part-time or vice versa) which creates, changes or eliminates need for dependent care.	yes	yes	yes	yes
Your spouse who is not employed or looking for employment becomes a full-time student, or becomes incapable of self-care	yes			
Your spouse who is not employed or looking for employment is no longer a full-time student or is no longer capable of self-care			yes	

## DepCare vs. Federal Tax Credit

UC is not permitted by law to provide legal, tax, or accounting advice. Our purpose is to provide the information and the perspective for you to make sound decisions based on your personal situation. Federal tax laws allow you to reduce your income taxes if you pay someone to care for your child or other dependent so that you may work. You may reduce your taxes by:

- ▶ Participating in DepCare,
- ▶ Using the federal tax credit, or
- ▶ Using a combination of both methods.

The amount you save on taxes will vary depending on the method you use, your salary, your expenses, and your tax status. Different tax-savings methods affect your cash flow, financial flexibility, and federal income tax return preparation in different ways. You should see your tax advisor for help determining what's best for you.

### DEPCARE AND THE TAX CREDIT—HOW THEY'RE ALIKE

- ▶ You must be at work or looking for work while your child or other eligible dependent is receiving care. If you're married, your spouse must be employed in a paying job, looking for work, attending school full time, or disabled.
- ▶ The child or other dependent must live in your home and must be claimed as a dependent on your federal income tax return. You must pay a "qualified person" to care for your eligible dependent at your home, at a licensed day-care center, at a day camp, or at another location, except any overnight camp, or any school for first grade or above. (School expenses for children below the first grade may or may not be eligible, depending on your day-care arrangement. Refer to IRS Publication 503 or consult your tax advisor.) A "qualified person" providing dependent care does not include your spouse, any of your children under age 19, or any other person whom you claim as a dependent.
- ▶ Children under age 13 are eligible. Expenses for other dependents (such as children age 13 or over, parents, or a spouse) may be reimbursed

only if the dependents are disabled or cannot otherwise care for themselves because of physical or mental problems. You must show on your federal income tax return for the year in which the care is provided the name, address, and (except for churches or other tax-exempt dependent care centers) the taxpayer identification number of any person or dependent care center that you pay to provide dependent care. Failure to comply or to provide accurate information may result in a penalty—either loss of the tax credit or inclusion of DepCare contributions in your taxable income.

- ▶ You may want to give each care provider IRS Form W-10, *Dependent Care Provider's Identification and Certification*. The provider should complete the form and return it to you. You should then retain the form in your files. If the care provider fails to complete the form, compile as much information about the provider as possible.
- ▶ You should keep documentation to support all claims.
- ▶ You must have a Social Security number for each dependent who is at least one year old, and you must report this number on your federal income tax return. Failure to comply may result in a \$50 penalty each time the number is omitted. For further details and examples, refer to IRS Publication 503 or consult your tax advisor.

## DEPCARE AND THE TAX CREDIT— HOW THEY DIFFER

- ▶ DepCare applies to up to \$5,000 of care (\$2,500 if you're married and filing separately) provided to one or more of your dependents in any calendar year. If you use DepCare, your tax savings will equal your tax rate multiplied by your total DepCare expenses (up to \$5,000) paid under the plan.
- ▶ You also realize savings on FICA taxes. The FICA tax rate is 7.65 percent—6.2 percent on earnings up to the Social Security wage base (see page 2) for OASDI taxes, and 1.45 percent on all earnings for Medicare Part A (Hospital Insurance). If your salary after DepCare contributions is above the Social Security wage base, you will not realize tax savings on the OASDI component of FICA, but will still realize some savings on the Medicare Part A component.

- ▶ The federal tax credit allows you to claim a nonrefundable income tax credit for 20 percent to 35 percent of certain employment-related dependent care expenses. The rate of the credit is reduced by 1 percent for each \$2,000 of your adjusted gross income over \$15,000. (The rate never drops below 20 percent, however.) Eligible expenses are limited to \$3,000 if your expenses are for one qualifying dependent; \$6,000 if they are for two or more.
- ▶ Any amount reimbursed to you from DepCare reduces, dollar for dollar, the expenses eligible for calculating the federal tax credit. Thus, if your expenses are for two qualifying dependents and you are reimbursed for the maximum amount allowable under DepCare (\$5,000), you will still have \$1,000 of expenses eligible for the federal tax credit.

**Example 1:** You're a married employee, filing jointly (DepCare maximum allowable expenses: \$5,000). You have one dependent (maximum allowable expenses for calculating federal tax credit: \$3,000). You have \$3,000 in dependent care expenses, and you claim \$3,000 under DepCare. The \$3,000 maximum allowable for calculating the tax credit is reduced, dollar for dollar, by the \$3,000 claimed under DepCare. Therefore, you may not claim a tax credit.

**Example 2:** You're a married employee, filing jointly (DepCare maximum allowable expenses: \$5,000). You have two dependents (maximum allowable expenses for calculating tax credit: \$6,000). You have \$6,000 of dependent care expenses and you claim \$5,000 under DepCare. The \$6,000 maximum allowable for calculating the tax credit is reduced, dollar for dollar, by the \$5,000, leaving \$1,000. You may claim a tax credit based on this remaining \$1,000.

## DepCare Advantages

- ▶ Budgeting for regular weekly or monthly dependent care expenses is easy. The amount you specify is taken from your paycheck each month and reimbursed to you after the dependent care has been provided and you submit a claim.
- ▶ Your tax savings are immediate. The amount you contribute to DepCare each month isn't taxable, so your taxes are calculated using a lower income. (Your end-of-year tax refund may be lower.)
- ▶ Keeping tax records is easy because you record the information on your DepCare claim form each month and keep a copy for yourself. All the

dependent care information you need to complete your federal tax return will be readily available at tax time.

- ▶ If you use DepCare exclusively, at the end of the year you don't have to calculate a federal tax credit when you pay your taxes. Your dependent care tax benefit has been taken into account all year.

### DepCare Disadvantages

- ▶ **Once you sign up, your monthly contribution will remain the same all year unless you have an eligible change in your family or employment.**
- ▶ During your first month in the program, your costs may be doubled because you may be contributing to your DepCare account and paying your care provider without being reimbursed immediately. (After the first month, if you file claims monthly, you pay expenses for the current month and are reimbursed for the preceding month's DepCare claim.)
- ▶ **You lose any money that remains in your account after the deadline for submitting claims for the plan year.** If you overestimate your DepCare expenses—that is, you contribute more to the program than you can claim—the IRS requires that you forfeit your excess contributions.
- ▶ Because your DepCare contributions are not subject to FICA tax, your future Social Security benefits could be slightly reduced as a result of your participation.

## FEDERAL TAX SAVINGS: DEPCARE VS. THE TAX CREDIT

The amount you save will vary according to your income, your tax filing status, and the tax-savings method you use. Recent changes to the federal tax credit make comparing DepCare and the tax credit difficult. For instance, if you have two children and \$6,000 of eligible dependent care expenses, you could decide to make an annual DepCare contribution of any amount up to \$5,000 and calculate your tax credit on the remaining \$1,000. Or you could calculate your tax credit on all \$6,000 and not use DepCare.

Because so many factors are involved, you should consider meeting with your tax advisor to help you determine whether DepCare or the tax credit—or a combination of the two—is right for you.

### *Nondiscrimination Requirements*

In order to prevent this plan from being characterized as discriminatory by the Internal Revenue Service and therefore ineligible for federal tax treatment, the plan administrator may reject any elections or reduce contributions or benefits during the plan year. This means payroll deductions may be reduced or stopped as needed.

By authority of the Regents, University of California Human Resources and Benefits, located in Oakland, administers all benefit plans in accordance with applicable plan documents and regulations, custodial agreements, University of California Group Insurance Regulations, group insurance contracts, and state and federal laws. No person is authorized to provide benefits information not contained in these source documents, and information not contained in these source documents cannot be relied upon as having been authorized by the Regents. Source documents are available for inspection upon request (1-800-888-8267). What is written here does not constitute a guarantee of plan coverage or benefits—particular rules and eligibility requirements must be met before benefits can be received. The University of California intends to continue the benefits described here indefinitely; however, the benefits of all employees, retirees, and plan beneficiaries are subject to change or termination at the time of contract renewal or at any other time by the University or other governing authorities. The University also reserves the right to determine new premiums, employer contributions and monthly costs at any time. Health and welfare benefits are not accrued or vested benefit entitlements. UC's contribution toward the monthly cost of the coverage is determined by UC and may change or stop altogether, and may be affected by the state of California's annual budget appropriation. If you belong to an exclusively represented bargaining unit, some of your benefits may differ from the ones described here. Contact your Human Resources Office for more information.

In conformance with applicable law and University policy, the University is an affirmative action/equal opportunity employer. Please send inquiries regarding the University's affirmative action and equal opportunity policies for staff to Director of Diversity and Employee Programs, University of California Office of the President, 300 Lakeside Drive, Oakland, CA 94612 and for faculty to Director of Academic Affirmative Action, University of California Office of the President, 1111 Franklin Street, Oakland, CA 94607.

Website address: [atyourservice.ucop.edu](http://atyourservice.ucop.edu)





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