



CITY OF MODESTO

DEPENDENT CARE ASSISTANCE PLAN

PLAN HIGHLIGHTS

A benefit opportunity for employees
of the City of Modesto operating under
Sections 125 & 129 of the Internal Revenue Code

DEPENDENT CARE ASSISTANCE PLAN

WHY SHOULD I PARTICIPATE IN THE DCAP?

To save taxes and have more spendable income! If you and your spouse both work or if you are single and head of a household, you probably provide daily care for children or disabled adult members of your family. The Dependent Care Assistance Plan (DCAP) allows you to save money on these dependent care expenses by paying for them with pre-tax dollars.

An example of the savings is shown below:

| | <u>WITHOUT DCAP</u> | <u>WITH DCAP</u> |
|---------------------------------------|---------------------|------------------|
| Base Pay | \$2,000.00 | \$2,000.00 |
| Plan Contribution | -0- | \$ 300.00 |
| Adjusted Taxable Income | \$2,000.00 | \$1,700.00 |
| Federal Withholding | \$ 270.00 | 229.50 |
| State Withholding | \$ 40.80 | \$ 34.68 |
| Social Security (FICA) | N/A | N/A |
| "Take Home" Pay | \$1,689.20 | \$1,435.82 |
| EXPENSES | | |
| Cost of Dependent Care | \$ 300.00 | -0- |
| "Spendable Income" | \$1,389.20 | \$1,435.82 |
| Increase in Spendable Income..... | \$46.62 | |

That translates to a tax-free \$559.44 per year increase in pay to you.

*** This illustration is meant for illustrative purposes only. Individual situations may vary. You are encouraged to review this plan with your tax professional before deciding to enroll.

DCAP SUMMARY

WHAT ARE DEPENDENT CARE EXPENSES?

- Charges for babysitting inside or outside of your home for a child under age 13, if the child must be cared for to enable you and/or your spouse to work. The babysitter can be anyone you choose as long as they are not a relative under age 19 and you do not claim a federal income tax deduction for that person.
- Charges for childcare provided outside your home must be provided in accordance with all laws. For example, in California any childcare facility that cares for more than six children must be licensed.
- Charges for daily care of a disabled adult provided inside or outside your home. Care for someone outside your home (child or adult) must be rendered for a person who is in fact residing (spends at least 8 hours a day) in your home.

HOW DOES THE PLAN WORK?

- It is easy. First you determine the amount of money you would like to contribute to the DCAP and complete the enrollment forms.
- The funds are deposited into an account in your name with the administrator for future use. You do not pay federal or state taxes on these funds.
- Throughout the year, you draw on the money held in your account to reimburse your eligible expenses. A simple claim form is sent to the administrator for reimbursement.
- Prior to the end of the year, you will be asked to complete enrollment forms for the next year. At that time you may increase, decrease or stop your contributions. Prior to that time, you may not make any changes unless you have a qualifying lifestyle change as defined by the I.R.S.

DCAP SUMMARY

THIS SEEMS TOO EASY. Why wouldn't I use the DCAP?

There are generally three reasons why some people do not participate in DCAPs. First, some do not feel they will save enough money. Second, some people feel they cannot estimate their expenses accurately enough and are concerned about forfeiting contributions. **IRS regulations say "Use It or Lose It"**. Third, some people are better off using the federal tax credits available for childcare. Participation in the DCAP reduces your eligibility under the tax credit. Please review the information below that compares the two.

BACKGROUND

You may claim a childcare tax credit equal to 20% of your childcare expenses – up to a maximum of \$2,400 of expenses for one child or \$4,800 for two or more. Under the DCAP you may elect to have up to \$5,000 withheld from your pay before taxes and use it for reimbursement of your childcare expenses (\$2,500 for each married person filing single tax returns – i.e. \$5,000 for both spouses in that instance).

Under federal law, any amount of salary, which you contribute to the DCAP, will reduce the amount of childcare expenses eligible for the tax credit. You must, therefore, evaluate carefully your tax situation to determine which approach is in your best interest. As under the previous law, a general rule of thumb is that as your tax bracket increases, the DCAP will generally provide a greater amount of tax savings.

EXAMPLE

Mrs. Roth pays \$8,000 a year in childcare expenses for her two children and is in the federal 33% tax bracket. Her after tax cost of childcare if she utilizes the DCAP will be \$6,350. This is the \$8,000 total cost less tax savings of \$1,650 ($\$5,000 \times 33\%$). On the other hand, if she goes the tax credit route, her after tax cost will rise to \$7,040. This is the result of the \$8,000 total cost less a tax credit of \$960 (the maximum tax credit - $\$4,800 \times 20\%$).

SUMMARY

The tax credit is worth 20% of expenses to a maximum of \$4,800 (\$960 tax credit), while the DCAP is worth the level of your marginal tax bracket (dependent upon your personal tax situation) to a maximum expense of \$5,000. It is recommended that you carefully evaluate your own situation prior to choosing the approach that best suits you.

DCAP SUMMARY

WHEN CAN I CHANGE MY ELECTION?

The plan year runs from January 1 through December 31. Your election must remain constant throughout the entire plan year unless you experience an approved “Lifestyle Change”. According to IRS guidelines, you may modify your election if one of the following occurs:

- Birth or adoption of a child
- Death of spouse or child
- Marriage
- Divorce
- Spouse gains or loses employment

Other than for one of those reasons, you may not change your election.

HOW WILL THE DCAP AFFECT MY SOCIAL SECURITY BENEFITS?

As an employee of the City of Modesto, you are not contributing to Social Security, so the DCAP will not affect Social Security benefits.

THE CITY OF MODESTO

Dependent Care Assistance Plan

ENROLLMENT WORKSHEET

Review your situation and write the amount you spend for dependent care expenses in the space provided. Remember, be conservative in your estimates of variable expenses since any unused contributions will be forfeited at the end of the plan year and may not be returned to you.

| | |
|---|----------|
| Regular Dependent Care payments (weekly, monthly, etc.) | \$ _____ |
| Multiply by: 12 (mo); 24 (two/mo); 52 (wk) | x _____ |
| Total Annual Dependent Care Expenses (max, \$5,000) | \$ _____ |

ESTIMATED SAVINGS CALCULATION

| | |
|--|----------|
| Total Annual Dependent Care Expenses | \$ _____ |
| Multiply this total by your marginal tax rate | x _____% |
| This is the approximate amount you will save by Participating in the Dependent Care Assistance Plan | \$ _____ |

Take a look at the amounts you have written and double-check your figures. Make any changes that are necessary. Once you are satisfied, transfer the amount from this worksheet to the enrollment form. Remember to divide the annual amount by 26 pay periods to arrive at the actual salary reduction amount for each pay period. Sign and date the form before turning it in to the Personnel Department.