Dependent Care FSA

What is it?

- Tax-advantaged employer plan that reimburses employees for dependent care expenses.

What are some advantages to it?

- No federal income tax or employment tax on contributions.
- Tax-free distributions for qualified dependent care expenses.

What expenses can it be used to pay?

- Expenses that generally qualified for the child and dependent care expenses deduction, including nursery school and preschool expenses.

Which employees can have it?

- Generally all employees, subject to the Section 129 nondiscrimination rules.

Who can contribute to it?

- Employers and employees.

How much can be contributed to it?

- Generally up to $5,000 for individuals or married people filing taxes jointly.
- $2,500 for married people filing taxes separately.

Can employees carry over funds from year to year?

- Generally, no.

Is it portable for the employee?

- No.

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What requirements must an employer satisfy?

- Have a written plan document.
- Notify eligible employees about the plan and communicate its rules regarding eligible expenses.
- Comply with the Section 129 nondiscrimination rules.
- If offered as part of a cafeteria plan, comply with the rules on mid-year election changes.
- Annually report the amount of dependent care benefits an employee receives in box 10 of Form W-2.

Can employers offer or contribute to it without also offering a group health plan?

- Yes, 9 months.

Is it subject to COBRA?

- No. May not exceed 105% of the members group rate.

Where can I learn more?

- IRS Code Section 129.
- IRS Publication 503.