SUPPORTING YOUR WORKFORCE: THE VALUE OF DCAPS

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Want to attract and keep top talent? Your benefits package is crucial! Think beyond just health and retirement.

Fringe benefits like Dependent Care Assistance Programs (DCAPs) offer real, meaningful support, especially for employees caring for kids or dependent adults.

What is A DCAP?

A DCAP - also known as a dependent care flexible spending account (DCFSA) (since it functions similarly to a health flexible spending account (FSA)) - helps to ease the financial burden. This program allows employees to set aside pre-tax dollars specifically for eligible dependent care expenses, providing a substantial financial advantage. Through convenient payroll deductions, employees contribute pre-tax funds to this account. These funds can then be used to reimburse them for qualifying expenses such as daycare, babysitting services, or after-school programs.

DCAPs can be standalone benefits or part of a larger “cafeteria plan.” Regardless, they operate under strict IRS rules to ensure proper use of the funds.

What Expenses Qualify for Reimbursement?

To qualify for reimbursement, the expense must be directly related to care that enables the employee (and their spouse, if applicable) to work or look for work. Reimbursement is provided after the care has been rendered.

Eligible Expenses Include:

- Preschool, nursery school, or similar programs (below kindergarten level).
- Before- and after-school care for children.
- Day camps, including specialized camps (e.g., sports, computer).
- Transportation to and from the place of care, if provided by the care provider.
- Employment taxes paid to a caregiver.
- Room and board for a caregiver (in specific cases).
- Application or agency fees related to finding care.

Ineligible Expenses Include:

- Kindergarten tuition or higher education costs.
- Overnight camps.
- Payments made to an employee’s spouse or the child’s other parent (if not their spouse).

Who Qualifies as a Dependent?

Employees can utilize DCAP funds for:

- A dependent child under the age of 13.
- A spouse or dependent who lives with the employee and is physically or mentally unable to care for themselves.

Contribution Limits

Internal Revenue Code Section 129 sets annual contribution limits for DCAPs, ensuring tax compliance:

- Up to $5,000 per year for employees who are single or married filing jointly.
- Up to $2,500 per year for employees who are married filing separately.

These pre-tax contributions are a significant advantage, reducing an employee's taxable income and thereby increasing their take-home pay. It's also important for employees to understand that the same expenses cannot be claimed for both a DCAP and the federal dependent care tax credit.

DCAP contributions must be used for eligible care expenses within the coverage period, or they are forfeited. This is often referred to as the "use it or lose it rule." While a 2.5-month grace period for incurring and submitting claims is permitted, DCAPs do not allow carryovers of unused funds to the next plan year. Additionally, a DCAP is not portable - meaning that if an employee leaves, the funds are forfeited.

Maximizing Benefits for Employees

Offering a DCAP provides meaningful support to employees, whether they are new parents, caring for a loved one with special needs, or simply seeking ways to manage household budgets more effectively. It is a valuable tool that helps team members save money while managing essential care costs.

YOUR LOGO