CHILD / DEPENDENT CARE REIMBURSEMENT PLAN VS. FEDERAL TAX CREDIT - WHICH IS BETTER FOR YOU?

The Child & Dependent Care Reimbursement Plan (CDCRP) may be used instead of the dependent care tax credit on your federal income tax return. Before deciding to join CDCRP, you should decide whether you would save more tax dollars by claiming the child care credit for all of your dependent care expenses. The choice will depend on your personal circumstances.

Qualifications for Using CDCRP or the Tax Credit

Some rules for using CDCRP and the income tax credit are the same:

- You must be at work while your child or your dependent is receiving care. If you are married, your spouse must be either employed in a paying job, a full-time student, or disabled.
- The cut-off age for eligible children is age 12. Other dependents (such as children age 13 or over, parents, or a spouse) can receive care only if they are disabled, or cannot otherwise care for themselves because of physical or mental problems.
- The child or other dependent receiving care 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. A "qualified person" providing dependent care does not include any of your children under age 19, or any other person whom you claim as a dependent.
- You must show on your federal income tax return the name, address, and the taxpayer identification number of any persons or dependent care centers that you pay to provide dependent care.

Some rules for using CDCRP and the income tax credit are different:

- CDCRP applies to up to $5,000 worth of dependent care provided to one or more of your dependents in any calendar year. A lower limit applies if you are married filing separately, or if your spouse earns less than $5,000, or is a full-time student.
- If you use CDCRP your tax savings will equal your tax rate (including the 7.65% FICA tax rate on earnings under $53,400), times the expenses (up to $5,000) paid under CDCRP. EXAMPLE - 15% tax rate + 7.65% FICA rate = .2265 x $3,000 dependent care expenses = $679.50 tax savings.
- If you use the tax credit, your tax savings will vary according to your adjusted gross income (AGI) (See Tax Form 2441)

AGI	AGI
$00,000 - 10,000 - 30%	$22,001 - 22,000 - 24%
$10,001 - 12,000 - 29%	$22,001 - 24,000 - 23%
$12,001 - 14,000 - 28%	$24,001 - 26,000 - 22%
$14,001 - 16,000 - 27%	$26,001 - 28,000 - 21%
$16,001 - 18,000 - 26%	$28,001 - and up - 20%
$18,001 - 20,000 - 25%	

- Example - $25,000 AGI = 22% tax credit = .22 x $3,000 dependent care expense = $660.00 tax savings.

- Because your salary reduction contributions to CDCRP are not subject to FICA tax, your future Social Security benefits will likely be slightly reduced as a result of your participation in CDCRP.

- The income tax credit applies only to $4,800 of dependent care expenses. (This limit is $2,400 if your expenses are for only one dependent.) The dollar amount of expenses eligible for the tax credit is reduced, dollar-for-dollar, by all payments to you under CDCRP.

Generally, persons or couples with adjusted gross incomes above $25,000 or below $14,000 will benefit more from CDCRP. Incomes between $14,000 and $25,000 usually benefit more from the tax credit.

CHILD / DEPENDENT CARE ASSISTANCE ACCOUNT WORKSHEET

Which approach works better for you? This worksheet will help you estimate your expenses for the plan year. The choice is yours.

	TAX CREDIT	CDCRP
1. Annual Taxable Income (AGI)	____________	____________
2. Dependent Care Costs IN Cafeteria Plan	____________	____________
3. Line 1 Minus Line 2	____________	____________
4. Federal & State Income Taxes and Social Security Taxes on Line 3 Amount	____________	____________
5. Line 3 Minus Line 4	____________	____________
6. Dependent Care Costs NOT IN Cafeteria Plan	____________	____________
7. Tax Credit (See Scale for %) - % Times Line 6	____________	____________
8. Line 5 Minus Line 6 Plus Line 7 EQUALS NET SPENDABLE INCOME		

[1] Maximum $5,000 for the CDCRP
[2] Maximum $4,800 for the TAX CREDIT