

Dependent Care Assistance Program (DCAP)

**2008**

# **Program Summary**

Administered by **Application Software, Inc. (ASI)**  
for the  
State of Washington's Public Employees Benefits Board  
(PEBB) Program

# Contents

What is the Dependent Care Assistance Program (DCAP)? .....	3
How can I determine if DCAP will save me money? .....	3
Who is eligible to participate in DCAP? .....	3
Who is a qualifying person? .....	3
What eligible expenses can I set aside for DCAP?.....	3
Which expenses are ineligible?.....	4
What is the maximum contribution to DCAP?.....	5
Can I use DCAP and claim the child care credit on my income tax return? .....	6
What should I consider when estimating dependent care reductions? .....	6
How and when can I enroll in DCAP? .....	6
How are salary reductions taken from my check? .....	7
Can I change or stop my salary reduction amount midyear?.....	7
How does reimbursement work?.....	8
What should I do with the completed form? .....	9
Will I receive statements? .....	9
What happens to money in my DCAP account not spent on DCAP expenses?.....	9
How does DCAP affect my other benefits? .....	10
Do I have to report provider information to the IRS? .....	10
What if I leave state service? .....	10
Should I enroll in DCAP? .....	10
How do I request more information about DCAP? .....	10

# DCAP 2008 Program Summary

## **What is the Dependent Care Assistance Program (DCAP)?**

The Dependent Care Assistance Program (DCAP) allows you to set aside a "before tax" portion of your gross earnings to use for eligible dependent care expenses. DCAP reduces the amount of the federal withholding and social security taxes taken from your paycheck.

## **How can I determine if DCAP will save me money?**

Every individual and family has a different tax situation. To determine if DCAP can save you more money than you would save by using the tax credits when you file your annual income taxes, please consult with your tax advisor. As a general rule of thumb, if your gross household income is greater than \$31,000, you will typically save more money through the DCAP than you will through your income taxes.

## **Who is eligible to participate in DCAP?**

Employees of state agencies, higher-education institutions, community and technical colleges, and officers or elected officials of the state of Washington are eligible to participate in DCAP.

## **Who is a qualifying person?**

Under DCAP, the definition of qualifying person includes:

- A dependent of the participant who is under the age of 13 and who lives with the participant at least 8 hours each day;
- A dependent or spouse of the participant, regardless of age, who is mentally or physically incapable of self-care; or
- A child of a divorced or separated participant who is under the age of 13, if the participant has more than 50% custody of the child, even if the participant has released an exemption under IRC Section 152(e)(2).

## **What eligible expenses can I set aside for DCAP?**

Eligible expenses include charges for care of a qualifying person inside or outside your home. This includes feeding, administration of medicine, general supervision and nursery school. The main purpose must be the person's well-being and protection.

Expenses for care do not include amounts you pay for food, clothing, and entertainment. However, if these amounts cannot be separated from the cost of caring for the qualifying person(s), you can include the total cost.

**Federal tax laws specify that to qualify as an eligible expense:**

- *Out-of-home care* must comply with all federal requirements if the facility provides care for more than six non-resident individuals. (State and some local laws require licensing where care is provided for fewer persons.) Out-of-home care for a qualifying person age 13 or older will qualify, provided that person is physically or mentally incapable of self-care and regularly spends at least eight hours each day in your household.
- *Children's pre-school* may be included if your child is not in kindergarten or a higher grade.
- *Registration fees for day care* are eligible for reimbursement.

**Commonly claimed expenses include:**

- Before and after school care
- Daycare
- Baby sitter expenses
- General purpose day camps

You can count only the cost of care in determining your eligible expense. The services must occur during the calendar year for which you are enrolled and on days you work. If you are married, they must also occur on days your spouse works (or if your spouse is a full-time student, on days your spouse attends school). **Please note that if you have a stay-at-home spouse, you are not eligible to participate in the DCAP.**

If you enroll during the open enrollment period, your eligible expenses begin January 1. If you become eligible and enroll at a later date, eligible expenses will begin on the first day of the month after ASI approves your enrollment form. (For example, if ASI approves your enrollment January 15, services provided effective February 1 are eligible for reimbursement).

**Which expenses are ineligible?**

Expenses that are not eligible include:

- The cost of schooling for a child in kindergarten or above.
- Camp expenses when the child stays overnight.
- Payments to a person for whom you can claim a dependency exemption for federal income tax purposes.
- Payments to your non-dependent child unless he or she will be age 19 or older by December 31 of the calendar year for which you are enrolled.
- Expenses incurred before January 1 (or other effective date of enrollment).

- Food, clothing, diapers, and entertainment separated from the cost of caring for a qualifying person.
- Membership fees.

## **What is the maximum contribution to DCAP?**

The maximum annual DCAP contribution for a single person or a married couple is \$5,000 (\$2,500 for each participant if filing separate returns). Also, the amount of your DCAP contribution may not be more than your earned income or the earned income of your spouse. Earned income means wages, salaries, tips, other employee compensation, and any net earnings from self-employment.

The following examples illustrate these rules.

### **Single employee:**

Your DCAP contribution may not exceed your earned income, and may not exceed the federal maximum dollar limitation of \$5,000.

*Beth, a single parent and a state employee, has three children, of whom only two require day care. Her annual earned income for the year is \$30,000 and her eligible day care expenses are \$5,200.*

*Due to the fixed-dollar limitation, the most Beth can elect to contribute to DCAP is \$5,000. To avoid a possible forfeiture, she may choose to be conservative in her salary reduction election and contribute a lesser amount, for example, \$4,900.*

*If, in our example, Beth's annual earned income had been \$5,000 or less, the most she could have contributed to DCAP would have been the amount of her earned income.*

### **Married employee with working spouse:**

Your total DCAP contribution for dependent care may not exceed the lesser of your earned income or your spouse's earned income. It may not exceed the federal fixed-dollar maximum of \$5,000 (\$2,500 each participant, if filing separate returns).

*Michelle is a state employee. She and her husband Graham have two children. Michelle's annual earned income is \$38,000. Graham will earn \$4,000 from his part-time job. They will file a joint return.*

*The most Michelle can elect to contribute to DCAP is \$4,000, her husband's lower income. If her husband's annual salary was \$5,000, they could contribute \$5,000 to DCAP.*

### **Married employee with student spouse (or spouse needing care):**

If your spouse is a full-time student or incapable of self-care, he or she is assumed to have a minimum income of \$250 a month, if you have one qualifying person for who care is provided. He or she is assumed to have a minimum income of \$500 a month if you have two or more qualifying people receiving care.

Your spouse must be a full-time student for at least five months during the calendar year to obtain the benefit of this assumption. If your spouse is a student and is employed, reimbursement of dependent care expenses is based on his or her assumed income or actual income, whichever is greater.

*Will's wife, Lea, is a full-time student. They have four children. Will has a salary from the state of \$35,000. They will file a joint return.*

*During the calendar year, Lea is assumed, for purposes of the earned income limitation, to have a monthly income of \$500 per month while she is a full-time student. If Lea is a student during nine months of the year, the most Will can elect to contribute to DCAP is \$4,500 (\$500 a month x 9 months = \$4,500 year).*

### **Can I use DCAP and claim the child care credit on my income tax return?**

You cannot claim the same expenses for DCAP and the child care tax credit. You may claim the maximum of \$5,000 in DCAP and the remaining \$1,000 as child care tax credit if you have two or more qualifying persons. **You are still required to file the Dependent Care Credit form with your federal tax return.**

### **What should I consider when estimating dependent care reductions?**

You must estimate the amount of eligible child and/or dependent care expenses you expect to incur during the calendar year. Be sure to consider the possibility of declining expenses as your child gets older. These can include vacation time, sick days, etc.—times when you will not be incurring eligible expenses. Your salary reduction amount is fixed annually during the open enrollment period. The salary reduction you decide on should not exceed your estimate of dependent care expenses, as federal tax regulations require forfeiture of any amount not used within a calendar year.

For more information about forfeiture, please see the example on page 9.

### **How and when can I enroll in DCAP?**

To enroll in DCAP, submit a completed *Enrollment Form* to ASI. Forms are available on the ASI Web site at [www.asiflex.com/pebb](http://www.asiflex.com/pebb). You may enroll in DCAP:

- During the open enrollment period, which is usually held each fall for the following plan year;
- Within 31 days of becoming an eligible employee; or
- Within 31 days of a qualifying change in status. See “Can I change or stop my salary reduction amount midyear?” below for qualifying changes in status.

When you have completed, signed, and dated the agreement, keep a copy and return the original to ASI or to your benefits office (as indicated on the *Enrollment Form*). The enrollment process is complete on the date ASI approves your completed form.

### **How are salary reductions taken from my check?**

The annual salary reduction amount you choose is divided by the number of pay periods remaining in the year. It is taken equally from each regular paycheck and deposited into a dependent care account.

### **Can I change or stop my salary reduction amount midyear?**

The annual salary reduction amount cannot be changed during the plan year unless you have one of the following qualifying changes in status. Your request for a change must be received by ASI or your benefit office (as indicated on the *Enrollment Form*) within 31 days of the event. Your changes must be consistent with the qualifying event.

1. Marriage
2. Divorce or legal separation
3. Death of a spouse or dependent
4. Addition of a dependent to the eligible employee's household, such as birth or adoption of a child
5. Termination of spouse's employment
6. Employment of an unemployed spouse
7. A change in the work hours of the eligible employee or spouse that significantly alters the need for dependent care
8. A change in dependent care provider (school is considered a care provider)
9. A change in dependent care provider cost (does not apply to relatives)
10. No longer use dependent care services due to a child turning age 13
11. Termination from state service

If you have a qualifying change in status and need to change or revoke your enrollment, you must complete a new *Enrollment Form* and submit it to ASI or your benefits office (as indicated

on the form). Such changes require approval by ASI. An explanation of the requested change may be required.

**If you need to change your dependent care election, contact ASI immediately.**

*Note: Under IRC section 125 and 129, it may be necessary for ASI to decrease the salary reduction amount of certain participants to ensure that the program does not discriminate in favor of "highly compensated employees."*

## **How does reimbursement work?**

ASI will mail you a supply of claim forms with your enrollment packet, which you should receive shortly after the end of the open enrollment period or after you enroll (if you enroll midyear). Additional forms are available by calling ASI Customer Service at 1-800-659-3035. You can also print the form from ASI's Web site at [www.asiflex.com/pebb](http://www.asiflex.com/pebb).

You may submit the *Claim Form* as frequently or as infrequently as you prefer. Please note that due to IRS regulations, you cannot submit claims for services that have not yet been **provided**. For example, if you pay for an entire month of care at the beginning of a month, and only want to submit claims once a month, you must wait until the end of the month to claim the previous month's services. (You may submit a claim at the end of each week for the previous week's services, if you would prefer to submit claims more frequently).

You may submit claims for incurred expenses, whether or not they have been paid. (Incurred expenses mean dependent care expenses for services that have already been provided.) ASI typically processes claims within one business day of receipt and sends payment the same day that a claim is processed, up to the amount you have available in your account. Requests that exceed your available funds will be paid up to the amount you have available, and excess requests will be pended until your next payroll deduction. Pended amounts will be automatically reimbursed as funds become available.

To receive reimbursement, you must submit a signed claim form along with substantiating documentation from your provider that includes:

- The name of the provider.
- The date(s) of service.
- A description of the services provided.
- The amount charged for the service.
- The name of the person for whom the services were provided.

In lieu of the substantiating documentation, you can have your care provider sign the ASI *Claim Form*, and no additional documentation will be required.

Please remember to sign and date your *Claim Form*. You have until March 31 to submit a claim for eligible expenses incurred during the previous calendar year.

## **What should I do with the completed form?**

Mail or fax forms to:

**Mail to:** ASI  
P.O. Box 6044  
Columbia, MO 65205-6044

**Toll free fax:** 1-866-381-9682

## **Will I receive statements?**

ASI will mail statements to you quarterly. You will receive your final quarterly statement on or before January 31, following the close of the calendar year. Statements show all the activity on your account during the quarter. Please note that if you are enrolled in both the DCAP and the FSA, the statements you receive will be a combined statement.

## **What happens to money in my DCAP account not spent on DCAP expenses?**

Under federal law, any unclaimed money in your account after March 31 will be forfeited to the Washington State Health Care Authority (see example below). This is why you must carefully estimate your dependent care expenses before contributing part of your salary to DCAP. Check your account balance each time you receive a statement and be sure all services are provided before December 31 of each calendar year.

All claims for expenses incurred during a calendar year must be received by ASI no later than March 31 following the end of the calendar year.

*Bill elects to reduce his salary by \$5,000 for the calendar year. During the year, he incurs total eligible expenses in the amount of \$4,900.*

*Bill submits claim forms during the year totaling \$4,900. He will be reimbursed \$4,900, and the remaining \$100 will be forfeited to the state of Washington.*

*Should your dependent care needs change during the year, contact ASI immediately to see if you qualify for a change in status.*

## **How does DCAP affect my other benefits?**

Your state retirement and other benefits will continue to be calculated as if you did not contribute to DCAP.

If, after your salary reduction, your remaining income is under the social security taxable wage base, your social security tax will be lower than it would be without the salary reduction. As a result, your future social security retirement benefit may also be lower.

## **Do I have to report provider information to the IRS?**

Employees who use either the child care tax credit or DCAP must provide the name, address, and taxpayer identification number of the care provider (as well as the amount spent on care) on their federal income tax returns. The taxpayer identification is not necessary if the dependent care provider is exempt from federal income taxation as described in Section 501(c)(3) of the Internal Revenue Code. The provider's name and address and the cost for care, however, must be provided in all cases.

## **What if I leave state service?**

If you leave employment with the state of Washington, you may continue to incur reimbursable expenses (to the extent of your account balance) **for the remainder of the calendar year** until your available funds are exhausted. You must submit claims for these expenses to ASI by March 31 following the close of the calendar year in which the expenses were incurred.

## **Should I enroll in DCAP?**

ASI can't give you financial advice. We have published this guide to offer information to help you decide if DCAP makes sense for your family. A number of variables, many of which can only be estimated at the time of your enrollment, will determine the potential benefits of participation.

Nothing herein is intended as legal, accounting, or tax advice. For such services, consult a professional who can properly advise you.

## **How do I request more information about DCAP?**

If you have questions about DCAP or how it could affect your take-home pay, please call ASI Customer Service at 1-800-659-3035 , Monday through Friday 5 a.m. – 5 p.m., and Saturday 7 a.m. – 11 a.m. Pacific Time, or visit the DCAP Web site at [www.asiflex.com/pebb](http://www.asiflex.com/pebb).

This Summary provides a brief overview of the Washington State Dependent Care Assistance Program, which is an Internal Revenue Code Section 125 and 129 Plan. The program is administered by the Application Software, Inc. A copy of the state of Washington regulations governing this program is available upon request.

## **Dependent Care Assistance Program**

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