Section 125 Dependent Care Plan

This is a plan which enables working parents to pay for child care using pretax earnings, thereby realizing valuable tax savings.

How do I save money

The Dependent Care Plan will allow the amount you spend on dependent care to be taken out of your paycheck on a regular basis before the taxes are taken out. You will not have to pay federal, state or FICA taxes on this portion of your income.

Since you didn't have to pay taxes on your dependent care costs, the amount of spendable income in your check increases immediately.

Who is eligible

You may participate in this tax savings program if you are in a benefit status, you have dependent or elderly care expenses for a qualifying individual and:

- you and your legal spouse, both work or are looking for work; or
- you are a single working individual; or
- your spouse is a full-time student at least 5 months of the year; or
- your dependent spouse is incapable of self care, and lives at least 8 hours per day in your home, and
- you must have earned income during the year
- you must keep up a home that you live in with a qualifying person or persons.

Who is a qualifying individual

To be determined on a daily basis any person:

- who is your qualifying child (son, daughter, stepson or stepdaughter), under the age of 13 when the care was provided and for who you can claim an exemption,
- your spouse, child (age 13 or older) who was physically or mentally not able to care for him or herself and for who you can claim an exemption, and
- who has the same principal place of abode as the taxpayer for more than one-half of the year, and
- whose gross income is less than the exemption amount in Code Section 151(d).

Age 13: The IRS has conceded that a child attains age 13 on his or her birthday. A qualifying child must be one who “has not attained age 13” in order to be a qualifying individual. Expenses for the child would be eligible to the extent that they were incurred up to and including the day before the child’s 13th birthday. Expenses incurred on the child’s birthday would not be eligible.

Qualifying child must be a U.S. citizen, U.S. national, or a resident of the United States or a country contiguous to the United States (i.e. Canada or Mexico), subject to an exception for adopted children. A dependent is defined in Code Section 152.

What are the limits on qualified expenses

Minimum annual contribution is $100. Amount is not prorated for partial years.

Single individuals and individuals filing jointly may claim actual dependent care expenses up to $5,000 per calendar year.

If you and your spouse file separate returns, the individual maximum deduction is $2,500 per calendar year.

At no time can you deduct an amount which is more than your spouse’s earned income or more than half of your earned income.

If your spouse’s employer offers or your previous employer offered a similar dependent care deduction benefit, your combined annual deduction cannot exceed the limits listed above.

Dependent Care Plan participation vs. claiming the dependent care tax credit – no double dipping!

Eligible participants have the choice between participating in Marshfield Clinic’s Dependent Care Plan or claiming a Dependent Care Tax Credit. Choose the program that provides the greatest tax benefit! In determining the relative tax benefits, be sure to take into account the rules governing Earned Income Credit and Child Tax Credit. Consult with your tax advisor to make sure you are using the most tax-effective program.
What kind of expenses are eligible

Basically, expenses for care that are incurred during the Plan year so that you may work are eligible. Under the Plan, you have the right to select the provider of your choice for qualified dependent care. The care provider can be a baby sitter, neighbor, nanny or even a housekeeper with dependent care responsibilities. A relative will also qualify as long as they are not your spouse, a parent (ex-spouse, step or non-marital) or dependent. If your child provided the care, he or she must be age 19 or older. Also included are:

- Child care facilities
- After-school programs
- Day camp (see ineligible expenses)
- Family day care homes
- Senior centers
- In-home health services
- Preschool programs

The size and location of the facility is not a factor; the only requirements are that the provider meets state and local regulations and furnishes their social security or federal taxpayer ID number.

Examples of ineligible expenses include kindergarten, overnight camp, specialty day camps such as soccer or computer, educational programs, activity fees and transportation expenses.

Definitions
Care
The primary purpose of expenses for care of a qualifying individual must be to ensure his or her well-being and protection. Expenses for food, clothing, education, or transportation are not qualifying expenses.

Incapable of self care
Being unable to engage in any substantial gainful activity, take care of the household, or care for minor children. Per Publication No. 503 “persons who cannot dress, clean or feed themselves because of physical or mental problems” or “who must have constant attention to prevent them from injuring themselves or others.”

Employment-related
To be eligible, child care expenses must be incurred in order for the employee to be gainfully employed. This may need to be determined on a daily basis.

- Example 1: Robin and Mark typically work Monday through Friday. They have a three-year-old child whom they send to day care while at work for their respective employers. Robin works an extra shift on Saturday. Mark does not work on Saturday, but has made plans to go hunting for the day, therefore, Robin takes their child to day care. The expense incurred on Saturday is not an eligible expense because it is not necessary to enable both Robin and Mark to be gainfully employed on that day.

- Example 2: Cindy is going to have a baby. She decides to continue sending her four-year-old child to day care during her leave of absence from work. Cindy gives birth and is doing well. Since Cindy did not suffer severe health problems during the delivery, subsequently causing her to be unable to care for herself, expenses of placing her four-year-old in child care during the leave would not be an eligible expense. (See Incapable of Self Care)

Incurred expenses
Expenses are considered to have been “incurred” when the dependent care services have actually been rendered. A formal bill or payment receipt is not relevant to establishing that an expense has been incurred. Expenses paid but not incurred cannot be reimbursed.

How does the Dependent Care Plan work

Deductions are made on a pretax basis, before Federal, State and FICA taxes are withheld from the paycheck during each month of participation. The payroll deductions are kept in your dependent care spending account*. When you have incurred qualified dependent care expenses you will need to complete a Diversified Benefit Services, Inc. (DBS) claim form. Claim forms are available on the DBS website; www.dbsbenefits.com. The form requires information on dates of service, name of provider along with the provider’s federal taxpayer ID number or social security number. Both the provider and employee must sign and date the form.

Claim forms are processed on a weekly basis. Forms submitted by Friday, 9:00 a.m. Central Time are reimbursed the following Friday. Reimbursements are deposited directly into your bank account. Note, you cannot be reimbursed more than you have in your dependent care spending account. Deductions taken from the paycheck are available for reimbursement the Friday following the pay day. Future or anticipated dependent care expenses cannot be reimbursed. The expense must be incurred first.

You have until the last business day of February following the end of a plan year to submit reimbursement requests for expenses incurred in that plan year. Your account balance is available on the DBS website.

*Account is merely a record keeping account; it is not funded, reimbursements are paid from the general assets of the employer and it does not bear interest.
**When can you enroll**

- Newly eligible employees have 31 days following their date of eligibility (start date or benefit eligibility date) to enroll. The effective date will be the first of the month following receipt of the form in Human Resources.
- Another chance will be each November, during the annual re-enrollment time, for the next Plan/calendar year.
- Employees who have a mid-year birth or adoption of first child will have 31 days from the event to enroll. The effective date will be the first of the month following enrollment.

*Only expenses incurred as of the effective date through the remainder of the year, assuming continuous enrollment, can be included. Expenses incurred prior to the effective date are not eligible.

**How do I enroll in the Plan**

Determine the dollar amount of income you will need to meet your next year’s dependent care expenses. Complete election in Workday.

**Important points to consider before determining your election:**

- Make a conservative estimate of dependent care costs for the year.
- If you do not use all of the amount you allocate, it cannot be refunded.
- It may be possible that dependent care expenses beyond your salary redirection may be deducted at the end of the year under the Child Care Tax credit.
- You may change your election during the year only if there is a change in family or job status. Otherwise, the election is fixed for the entire year. (See when may I change my election)

**Determining your election:**

- Estimate the total amount you expect to pay for dependent care in the coming year.
- Complete election in Workday before the enrollment deadline.

*Forfeited funds are applied towards administrative expenses.

**When may I change my election**

You cannot change the amount of your contribution during the year unless you have a life changing event. A new election must be completed within 31 days from the change in family status and must be consistent with the event. Otherwise your previous election will remain in place until the end of the Plan year or the next life changing event.

**Life changing events include:**

- Change in legal marital status
- Birth or adoption
- Change in custody
- Death of spouse or dependent
- Approved leave of absence
- Change in benefit status, i.e. hours worked
- Change in parent/spouse’s employment, resulting in a change in hours worked
- Change in day care providers, i.e. change in the cost of services
- Change in cost of services due to rates increasing or decreasing
- Change in coverage under government program, i.e. day care assistance
- Termination of employment or reduction in hours to a D/nonbenefited status

Examples of non-life changing events include discontinuing daycare due to child attending school, dependent ceasing to satisfy dependent eligibility, i.e. turning age 13 (Should be reviewed during the annual reenrollment.) Or a requested change that is not consistent with the event.

**Termination/rehire, in the event of:**

If a participant terminates and is rehired within 31 days, they will have the option of either stopping or stepping back into their earlier election.

- If participant elects to stop their election, only expenses incurred through their prior last day of employment may be included.
- If participant elects to step back into their earlier election, the remaining contribution will be reallocated for the remainder of the plan year.

If a participant terminates employment, is rehired after 31 days and within the same plan year, re-enrollment will not be allowed for the remainder of the plan/calendar year.
Upon termination of employment, employee contributions are stopped and reimbursements are limited to the account balance and expenses incurred through the last day of employment. Participants have 60 days from their last day of employment to submit a claim form to DBS for reimbursement. Any remaining balance will be forfeited.

**Leave of absence**

- Election may be changed if participant is having a life changing event. See list on page 3.
- Participation may continue during a job protected leave of absence. However, take a minute to re-review What Kind of Expenses Are Eligible and the Definitions sections on page 2.

- In the event that a participant exhausts their job protected FMLA time, benefits stop and only expenses incurred through the last day of job protected leave may be included. If participant returns within 31 days they have the option of either stopping or stepping back into their earlier election. If participant returns after 31 days and within the same plan year, re-enrollment will not be allowed for the remainder of the plan/calendar year.

**Termination from the Plan**

Participation in the Plan will terminate if you:

- change from a benefit status to a no benefit status, or
- fail to meet other eligibility criteria, or
- have insufficient compensation through regular work, which results in missing two deductions.

**Note:** Section 125 Dependent Care Plan participants are responsible for completing and attaching form 2441 to your form 1040.

Information, including publications and rulings issued by the IRS, is available at http://www.irs.gov. The Plan is funded solely by salary reduction contributions and is not an ERISA welfare plan.