



MidAmerica

Administrative & Retirement Solutions, Inc.

Dependent Care Reimbursement Account

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Dependent Care Reimbursement Account

Extend your income by using the Dependent Care Reimbursement Account (DCRA) to pay for work-related dependent care expenses with income tax-free dollars. You can save a significant amount of money by participating in this account.

If you are paying for day care expenses now, you are paying in taxable dollars and probably taking the Federal Tax Credit at the end of the year. If you use the Dependent Care Reimbursement Account, you will pay these expenses in pre-tax dollars throughout the year, eliminating the need to use the tax credit at the end of the year.

Who Should Enroll?

The Dependent Care Reimbursement Account is generally beneficial to anyone who has a qualified dependent and eligible day care expenses.

*Use the Dependent Care Reimbursement Account if your dependent and elder care expenses make up a significant part of your...
FAMILY BUDGET.*

Who is a Qualified Dependent?

Dependents are defined as children under 13 years of age, or children 13 or over who are physically or mentally unable to care for themselves. A spouse or an elderly parent residing in your home, who is physically, or mentally unable to care for himself or herself, also qualifies.

What Expenses Are Eligible?

Expenses incurred which allow you (and your spouse, if married) to work, look for work or attend school as a full-time student are eligible. Below are expenses which qualify.

- Day care facility fees (excluding transportation, lunches, educational services)
- Before-school and after-school care
- Local day camp
- In-home babysitting fees (income must be claimed by your care provider)
- Nursery school and preschool (preschool expenses are eligible if the amount you pay for schooling cannot be separated from the cost of care)

Who Is an Eligible Provider?

You may use any care provider you choose, except a dependent child who is claimed as a dependent and is under the age of 19. The care provider must meet the requirements of your state. The services may be as informal as care provided by your neighbor, as long as the provider claims the money received for services as income when determining their taxes at the end of the year. **You will need to obtain the provider's Federal Identification/Social Security Number for inclusion on your tax filing.**

Can I Change My Election?

In line with Internal Revenue Service guidelines, you can change your election if you have a **qualifying change in status** during the Plan Year. This includes marriage, divorce, death, change in coverage, change in cost (except when the provider is a relative), dependent enrolled in school, birth/adoption or a change in employment. However, the adjustment in your election must be relevant to the change in status and the requested election change has to be in line and consistent with the event. All requests must be submitted to MidAmerica Administrative & Retirement Solutions, Inc. for approval.

What Are the Advantages of the Dependent Care Reimbursement Account?

Most important, your personal taxes will be reduced. The amount you contribute to your DCRA is not subject to Federal, State or FICA taxes. Generally, this will mean a tax savings of 15% to 40% depending on your tax bracket. As a direct result of the personal tax savings, you can actually increase your spendable income by changing the payment of those expenses from an after-tax to a pre-tax basis.

Participation in DCRA will reduce or in some cases, may eliminate the ability to use the Federal Tax Credit for Dependent Care. However, as you can determine from the comparison chart on the last page of this brochure, for most taxpayers, the DCRA results in a greater tax savings. **If you participate in DCRA, IRS Form 2441 must be completed as part of your tax return.**

What Are the Disadvantages of the Dependent Care Reimbursement Account?

By not paying FICA taxes, you will be reducing your Social Security contribution. Studies on this matter have determined that your tax savings generally outweigh your Social Security benefit reduction.

Any money in your DCRA that is not used by the end of the plan year will be **forfeited**. Therefore, it is in your best interest to be conservative when estimating your contribution.

Based on group participation, highly compensated and/or key employees' participation may be restricted. You will be notified if this applies to you.

How Does It Work?

The program is simple. Decide how much money you want to place in your account based on your estimate of dependent care expenses for the coming Plan Year. Keep in mind the time in which your dependent is not receiving care, such as vacation or sick time. The amount to be deducted from your pay cannot be greater than your income or that of your spouse, whichever is lower. The maximum contribution allowed by the IRS is \$5,000 (\$2,500 each for married individuals filing separate returns). **You will need to plan carefully as the IRS requires that any unused money left in your account at the end of the plan year will be forfeited.** Identify an annual election that you are comfortable with. This amount will be deducted on a pre-tax basis each pay period and contributed to your Dependent Care Reimbursement Account.

When you have expenses to be reimbursed, simply complete a claim form indicating that the expense has been **incurred during the Plan Year**, along with a bill or itemized receipt from the provider. Copies of the bill or an itemized receipt are good examples of proof of your dependent care expenses. If none of these are available, you may have the care provider acknowledge receipt by signing directly on the claim form. That's it! Mail it to MidAmerica and your claim will be processed on your next reimbursement date. Advance reimbursement of future or projected dependent care expenses is not permitted. Accordingly, you will receive Dependent Care Reimbursement up to the amount that has been deducted from your payroll earnings and contributed to your Dependent Care Reimbursement Account.

Worksheets

Estimate Your Savings

The following worksheets allow you the opportunity to compare the potential tax savings available through the Dependent Care Reimbursement Account vs. Federal Income Tax Credit. The general rule of thumb is that if your adjusted gross family income exceeds approximately \$39,000 to \$41,000,

you will receive a greater tax savings through the Dependent Care Reimbursement Account. The tax credit applies to Federal Taxes while the Dependent Care Reimbursement Account saves you Federal Income Taxes, State and Local Income Taxes, and Social Security (FICA) taxes. You

are encouraged to discuss the DCRA with a tax expert to determine the method which best serves your needs. The better "value" must also consider number of dependents, amount of dependent care expenses, your Adjusted Gross Income, and the effect of state and local tax laws.

Federal Income Tax Credit Worksheet

- The amount of expenses for dependent care (cannot exceed your income or that of your spouse, whichever is less) \$ _____
- Maximum expenses eligible for tax credit (\$3,000 for one dependent; \$6,000 for more than one dependent) \$ _____
- Estimated Adjusted Gross Income for you (and spouse if applicable) \$ _____
- Percentage from table at right based on Adjusted Gross Income _____%
- Estimated tax credit (multiply line 4 by the smaller of line 1 or line 2) \$ _____

Adjusted Gross Income	Percentage
Up to \$15,000	35%
\$15,001 - \$17,000	34%
\$17,001 - \$19,000	33%
\$19,001 - \$21,000	32%
\$21,001 - \$23,000	31%
\$23,001 - \$25,000	30%
\$25,001 - \$27,000	29%
\$27,001 - \$29,000	28%
\$29,001 - \$31,000	27%
\$31,001 - \$33,000	26%
\$33,001 - \$35,000	25%
\$35,001 - \$37,000	24%
\$37,001 - \$39,000	23%
\$39,001 - \$41,000	22%
\$41,001 - \$43,000	21%
\$43,001 and Over	20%

Dependent Care Reimbursement Worksheet

- The amount of deposit to your Dependent Care Reimbursement Account (must not exceed your income, your spouse's income, or \$5,000 or \$2,500, if married and filing a separate return. \$ _____
_____%
- State and City tax rate** _____%
- Total tax rate savings (line 2 + line 3 + line 4) _____%
- Estimated tax savings (multiply line 5 by line 1) \$ _____

Federal Tax Rate	Single	Married Filing Jointly
10%	Up to \$8,925	Up to \$17,850
15%	\$8,925 - \$36,250	\$17,850 - \$72,500
25%	\$36,250 - \$87,850	\$72,500 - \$146,400
28%	\$87,850 - \$183,250	\$146,400 - \$223,050
33%	\$183,250 - \$398,350	\$223,050 - \$398,350
35%	\$398,350 - 400,000	\$398,350 - 450,000

The table amounts are based on Adjusted Gross Income (after exemptions and deductions). Do not confuse Adjusted Gross Income with gross income. NOTE - Based on 2013 Federal Income Tax Rates

* This amount is adjusted annually by the Federal Government.

** Deposits to your Dependent Care Reimbursement Account are generally exempt from state and city taxes. This exemption is dependent, however, on the state and city in which you reside.