

# FSAs & Child Care

## Can I Use Both a Dependent Daycare Flexible Spending Account (FSA) and the Child Care Tax Credit?

When paying for child care expenses, you want to take advantage of all the tax benefits available to you. A Dependent Daycare Flexible Spending Account and the Child Care Tax Credit can help reduce your financial burden and let you keep more of what you earn.

<p><b>Dependent Daycare Flexible Spending Account (FSA)</b></p>	<p>An FSA is funded with money deducted from your pay pre-tax. The maximum you may put in your dependent daycare FSA is \$5,000 if you are married filing joint tax returns, or \$2,500 if married and filing individual returns. For many people, an FSA has the greater tax benefit as it reduces your federal, Social Security, and Medicare taxes and, in most states, the state income taxes you pay. Your deduction is made before these taxes are taken from your pay, thus reducing your taxable income.</p>
<p><b>Child Care Tax Credit</b></p>	<p>A dependent child under age 13 who attended child care while you earn income, could qualify you for the child care tax credit. The tax credit you earn is a percentage of the expense you incurred – 20% to 35%, which depends on your adjusted gross income. There is a dollar limit on the amount of child care expense eligible for the credit. For one qualifying child, the limit is \$3,000; for two or more qualifying children, the limit is \$6,000.</p>
<p><b>Which is better for me?</b></p>	<p>When considering funding a dependent daycare FSA, you need to weigh your potential savings from the spending account versus your savings through the child care tax credit. The money reimbursed through a dependent daycare FSA will reduce the amount of eligible expenses you can use for the tax credit on a dollar-for-dollar basis.</p> <p>Tax savings with a dependent daycare FSA become more valuable as your income increases. Generally, if your family's adjusted gross income is less than \$39,000 a year, it may be better for you to take the tax credit rather than participating in the dependent daycare FSA. However, an FSA may result in a greater tax savings on the first \$5,000.</p> <p>You must request reimbursement from your FSA, and you are reimbursed for expenses based on your receipt for services up to the amount currently available in your account. This means you may pay for daycare out of your pocket and then see a reduction in your paycheck before you can request reimbursement for the daycare expense.</p>
<p><b>Can I use both the tax credit and the dependent daycare FSA?</b></p>	<p>Maybe. While you cannot receive both tax benefits for the same expense, you may be able to claim both if your expenses exceed \$5,000. If you have two or more qualified dependents and pay more than \$5,000 per calendar year in daycare expenses, you can set aside the first \$5,000 pre-tax into the FSA and claim up to \$1,000 remaining expenses for the dependent child care credit. Based on your family's income level, you'll receive a credit for a percentage of that amount. For example, if your family's income is \$33,000 a year, you have two dependents, and you spent \$7,000 in child care expenses, you would be eligible to take an additional tax credit of \$250 (\$1,000 x 25% tax credit percentage based on income level).</p>

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