

The Dependent Care Assistance Program (DCAP)

DCAP allows you to use tax-free dollars to help defray the costs of an eligible child or adult dependent care utilized while you are at work. For many employees with children, DCAP offers a greater tax saving than the federal child and dependent care credit. The tax credit is limited to \$2,400 for one dependent and \$4,800 for two or more dependents, and you cannot use the tax credit if you are married and filing separately. DCAP allows you to set aside up to \$5,000 tax-free. Consult your tax advisor to see whether DCAP or the federal program is best for you.

State of Illinois employees actively at work and receiving a paycheck from which deductions can be taken are eligible to participate in DCAP. If the employee is married, his/her spouse must also be gainfully employed, a full-time student, disabled and incapable of self-care, or be seeking employment and have income for the year.

Who Qualifies as a Dependent

- Children under age 13 who you can claim as exemptions on your federal tax return.
- Dependents age 13 and over — including your spouse — who spend eight or more hours a day in your home, are physically or mentally unable to care for themselves, and are eligible to be claimed on your federal tax return or who could have been claimed if their gross income had not exceeded the federal limits for dependency status.

Special rules apply for divorced or separated parents. Custodial parents who meet certain criteria may claim DCAP expenses, even if they cannot claim their children as exemptions. Noncustodial parents are ineligible for DCAP.

Deposit Limits and Tax Filing Status

DCAP deposit limits:

\$20 minimum monthly contribution
\$416.66 maximum monthly contribution
(special limits may apply depending on
your tax filing status — see following page).

Remember, the maximum reimbursement for DCAP is the amount in your account at the time you request reimbursement, even if the claim exceeds that amount.

Maximum Contributions by Tax Filing Status

- Single and head of the household \$5,000
- Married and filing jointly \$5,000
- Married and filing separately \$2,500
- Total family contribution if both spouses participate \$5,000
- If you or your spouse earn less than \$5,000 a year, your maximum is the lower of the two incomes.
- If your spouse is a full-time student or incapable of self-care, your maximum contribution is \$200 per month for one dependent or \$400 per month for two or more dependents for each month of the plan year during which your spouse was a student or disabled.
- If you are hired or experience an eligible change in status after the beginning of the plan year, your maximum contribution is \$416.66 per month for the remainder of the plan year.

Reimbursable Expenses

DCAP can reimburse dependent care expenses incurred while you work. The expenses must be allowable by the IRS for dependent care credit. If you claim the expenses under DCAP, you are prohibited from claiming them on your federal taxes. Eligible dependent care expenses must be incurred during the plan year and are not reimbursable until they have been provided.

Eligible DCAP Expenses

- Day care costs at centers that comply with applicable state and local laws.
- Nursery school, preschool, and other schooling prior to first grade that cannot be separated from the cost of care.
- Baby-sitters utilized while you work.
- Before -school and after-school care.
- Adult daycare facilities and adult in-home care.
- Housekeepers who also care for your children.
- Summer day camps.
- Payroll taxes in connection with compensation paid to a service provider.

Ineligible DCAP Expenses

- Cost of schooling for first grade or higher, or schooling prior to first grade that can be separated from the cost of care.
- Care provided by your spouse, your child who is under age 19, or individuals you can claim as dependents.
- Care provided in full-time residential institutions.
- Registration fees, late fees or deposits.
- Overnight or specialized camps and special instruction, i.e., sports, art, music, swimming, band, computer, dance, gymnastics, etc.
- Care for children age 13 and older.
- Expenses incurred prior to the effective date of enrollment, during periods when you or your spouse are not actively at work or seeking employment, or after the end of the plan year.
- Prepaid expenses cannot be submitted for reimbursement until the date service is rendered.
- Transportation, food, clothing, diapers and book rental.
- Other expenses that do not meet the criteria of the program or of the IRS.

Claims Submission Procedures

Claims can be submitted using either a claim form alone or a claim form accompanied by bills/receipts.

If using a claim form instead of receipts, both you and the provider must complete all of the claim and provider information on the form and sign it in the designated areas.

If using bills/receipts with the claim form, the attachments must include the dependent's name, the period of service, the provider's name, address and FEIN or SSN, the amount of the expense and verification that the expense has been incurred. The provider's signature is not required on the claim form.

Please remember that canceled and/or carbon copy checks are not acceptable as receipts. Services need not have been paid by the time you submit your claims to FBMC, but they must have been provided.

Status Changes — Leave of Absence and Termination

When a DCAP participant terminates employment or goes on an unpaid leave of absence, he/she must notify their Group Insurance Representative and complete a DCAP Enrollment/Transaction Form and a Change in Status Certification Form to revoke his/her participation in DCAP. Re-enrollment into DCAP upon returning from an unpaid leave of absence is not automatic. You have 60 days from your return date to complete and submit a new DCAP Enrollment/Transaction Form and Change in Status Certification Form. The effective date of the new deduction amount would be the first full pay period on or after the signature date on those two forms.

A paid leave of absence is not an eligible change in status, and deductions must continue during the leave. Expenses incurred while you and your spouse are not actively at work or looking for work are ineligible for DCAP reimbursement. If you do experience a change in status, new dependents must be added within the 60-day period allowed for changes. Modification or changes in dependent care arrangements, or cost changes are considered eligible changes in status, if care is provided by a non-relative.

Dependent Care Assistance Plan Savings Example

Below is an example of the potential savings for a head of household with one dependent. Taxes are based on 2002 federal tax rates, 3% state tax and 7.65% Social Security tax. In the "Not Participating in DCAP" column, a \$480 federal dependent care credit is allowed plus an additional \$600 child tax credit. In the "Participating in DCAP" column, a \$600 child tax credit is allowed.

Single with One Dependent	Not Participating in DCAP	Participating in DCAP
Annual Gross Income	\$45,000	\$45,000
Standard Deductions and Exemptions	\$12,900	\$12,900
DCAP Contribution	\$ 0	\$ 5,000
Taxable Income	\$32,100	\$27,100
Federal Taxes	\$ 3,239	\$ 2,969
State Taxes	\$ 1,230	\$ 1,080
Social Security	\$ 3,443	\$ 3,060
After-Tax Dependent Care Expense	\$ 5,000	\$ 0
Remainder of Income	\$32,089	\$32,891
Increased Spendable Income	\$ 0	\$ 802

Note: Please compare tax savings for your individual situation. Individuals or couples with **more than one** dependent are advised to compare available tax credits to potential tax reduction prior to enrollment in DCAP.

Helpful Hints

When completing the Personal Expenses Worksheet for DCAP on page 21, keep in mind the following:

- Expenses incurred for the upcoming plan year (July 1 - June 30).
- Estimate only the cost of expenses you are certain you and/or your eligible dependents will incur during the plan year.
- Exclude expenses for any time that you will **not** have to pay for dependent care such as your vacation and/or your child(rens) school.

Personal Expense Worksheet for DCAP

1. Enter your dependent care expenses that are necessary to allow you and your spouse (if married) to work on a weekly basis.	1. \$ _____ per week
2. How many weeks will daycare not be required for you and/or your spouse to work (vacation, ect)?	2. _____ weeks
3. Subtract the number of weeks entered in line 2 from 52. This is how many weeks per year that you expect to pay for reimbursable dependent care.	3. _____ weeks
4. Multiply the amount on line 1 by the amount on line 3. This is your estimated eligible dependent care costs.	4. \$ _____ per week
5. Enter the amount on line 4 or \$5,000, whichever is less (or \$2,500 if married and filing separate tax returns).	5. \$ _____ per week
6. Number of pay periods in plan year.	6. _____
7. To determine your maximum DCAP deductions, divide the amount on line 5 by the number on line 6. This is the maximum total deduction to be taken each pay period. REMEMBER: Unless the amount on line 4 is over \$5,000, you may not want to deduct the maximum. In accordance with IRS Regulations, DCAP money not claimed is forfeited.	7. \$ _____

All claim submissions must include the following information:

1. Your providers name.
2. Your providers tax id number or Social Security number.
3. The dates of service.
4. The amount paid for dates of service submitted.

Please remember that a cancelled and/or carbon copy of a check will not be accepted as a receipt.