

Chapter 7 - Dependent Care Assistance Plan (DCAP)

These plans are set up for day care, school programs or help with an elderly parent or ailing spouse. Money is set aside money pre-tax to pay for services just like medical expenses.

To qualify as a dependent under the program, an individual must normally be a member of the provider's household, receive more than one-half of his or her total support from the legal guardian, and fall within the definitions specified below in the *IRS Child and Dependent Care Expenses Publication 503*: <https://www.irs.gov/pub/irs-pdf/p503.pdf>

The dependent child was under age 13 when care was provided

1. The spouse was not able to care for him/herself due to physical or mental disability, and lived in the same household for more than half of the year, or
2. A person who was not able to care for him/herself due to physical or mental disability, and lived in the same household for more than half the year, and was either:
 - a. a dependent, or
 - b. Someone who would have been a dependent except that:
 - i. He/she had gross income of \$3,300 or more,
 - ii. He/she filed a joint return, or
 - iii. The provider, or provider's spouse if filing jointly, could be claimed as a dependent on someone else's income tax return.

In general if a child is under 13, makes less than \$3,300 in a given and lives in the same household, a DCAP applies. The difference is that the money in the DCAP counts against the dependent care tax credit (DCTC) that can be deducted from income taxes every year.

The maximum the government allows per year for a DCAP:

-\$5,000 if married and filing a joint return, or if filing as a single parent
-\$2,500 if married and filing separately

The maximum the government allows per year for a dependent credit:

-\$3,000 for one child
-\$6,000 for two or more children

To determine is to what is the right is to simple math by referring back child care cost table in *Chapter 3*. The total comes to \$3,600 so Jasper can utilize the entire amount of his yearly expense.

Just like the FSA for medical, a predetermined amount is withdrawn from each paycheck. The total projected cost at \$3,600 for the year or \$300 a month:

\$3,600 / 12 month = \$300 month

\$3,600 / 26 paychecks = \$138.46 (\$138 rounded)

DCAP calculation:

- First, the gross pay is multiplied by 3% → $\$3,077 \times 3\% = \92
- Second, the \$92 is subtracted from the \$3,077 → $\$3,077 - \$92 = \$2,985$
- Third, the gross pay is subtracted by \$28 (FSA) → $\$2,985 - \$28 = \$2,957$
- Fourth, the gross pay is subtracted by \$138 (DCAP) → $\$2,957 - \$138 = \$2,819$
- Fifth, the \$2,819 is multiplied by the 25% tax rate → $\$2,957 \times .25 = \705
- Sixth, the \$705 is subtracted from \$2,819 → $\$2,819 - \$705 = \$2,114$

The difference in the paycheck is \$103 less in take home pay (\$2,218 - \$2,114) and \$2,678 for the year. (\$223 monthly average)

26 paychecks x \$103 = \$2,678 → 2,678 / 12 = \$223

Being that the take home pay is lower by \$206 in 10 of the 12 budget months, the advantage is the \$276 deposited for the dependent care. (In two of the 12 months it will be \$414). As with the FSA, this puts additional money back into the budget due to the lower cost basis for child care.

<i>New Scenario with FSA & DCAP</i>			
Bill Name	Project	Income / Expenses	
Child Care	\$300	Sub Total	\$4,228
Health Care	\$60	<i>In FSA</i>	\$56
		<i>In DCAP</i>	\$276
		New Deposit Total	\$4,560
		Remain	\$4,478
		Gain/Loss	\$82

<i>Scenario with FSA & DCAP in a bonus check month</i>			
Bill Name	Project	Income / Expenses	
Child Care	\$300	Sub Total	\$6,342
Health Care	\$60	<i>In FSA</i>	\$84
		<i>In DCAP</i>	\$414
		New Deposit Total	\$6,840
		Bonus to Supplemental	\$2,114
		New Deposit Total	4,726
		Remain	\$4,478
		Gain/Loss	\$248

Here, the FSA is increased by \$28 and the DCAP by \$138 creating an additional \$166 for the month.

7.1 Varying Monthly Balances in the Dependent Care Assistance Account

In calculating what each month's balance with DCAP as part of the plan it has five unique bill amounts depending on the month. This is no different than figuring out costs for other items previously calculated in *Chapter 3* when calculating the child care schedule. The reason

calculations are performed is that the each monthly will vary slightly based a handful of bills having different cost structures.

In looking at the table below for January, the main factor is the child care is \$266.08 but only \$276 resides in the DCAP account meaning leaving \$9.92 remaining however, keeping in mind is that the \$276 is baked into the budget the difference is accounting for it. The key point to remember is that the budget is a fixed number of \$300 so as long as the DCAP contribution is less than child care cost in any given month then there will always be an exchange of money between the Supplemental account as well as the DCAP account.

Mth	Cost	Cost Less DCAP = Remain	To DCAP	From DCAP	DCAP Sub Total	To Supp	From Supp	Added Cash	Supp Bal
Jan									\$70.98
Jan	\$266.08	266.08 - \$276 = \$-9.92	\$9.92		\$9.92				\$70.98
Feb	\$340.08	\$340 - 276 = \$64		\$9.92	\$0		\$54.08		\$16.90
Mar	\$303.08	\$303.08 - 276 = \$27.08			\$0		\$16.9	\$10.18	\$0
Apr	\$340.08	\$414 - \$340.08	\$73.92		\$73.92				\$0
May	\$303.08	\$303.08 - 276 = \$27.08		27.08	\$46.84				\$0
Jun	\$303.08	\$303.08 - 276 = \$27.08		27.08	\$19.76				\$0
Jul	\$303.08	\$303.08 - 276 = \$27.08		\$18.96	\$0				\$0
Aug	\$266.08	266.08 - \$276 = \$-9.92	\$9.92		\$10.72				\$0
Sep	\$266.08	266.08 - \$276 = \$-9.92	\$9.92		\$20.64				\$0
Oct	\$377.08	\$377.08 - \$276 = \$101.08		\$20.64				\$80.44	\$0
Nov	\$303.08	\$414 - \$303.08	\$110.92		\$110.92				\$0
Dec	\$229.08	229.08 - \$276 = \$46.92	\$46.92		\$157.84				\$0

First year stipend for the account \$70.98 + 90.62 = \$161.6

Two Important Items of Note

-Unlike the health FSA, you may only receive reimbursement from your DCAP account equal to the amount you have actually deposited. Therefore, if for example you need \$300 but only have \$200 in your account, you will still owe \$100 but that will have to come out of your budget.

-Unused money inputted into the FSA will be forfeited if it is not spent within each plan year as we referred to as the “use it or lose it” rule from *Chapter 7* that covered the FSA.

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		Gain/Loss	\$248

7.2 The Benefits of Choosing a Dependent Car Assistance Account

In most cases using the full value of the DCAP lowering taxable income is the path to take as long as you are above the 15% tax bracket. (Always check with your account) In other words, *the higher your earnings, the lower your tax credit*. It creates more cash flow and the money comes from each paycheck without having to deal with tax implications each year. Before we do that Jasper needs to run a new paycheck calculation.

***\$3,600 / 12 month = \$300 month**

Change the DCAP:

\$3,600 - \$157 = 3,443 / 26 paychecks = \$132.42 (\$132 rounded)

DCAP calculation:

- First, the gross pay is multiplied by 3% → $\$3,077 \times 3\% = \92
- Second, the \$92 is subtracted from the \$3,077 → $\$3,077 - \$92 = \$2,985$
- Third, the gross pay is subtracted by \$27 (FSA) → $\$2,985 - \$28 = \$2,957$
- Fourth, the gross pay is subtracted by \$138 (DCAP) → $\$2,957 - \$132 = \$2,825$
- Fifth, the \$2,819 is multiplied by the 25% tax rate → $\$2,825 \times .25 = \706
- Sixth, the \$705 is subtracted from \$2,819 → $\$2,825 - \$706 = \$2,119$

New Scenario with FSA & Updated DCAP			
Bill Name	Project	Income / Expenses	
Child Care	\$300	Sub Total	\$4,238
Health Care	\$60	In FSA	\$56
		In DCAP	\$264
		New Deposit Total	\$4,558
		Remain	\$4,478
		Gain/Loss	\$80

<i>Scenario with FSA & Updated DCAP in a bonus check month</i>			
Bill Name	Project	Income / Expenses	
Child Care	\$300	Sub Total	\$6,357
Health Care	\$60	<i>In FSA</i>	\$84
		<i>In DCAP</i>	\$396
		New Deposit Total	\$6,837
		Bonus to Supplemental	\$2,119
		New Deposit Total	4,718
		Remain	\$4,478
		Gain/Loss	\$240

After accounting for the FSA and the DCAP, the base budget will change reflecting:

-The “In FSA” and “In DCAP” are added to the Income and Expenses section

-The amount of take home pay is reduced; however . . .

-Leftovers increases by \$80 from \$703 to \$783 in 10 of 12 months

-Leftovers increases by \$248 from \$703 to \$951 in two of 12 months

See the updated table in the next page below:

10 of 12 twelve months scenario

Bill Name	Project	Actual	Remain	Due	Paid	Income	
Mortgage/Rent	\$861		\$861	8/15			
Leftovers (<i>up \$80</i>)	\$783		\$735	N/A	N/A	Check 1	\$2,119
Student Loan	\$300		\$300	8/15		Check 2	\$2,119
Child Care <i>\$161.6</i>	\$300		\$300	8/3			
Groceries <i>\$38.36</i>	\$250		\$250	N/A			
Cable Bill	\$115		\$115	8/14			
Cell Phone	\$115		\$115	8/1			
Auto Insurance <i>\$105</i>	\$105		\$105	8/8			
Dining Out	\$100		\$100	N/A	N/A		
Bill Name	Project	Actual	Remain	Due	Paid	Income	
Gas/Transit <i>\$22</i>	\$85		\$85	N/A	N/A		
Furniture (fin)	\$65		\$65	8/1			
Health Care	\$60		\$60	N/A	N/A	Income / Expenses	
Bowling	\$55		\$55	8/12		To Deposit	\$4,238
Gas Utility <i>\$104</i>	\$50		\$50	8/1		In Account	0
Electric Utility	\$50		\$50	8/12		In FSA	\$56
Credit Card (fin)	\$50		\$50	8/1		In DCAP	\$264
Home Phone	\$45		\$45	8/12		Sub Total	\$4,558
Computer (no int)	\$33		\$33	8/23		Remain	\$4,558
Health Club	\$30		\$30	8/11		Gain/Loss	\$0
Memberships <i>\$312</i>	\$26		\$26	N/A	N/A		
Hair Cut	\$25		\$30	N/A	N/A		
Life Insurance	\$10		\$10	N/A	N/A		
Supplement							
Trash Service	\$15		\$15	N/A	N/A		
Vitamins	\$10		\$10	N/A	N/A		
Oil Change	\$10		\$10	N/A	N/A		
Other							
Emergency	\$460		\$460	N/A	N/A		
Savings	\$200		\$200	N/A	N/A		
Miscellaneous	\$165		\$165	N/A	N/A		
Rainy Day	\$115		\$115	N/A	N/A		
College Fund	\$100		\$100	N/A	N/A		