



# COUNTY OF SANTA CRUZ

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## Frequently Asked Questions (FAQs)

### **DEPENDENT CARE REIMBURSEMENT PLAN (D-Care)**

The County of Santa Cruz Flexible Spending Program Amended and Restated Dependent Care Reimbursement Program (D-Care Plan) allows you, if you qualify under the tax law and elect to participate, to have a portion of your salary placed in a dependent care spending account every payday. You may use that money for childcare expenses and other dependent care costs that make it possible for you to work. The amount you set aside will be tax-free. That is, you will not pay federal or state income taxes (in California and most states) or Social Security taxes on it. You must use the money for qualifying dependent care expenses, however, or you will lose it.

<b>Administrator</b>	<b>County of Santa Cruz, Auditor Controllers Office</b> <b>701 Ocean Street, Room 100</b>
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### **QUESTIONS AND ANSWERS**

#### **1. Who is eligible to participate?**

You must be a budgeted full-time, budgeted part-time, or extra help employee of the County of Santa Cruz (County) to participate. The law requires that (a) you must be single, or (b) if you are married, your spouse must be working, looking for work, in school full-time, or handicapped and unable to work. You must be making dependent care payments so that you (or your spouse, if applicable) can work.

#### **2. Can everyone save taxes this way?**

Yes. Some people, however, can save more taxes by using the Dependent Care Tax Credit in computing their taxes (Form 2441), so you should examine your own situation carefully before you decide whether to participate. You may wish to consult with a qualified tax advisor before making this choice.

### **3. What taxes can I save?**

You will not have to pay federal income tax on the amounts you put into your dependent care spending account every payday. Also, in California, you will not have to pay state income tax on the amounts you put into your dependent care spending account. You will not have to pay Social Security tax on the amounts you put into your dependent care spending account. This means, however, that you will have paid in a smaller total to Social Security over your working lifetime, and your Social Security benefit could be less than it would be if you do not sign up for this plan. For most people, the difference is negligible, but you should be aware of it.

### **4. How much of my salary can I put into a Dependent Care Spending Account?**

If single, you may put in up to \$5,000 per year (but no more than your actual income). If you are married, filing a joint federal income tax return with your spouse, you and your spouse together may put in up to \$5,000 per year (but no more than the lower of your two incomes). If you are married, filing separately, your limit is \$2,500. Those limits translate to \$185.19 and \$92.60 per bi-weekly pay period, respectively. These dollar limits apply to the amount of dependent care assistance you receive during the year. Therefore, if you also receive dependent care assistance under the plan of your spouse's employer or if you have received dependent care assistance under the plan of a former employer during this tax year, those amounts will be offset dollar-for-dollar against the amount you may contribute to the D-Care Plan. There are special rules for employees whose spouses are full time students or disabled; for the specifics that apply to you, call the County Auditor Controller's Office.

### **5. What happens to the money?**

The County credits the money deducted from your paycheck to a dependent care spending account for you to draw on. See the next Q & A for information about how to do that.

### **6. How do I receive reimbursement for my dependent care expenses?**

You submit a claim form to the Auditor's Office with evidence of your qualifying dependent care expenses. See Q & A #8 for what dependent care expenses qualify under the tax law. The Auditor's Office will send you a check for the amount of your benefits. The minimum reimbursement check amount is \$25. You should save your expenses until they total at least that amount. If you send a claim for less than that, the Auditor's Office will hold it to combine with your next claim. At the end of the year, there is no minimum for the last payment of qualified benefits to obtain what is left in your account. If there is not enough in your dependent care spending account at any time during the year to cover the claim you have submitted, the Auditor's Office will pay you what is there. You must re-submit your claim to be paid the balance after the next payday, when more money is deposited in your account. You must include the Tax I.D. Number (or Social Security Number) of the care provider on the claim form to be

reimbursed. You should check with your provider to get that number. The tax law requires you to give this number, whether you take the tax credit or are reimbursed from a dependent care savings account. Your provider is required by law to give you this number. See Q & A #11 for a complete list of what must be on the bill.

### **7. What records will I receive so I will know where my account stands?**

You will receive a statement from the County following the close of each plan year showing total D-Care Plan contributions for the year. This information will appear on your Form W-2, and it will be mailed to you on or prior to January 31 of the following year.

### **8. What expenses qualify?**

Expenses must be incurred during the plan year, from January 1 through December 31. Expenses can be for care of a child up to 13 years old, or for care of a dependent that is disabled or elderly and frail, who reside with you. Your childcare expenses can be for a sitter or housekeeper in your home, a family day care home, or a day care center. You can include the full amount you pay to a nursery school, even though part of it is for lunch and education expenses. Only the portion of the cost of summer camp that is attributable to day care can be included, and camp deposits made in the winter or spring cannot be reimbursed until the full bill is due. If you have questions about including summer camp costs, call the Auditor Controller's Office. If you use a childcare center providing care for more than six children, it must comply with applicable state and local licensing regulations. See Q & A #9 for information on how to find out if your center qualifies. To use your dependent care spending account for expenses for a disabled or elderly person, that person must be physically or mentally unable to care for himself or herself. The person must be your dependent for tax purposes, and you must provide more than half of his or her living expenses. He or she must reside in your home at least eight hours a day. Thus you can pay out of your dependent care savings account for adult day care for a frail elderly parent who lives with you and is a dependent on your tax return. You cannot use this account, however, to pay part of the cost of a nursing home for a parent in another city. You cannot claim payments to a relative for dependent care unless (a) the relative is not your dependent for the tax year, and (b) the relative is providing child care as an employee another organization, or as a self-employed person in his or her own home, or as your employee for whom you are withholding Social Security taxes.

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**9. How can I find out if my child care center qualifies by complying with applicable state and local licensing regulations?**

Call the local childcare information and referral service for the city, town, or county in which the center operates.

**10. Can I sign up for a dependent care spending account if I'm married and my spouse doesn't work?**

No. The law is designed to assist single parents and families where both spouses work (or one is disabled or in school full time).

**11. Do I have to prove I have paid the money, or just provide a bill?**

You can send in a bill showing the services you are committed to pay for. If you receive a bill from your dependent care provider in advance for a week or a month of service, you can submit that bill and get the reimbursement from your account before you pay the bill. The bill must include the date(s) of service, the tax ID Number of the provider, a description of the service, and the dependent's name.

**12. My child care provider isn't a business; she doesn't give me a bill. Is there a form she could use?**

The Auditor Controller's Office will provide a sample bill form for you to give your provider.

**13. My child care provider doesn't report income to the IRS. Does that affect my ability to use a dependent care spending account?**

You won't be able to get your money out of your dependent care spending account without the provider's Social Security number. You must list the provider's name, address, and tax I.D. number on your claim form if you want to be reimbursed. You should get the number from your provider before signing up for the plan. The provider is required by law to give it to you. (The only exception is if it's a non-profit organization under Internal Revenue Code Section 501(c)(3) such as a day care center operated by a non-profit religious or educational organization.) To get the tax benefit, you must provide the identification information. This is true for the tax credit as well as for the dependent care spending account.

**14. May I use both the tax credit and the dependent care spending account?**

You may not add the advantages of the tax credit and the dependent care spending account. If you use the tax credit (Form 2441), every dollar of your salary you have put into a dependent care spending account reduces by one dollar the expenses you may claim for the tax credit. You may split the tax benefits between both arrangements, but there is no advantage to you in doing so. You should carefully examine your own tax situation. In doing so, you may wish to consult with a qualified tax professional.

### **15. What happens to the money if any is left over in my account?**

You must be careful in estimating your expenses before you sign up. Any amounts left over as of March 15 (following the plan year), will be returned to the County. No money will be returned to participants.

### **16. How do I sign up?**

Use the enrollment form available from your department Personnel Payroll Clerk. If you are a current employee, you must enroll during the annual open enrollment period. Certain qualifying events may allow for late enrollment (please see D-Care Plan Document for additional information). If you are hired after the first pay period of the plan year, you must sign up within your first full pay period of employment with the County of Santa Cruz.

### **17. How can I decide how much to have withheld?**

Here are the steps to figure out how much to put into your account each payday: Add up the dependent care expenses you expect to have during the plan year. Include your regular childcare costs, as well as amounts you probably will have to pay for emergencies, and the amount you expect to pay for any special summer arrangements. Account for foreseeable changes in your child care needs during the year, such as a child starting school in September. Don't forget to account for any periods when you might not pay for dependent care, such as vacation. Divide the total by 27. This is the amount to have put into your dependent care spending account each bi-weekly payday. To be safe, or if you think your estimate might be too high, reduce this figure to be sure you will spend the entire account by the end of the year. If you have a question about what expenses are eligible, see Q & A #8 or call the Auditor Controller's Office.

### **18. Can I change my dependent care spending account amount during the year?**

You may only change your dependent care spending account deduction during the year if there is a change in your family or job status or certain other changes. For example, if you have another child during the year, you could increase your deduction. If you are a single parent and get married during the year to a non-working spouse, you may no longer continue to participate in the plan. If you and your non-working spouse divorce, and you become responsible for

dependent care, you may join the plan. If your spouse loses or takes a job or changes from part-time to full-time, you may stop, start, or change your deduction, as appropriate. If you want to make a change and qualify to do so, you should get in touch with the Auditor Controller's Office and complete a change form. It takes about one pay period to make such a change. You may not change your dependent care spending account deduction because of a hardship.

**19. What happens to my account if I go on leave-without-pay?**

If you are on leave-without-pay at any time during the year, you may not contribute to your dependent care spending account during that period. Your contributions will resume at the same rate when you return, unless you have had a change in family or job status or other qualifying change and wish to change your dependent care spending account deduction. See Q & A #18. You may continue to draw money out of your dependent care spending account for dependent care expenses while you are on leave.

**20. What happens if I leave employment with the County?**

If you leave employment with the County you are no longer an eligible participant and no money will be put into your dependent care spending account after your last paycheck. Expenses for services after your separation date are not eligible for reimbursement

**21. What happens to my dependent care spending account if I die?**

Your beneficiary can draw from your dependent care spending account for dependent care expenses by the same method. Your beneficiary for this account will be the same as the beneficiary you have listed for your County life insurance, unless you sign a special beneficiary form designating someone else. Call the Auditor Controller's Office if you wish to designate a different beneficiary.

**22. When must I sign up?**

You must sign up during the County's annual pre-tax programs open enrollment period, which generally occurs from mid-September to early-October, prior to the plan year (January 1 to December 31). Late enrollment is only permissible based upon qualifying events as noted in the D-Care Plan Document. Annual enrollment is required.

**23. How can I obtain more information about the D-Care Plan?**

For more information about the D-Care Plan, the D-Care Plan document and the enrollment forms are available on the County's website at

<http://www.santacruzcounty.us/benefits>

**\*You may also obtain these documents from your departmental Personnel Payroll Clerk.\***