

# Dependent Care Reimbursement Account vs. Dependent Care Tax Credit

## General Information

If you are thinking of participating in the DCRA, you should also consider the Dependent Care Tax Credit. Some employees benefit more from the Dependent Care Tax Credit, while others benefit more from the DCRA. Further, due to a change in the law in 2003, if you have more than \$5,000 in dependent care expenses for two qualified individuals (\$2,500 if married and filing separately), **you may be able to participate in the DCRA and Dependent Care Tax Credit** based on your excess expenses. This worksheet is an estimate of tax savings only.

### A. Estimate your Dependent Care Tax Credit

<b>Step A-1:</b> Estimate the qualified dependent care expenses you expect in the applicable tax year/plan year (up to \$3,000 if you have one qualifying individual, up to \$6,000 if you have two or more qualifying individuals)						\$
<b>Step A-2:</b> Enter your applicable percentage from the table below (total household W-2 wages).						%
<i>Over:</i>	<i>But not over:</i>	<i>Applicable %:</i>	<i>Over:</i>	<i>But not over:</i>	<i>Applicable %:</i>	
\$0	\$15,000	35%	\$29,000	\$31,000	27%	
\$15,000	\$17,000	34%	\$31,000	\$33,000	26%	
\$17,000	\$19,000	33%	\$33,000	\$35,000	25%	
\$19,000	\$21,000	32%	\$35,000	\$37,000	24%	
\$21,000	\$23,000	31%	\$37,000	\$39,000	23%	
\$23,000	\$25,000	30%	\$39,000	\$41,000	22%	
\$25,000	\$27,000	29%	\$41,000	\$43,000	21%	
\$27,000	\$29,000	28%	\$43,000	No Limit	20%	
<b>Step A-3:</b> Multiply the amount in Step A-1 by the applicable percentage in Step A-2						\$
<b>Step A-4:</b> Calculate your total estimated federal income tax, based on your taxable income in Step B-4 and using the tax tables provided in Step B-5, and enter the amount here.						\$
<b>Step A-5:</b> Enter the lesser of the amount from Step A-3 and Step A-4. This is your Dependent Care Tax Credit.						\$

### B. Estimate your Tax Savings from the DCRA

<b>Step B-1:</b> Enter your estimated adjusted gross income for the year in question, determined prior to any salary deductions you will make if you elect DCRA benefits. If you are married and file a joint tax return, include your spouse's income in your adjusted gross income.						\$
<b>Step B-2:</b> Enter your standard deduction or itemized deduction.						\$
<i>If your filing status is:</i>			<i>Your standard deduction is:</i>			
Single			\$4,850			
Head of Household			\$7,150			
Married Filing Jointly or Qualifying Widow(er)			\$9,700			
Married Filing Separately			\$4,850			
<b>Step B-3:</b> Enter your personal exemptions (\$3,100 for each person whom you claim as an exemption, including you, your spouse, and your tax dependents)						\$
<b>Step B-4:</b> Subtract the amounts in Steps B-2 and B-3 from the amount in B-1 and enter the result. This is your estimated taxable income for the year in question.						\$
<b>Step B-5:</b> Enter your federal tax bracket from the table below using the amount from Step B-4. If your taxable income is:						
If your filing status is Unmarried Head of Household:						
<i>Over:</i>	<i>But not over:</i>	<i>The tax is:</i>		<i>Of the amount over:</i>		
\$0	\$10,200	10%		\$0		
\$10,200	\$38,900	\$1,020 + 15%		\$10,200		
\$38,900	\$100,500	\$5,325 + 25%		\$38,900		
\$100,500	\$162,700	\$20,725 + 28%		\$100,500		
\$162,700	\$319,100	\$38,141 + 33%		\$162,700		
\$319,100		\$89,753 + 35%		\$319,100		
If your filing status is Married Filing Jointly:						
<i>Over:</i>	<i>But not over:</i>	<i>The tax is:</i>		<i>Of the amount over:</i>		
\$0	\$14,300	10%		\$0		
\$14,300	\$58,100	\$1,430 + 15%		\$14,300		
\$58,100	\$117,250	\$8,000 + 25%		\$58,100		
\$117,250	\$178,650	\$22,787.50 + 28%		\$117,250		
\$178,650	\$319,100	\$39,979.50 + 33%		\$178,650		
\$319,100		\$86,328 + 35%		\$319,100		
<b>Step B-6:</b> Enter the estimated amount of your salary deduction contributions for the DCRA for the year in question (maximum of \$5,000 unless you are married filing separately, then it is \$2,500)						\$
<b>Step B-7:</b> Multiply the amount in Step B-6 by the percentage in Step B-5 and enter the result. This is your <i>estimated</i> federal income tax savings with the DCRA.						\$

<b>Step B-8:</b> Multiply the amount in Step B-6 by <i>your</i> state income tax. This is your state tax savings with the DCRA.	\$
<b>Step B-9:</b> Multiply the amount in B-6 by your Social Security tax amount (7.65%). This is your Social Security tax savings with the DCRA.	\$
<b>Step B-10:</b> Add the tax savings from the DCRA from Steps B-7, B-8, and B-9. This is your total <i>estimated</i> tax savings for the year in question should you use the DCRA.	\$

**C. Participating in the DCRA and Claiming Partial Dependent Care Tax Credit**

Starting for 2003, if you have more than one qualifying individual, you can fully utilize the DCRA (if married filing jointly and contribute \$5,000 to the DCRA) and still receive a Dependent Care Tax Credit based on up to \$1,000 of additional qualifying dependent care expenses.

**Step C-1:** Do not complete this Section C unless both of the following apply to you: a) your expected dependent care expenses for 2003 (or later years) are more than \$5,000 (\$2,500 if married filing separately); and b) you have two or more qualifying individuals for 2003 (or later years). Go directly to Section D unless you meet these two conditions.

**Step C-2:** Complete Part A once again to calculate your estimated Dependent Care Tax Credit, but in Step A-1 enter the lesser of \$1,000 or the amount by which the qualifying dependent care expenses you expect to pay in 2003 (or later years) exceed \$5,000 (or if you are married and filing separately, the lesser of \$500 or the amount you expect to incur in excess of \$2,500). *This is your estimated tax savings for the partial Dependent Care Tax Credit.*

**Step C-3:** Add the figures from Steps B-10 and C-2. *This is your total estimated tax savings from fully utilizing the DCRA and Dependent Care Tax Credit if you have two or more qualifying individuals and expected expenses in excess of \$5,000 (or \$2,500 if married and filing separately)*

**D. Summary of Results: Which Approach is Best for You...**

Tax Savings if claiming the Dependent Care Tax Credit only (from Step A-3):	\$
-OR-	
Tax Savings if participating in the DCRA only (from Step B-10):	\$
-OR-	
Tax Savings (from Step C-3) if participating in the DCRA up to the maximum \$5,000 (or \$2,500) AND taking the Dependent Care Tax Credit for the excess dependent care expenses:	\$