

Bradford County School District

Flexible Spending Account / Dependent Care Flexible Spending Account

What is a Flexible Spending Account (FSA)

A health flexible spending account (FSA) allows employees to be reimbursed for medical expenses. FSAs are usually funded through voluntary salary reduction agreements with your employer. No employment or federal income taxes are deducted from your contribution.

What are the benefits of an FSA? You may enjoy several benefits from having an FSA.

- No employment or federal income taxes are deducted from the contributions.
- Withdrawals may be tax free if you pay qualified medical expenses.
- You can withdraw funds from the account to pay qualified medical expenses even if you have not yet placed the funds in the account.

How do I contribute to a FSA?

At the beginning of the plan year, you must elect an amount to be voluntarily withheld from your pay by your employer by completing an Employee Election Form. Then, your employer will deduct amounts periodically (generally, every payday) in accordance with your annual election. You can change or revoke your election only if there is a change in your employment or family status that is specified by the plan.

You do not pay federal income tax or employment taxes on the salary you designate as FSA contributions.

How much can I contribute?

There is no limit on the amount of money you can contribute to the accounts; however, the plan must prescribe either a maximum dollar amount or maximum percentage of compensation that can be contributed to your health FSA.

Generally, contributed amounts that are not spent by the end the plan year are forfeited. For this reason, it is important to base your contribution on an estimate of the qualifying expenses you will have during the year.

How do I receive reimbursement from a FSA for qualified expenses?

Generally, distributions from a health FSA must be paid only to reimburse you for qualified medical expenses you incurred during the period of coverage. You are able to receive the maximum amount of reimbursement (the amount you have elected to contribute for the year) at any time during the coverage period, regardless of the amount you have actually contributed. The maximum amount you can receive tax free is the total amount you elected to contribute to the health FSA for the year. There is a \$3.00 administration fee for each transaction which is automatically withheld from each total claim reimbursement.

You must provide the health FSA administrator with a written statement from an independent third party stating that the medical expense has been incurred and the amount of the expense (*i.e.* statement from your provider and EOB from other insurance). You must also provide a written statement that the expense has not been paid or reimbursed under any other health plan coverage. The FSA cannot make advance reimbursements of future or projected expenses.

Qualified medical expenses. Qualified medical expenses are those specified in the plan that would generally qualify for the medical and dental expenses deduction. However, even though non-prescription medicines (other than insulin) do not qualify for the medical and dental expenses deduction, they do qualify as expenses for FSA purposes.

Non-Qualified medical expenses . You cannot receive distributions from your FSA for the following expenses.

- Amounts paid for health insurance premiums.
- Amounts paid for long-term care coverage or expenses.
- Amounts that are covered under another health plan.

You cannot deduct qualified medical expenses as an itemized deduction on Schedule A (Form 1040) that are equal to the distribution you receive from the FSA.

What happens if there is a balance in my FSA at the end of the plan year?

Flexible spending accounts are “use-it-or-lose-it” plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for a grace period of up to 2½ months after the end of the plan year. If there is a grace period, any qualified medical expenses incurred in the plan year will be paid from any amounts left in the account at the end of the previous year. Your employer is not permitted to refund any part of the balance to you.

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNTS

What is a Dependent Care Flexible Spending Account (DCFSA)?

FSAs can also be established to pay for certain expenses to care for dependents that live with you while you are at work. While this most commonly means child care, it can also be used for adult day care for senior citizen dependents that live with you, such as parents. It cannot be used for summer camps (other than “day camps”) or for long term care for parents that live elsewhere (such as in a nursing home).

A **Dependent Care Flexible Spending Account** (DCFSA) allows you to be reimbursed on a pre-tax basis for child care or adult dependent care expenses for qualified dependents that are necessary to allow you or your spouse to work, look for work, or attend school full-time. However, if you did not find a job and have no earned income for the year, your dependent care costs are not eligible. Your DCFSA can be used to reimburse you with pre-tax dollars if the expenses for dependents meet the IRS definition of dependent for income tax purposes. An adult (e.g., parent, grandparent, adult disabled child) may qualify as a dependent if you are providing more than half of that person’s maintenance for the year.

How do I Contribute to a DCFSA?

At the beginning of the plan year, you must elect an amount to be voluntarily withheld from your pay by your employer by completing an Employee Election Form. Then, your employer will deduct amounts periodically

(generally, every payday) in accordance with your annual election. You can change or revoke your election only if there is a change in your employment or family status that is specified by the plan.

You do not pay federal income tax or employment taxes on the salary you designate as DCFSA contributions.

How much can I contribute to a DCFSA?

The dependent care FSA is federally capped at \$5,000 per year. While married spouses can each elect to have this amount deducted from their paycheck and applied to expenses, at tax time all withdrawals in excess of \$5,000 are taxed. Unmarried couples can each deduct and use \$5,000.

How do I receive reimbursement from a DCFSA for qualified expenses?

Generally, distributions from a DCFSA must be paid only to reimburse you for qualified dependent care expenses you incurred during the period of coverage. *Unlike the FSA, the current balance in your DCFSA account on the day your claim is processed is the maximum you can be reimbursed at that time.* Dependent care FSAs cannot be "pre-funded"; employees can only receive reimbursement as funds are deposited into the DCFSA. If your bill for daycare exceeds what you have in your account, the administrator will process your claim and reimburse you the amount in your account on the day of processing. Any eligible claim amount that exceeds the balance in your DCFSA at the time your claim is processed is pended until your next allotment is received. As soon as your next allotment is received, the remaining amount will automatically be released to you, assuming your next allotment of funds is sufficient to cover the balance of your original claim amount. A \$3.00 administration fee for each transaction will be automatically withheld from your total claim reimbursement.

You must provide the DCFSA administrator with a written statement from the service provider that the expense has been incurred and the amount of the expense. The DCFSA cannot make advance reimbursements of future or projected expenses

Who is a qualifying dependent for a DCFSA?

A qualifying dependent for the DCFSA is your tax dependent:

- who is under age 13, or
- of any age (including, but not limited to, your parents and parents-in-laws), or your spouse who is mentally or physically incapable of caring for himself or herself.

To claim dependent care expenses, you must meet the following conditions:

- You must have incurred the expenses in order for you and your spouse to work, look for work (as long as you found a job and have earned income), attend school full-time or your spouse was physically or mentally incapable of self-care.
- The payments for care cannot be paid to someone you can claim as your dependent on your return or to your child who is under age 19. (However, payments can be made to a provider between ages 13-19 that you do not claim on your taxes as a dependent, or who does not live in your home.)
- Your filing status must be single, qualifying widow(er) with a dependent child, married filing jointly, or married filing separately.

- The care must have been provided for one or more qualifying persons identified on the form you use to claim the credit.
- You (and, if you're married, your spouse) must maintain a home that you live in for more than half of the year with your qualifying child or dependent.

Your child must have been under age 13 when care was provided and you must be able to claim the child as an exemption on your tax return. (For an exception to this rule, see "Child of Divorced or Separated Parents" in IRS Publication 503, Child and Dependent Care Expenses.) A dependent of any age (e.g., a parent) who is physically or mentally incapable of self-care also qualifies if he or she can be claimed as an exemption on your tax return (or could have been claimed, except for the fact that he or she had \$3,050 or more of gross income).

What expenses are eligible for reimbursement with a DCFSA?

You can use the DCFSA to pay eligible expenses for care of your dependent children under age 13, or for a person of any age whom you claim as a dependent on your federal income tax return and who is mentally or physically incapable of caring for himself or herself.

Examples of **eligible services** include:

- Placement fees for a dependent care provider, such as an au pair
- Before and after-school care (other than tuition expenses)
- Care of an incapacitated adult who lives with you at least eight hours a day
- Childcare at a day camp, nursery school, or by a private sitter
- Late pick-up fees
- Expenses for a housekeeper whose duties include caring for an eligible dependent
- Summer or holiday day camps, including registration fees
- Activities in lieu of daycare when the fees associated with the activity are incidental to, or cannot be separated from, the cost of care (swimming lessons, arts and crafts, music lessons, etc.)

Examples of **ineligible expenses** include:

- Education or tuition fees
- Expenses for children age 13 and older
- Late payment fees
- Overnight camps
- Payment for services not yet provided (*payment in advance)
- Field trips, clothing and food
- Transportation to and from the dependent care provider

*Expenses can only be reimbursed after they have occurred.

What information do I need from a dependent care provider?

Eligible childcare providers must provide you with their SSN or TIN. The caregiver must declare your payment as taxable income. If it is a childcare center providing care for more than six non-resident children, the provider must comply with state and local regulations.

If your provider does not have a SSN or TIN, you must submit a letter indicating that you have attempted to obtain a SSN or TIN from the provider and were unable to do so, as the provider does not have one or will not provide it to you.

What happens if there is a balance in my DCFSA at the end of the plan year?

Dependent Care Flexible spending accounts are “use-it-or-lose-it” plans. This means that amounts in the account at the end of the plan year cannot be carried over to the next year. However, the plan can provide for a grace period of up to 2½ months after the end of the plan year. If there is a grace period, any qualified dependent expenses incurred in the plan year will be paid from any amounts left in the account at the end of the previous year. Your employer is not permitted to refund any part of the balance to you.