

Cyert Center for Early Education Child Care Benefits - Tax Implications

Benefit Limits

The Internal Revenue Service (IRS) places an annual limit on the amount of employer-provided tax-free child care benefits you may receive. That limit is \$5,000 per family. (If you file your taxes as “Married, Filing Separately,” you and your spouse may each claim \$2,500.)

Carnegie Mellon provides the following child care benefits, both of which are considered employer-provided tax-free child care benefits and are subject to the \$5,000 limit.

1. Cyert Center Sliding Scale Benefit
2. Dependent Care Reimbursement Account (DCRA)

You may also be receiving tax-free child care benefits from another source, such as a previous employer or the employer of your child’s other parent. These benefits also count toward the \$5,000 limit.

What are the child care benefits available through Carnegie Mellon?

The **Cyert Center Sliding Scale benefit** provides a reduction in the Cyert Center’s tuition rate, taking into account your family income for the prior calendar year. The benefit is equal to the difference between your annual Cyert Center tuition and 10% of your family income for the prior calendar year, up to a maximum benefit of \$5,000 in the aggregate for you and your spouse per year. Please see http://www.cmu.edu/hr/benefits/benefit_programs/cyert-center-benefit/index.html for more information about the Cyert Center Sliding Scale benefit.

The **Dependent Care Reimbursement Account (DCRA)** allows you to set aside pre-tax money (up to \$5,000 per year) to pay for qualified dependent day care expenses. Examples include day care or nanny fees, care before and after school, day camp during summer vacation and elderly care. Because the money contributed to the DCRA is deducted from one’s pay BEFORE taxes are calculated (and not taxed when it is reimbursed), this money becomes tax free income. You are limited by IRS regulations as to when you can enroll or make changes to the DCRA. You may only do so during the annual Open Enrollment period or within 30 days of a qualifying life or status event. Please see http://www.cmu.edu/hr/benefits/benefit_programs/accounts/dcra.html for more information about the DCRA.

What happens if I exceed the \$5,000 limit?

IRS regulations do not limit the amount of child care benefits you can receive; the regulations only limit the amount you can receive TAX-FREE. Any child care benefits that you receive in excess of \$5,000 will be assessed federal income, Medicare and Social Security taxes. So, if you receive \$6,000 a year in child care benefits, \$1,000 will be taxed. Assuming a 30% federal tax rate, that means that you will pay an additional \$300 in taxes. This additional amount for which you are taxed is called “imputed income.”

The Benefits Office will monitor how much you receive in university child care benefits each year. Carnegie Mellon cannot track child care benefits that you receive from another source, such as your spouse’s employer. You will need to factor any additional benefits you receive when you estimate your additional taxation, and report it properly when preparing your federal income tax return.

How much can/should I contribute to the DCRA?

- First, consider how much in benefits you will receive through the Sliding Scale benefit (not how much YOU pay, but how much the *university contributes for you*).
- Add that amount to any other child care benefit you will receive from another source in the year.
- If that figure is *LESS THAN \$5,000*, then the difference between that amount and \$5,000 is how much you can contribute to the DCRA.
- Divide that number by the number of months you will contribute to the DCRA (12, or the remaining number of months in the year if you are enrolling mid-year) to determine how much you can contribute to the DCRA each month.

Cyert Center Benefit	+	Other Child Care Benefits	=	Employer Provided Benefits
IRS Limit \$5,000	-	Employer Provided Benefits		Annual DCRA Contribution Allowed
DCRA Contribution Allowed	/	Months Remaining in the Year	=	Monthly DCRA Contribution

If you contribute MORE than the amount calculated by using the method above, you will lose the tax advantages of participating in the DCRA for the amount in excess of the \$5,000 limit.

Example:

Let’s say you receive \$416.67 per month in Cyert Center benefits (\$5,000 per year) plus contribute \$100 per month to the DCRA. Through the end of October, you will have received \$5,166.67 in employer provided child-care benefits. Your benefits will have crossed over the \$5,000 limit. (You will be over by \$166.67 in October.) You will be assessed taxes on that \$166.67. *Assuming a 30% tax rate, your October pay will be \$50 less than you normally receive.* You will continue to receive benefits beyond the limit in November and December (\$516.67 / month). This will result in your November and December pays being \$155 less than you would normally receive, assuming a 30% tax rate.

For more information

If you have questions about enrolling in the Cyert Center Sliding Scale benefit or the Dependent Care Reimbursement Account, please contact the Benefits Office at 412-268-2047 or via e-mail at btruxell@andrew.cmu.edu.

If you have questions about enrolling your child in the Cyert Center, please contact the Cyert Center directly at 412-268-2149.

To complete an application for the Cyert Center Sliding Scale benefit, visit the Human Resources website at http://www.cmu.edu/hr/benefits/benefit_programs/cyert-center-benefit/index.html. An application should only be completed and submitted after a space has been offered to you by the Cyert Center.