

Child and Dependent Care Benefits — Tax Implications

Benefit Limits

The Internal Revenue Service places an annual limit on the amount of employer-provided tax-free child and dependent 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 and dependent care benefits that are considered employer-provided tax-free child and dependent care benefits and are subject to the tax-free \$5,000 limit:

- Cyert Center Sliding Scale Benefit
- Dependent Care Reimbursement Account (DCRA)
- Care@Work backup care days

You may also be receiving tax-free child and dependent 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 and dependent 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 total annual benefit of \$5,000 for you and your spouse per year.
- 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. Per IRS regulations, you may only enroll or make changes to the DCRA during the annual Open Enrollment period or within 30 days of a qualifying life or status event.
- The **Care@Work benefit** allows you to find and obtain backup emergency care for children and adults when your regular care is not available, such as for school holidays, last-minute sitter cancellations, or when your child is sick. The benefit is equal to the difference between the amount of your copay for the benefit received and the actual cost to Carnegie Mellon for that benefit. For example, if the total cost of the backup care you received is \$20 per hour and your co-pay is \$4 per hour, Carnegie Mellon’s cost and the value of the benefit you received is \$16 per hour.

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

IRS regulations do not limit the amount of child and dependent care benefits you can receive; the regulations only limit the amount you can receive tax-free. Any child and dependent 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 and dependent 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 Office of Human Resources will monitor how much you receive in university child and dependent care benefits each year. Carnegie Mellon cannot track child and dependent care benefits 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 taxes, 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 and dependent care benefit you will receive from Carnegie Mellon and/or 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 number of months remaining 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	-	Employer Provided Benefits		Annual DCRA Contribution Allowed
\$5,000				
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: An employee receives \$416.67 per month in Cyert Center benefits (\$5,000 per year) plus contributes \$100 per month to the DCRA. Through the end of October, the employee will receive \$5,166.67 in employer

provided child and dependent care benefits. The employee's benefits will cross over the \$5,000 limit. (They will be over by \$166.67 in October.) The employee will be assessed taxes on that \$166.67. *Assuming a 30% tax rate, the employee's October pay will be \$50 less than they normally receive.* The employee will continue to receive benefits beyond the limit in November and December (\$516.67 per month). This will result in the employee's November and December pays being \$155 less than they would normally receive, assuming a 30% tax rate.

For more information

- If you have questions about enrolling in the Cyert Center Sliding Scale benefit, the Dependent Care Reimbursement Account or the Care@Work benefit, please contact the [HR Family Care team](#).
- If you have questions about enrolling your child in the Cyert Center, please contact the Center at 412-268-2149.
- To complete an application for the Cyert Center Sliding Scale benefit, visit the [Human Resources website](#). An application should only be completed and submitted after a space has been offered to you by the Cyert Center.