

**Cyert Center for Early Education
Child Care Benefits — Tax Implications**

Employer-Provided Child Care Benefit Limits – 2021 Update

The American Rescue Plan Act (ARPA) signed into law March 11, 2021, temporarily increased the pre-tax dependent care flexible spending account contribution limit from \$5,000 to \$10,500 for the 2021 calendar year. Carnegie Mellon has adopted an amendment to its flexible spending account benefit plan for the 2021 calendar year to allow employees to elect the higher limit.

Please consult with your tax advisor if you have questions regarding taxation of employer-provided child care benefits.

The Internal Revenue Service (IRS) places an annual limit on the amount of employer-provided tax-free child care benefits you may receive. For 2021, that limit is \$10,500 per family. (If you file your taxes as “Married, Filing Separately,” you and your spouse may each claim \$5,250.)

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 \$10,500 limit:

- Cyert Center Sliding Scale Benefit
- Dependent Care Reimbursement Account

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 \$10,500 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 total annual benefit of \$5,000 for you and your spouse per year. Please see the [HR Child Care Benefits webpage](#) 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 \$10,500 for 2021) to pay for qualified dependent day care expenses. Examples include daycare 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. Please see the [HR Dependent Care Reimbursement Accounts](#) webpage for more information.

What happens if I exceed the \$10,500 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 \$10,500 will be assessed federal income, Medicare and Social Security taxes. So, if you receive \$11,500 in 2021 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 Office of Human Resources 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 \$10,500*, then the difference between that amount and \$10,500 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 \$10,500	-	Employer Provided Benefits	=	Annual DCRA Contribution Allowed
Annual 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 \$10,500 limit.

For more information

If you have questions about enrolling in the Cyert Center Sliding Scale benefit or the Dependent Care Reimbursement Account, please contact Becky McGhee in the Office of Human Resources at 412-268-5076 or rmcghee@andrew.cmu.edu.

If you have questions about enrolling your child in the Cyert Center, please contact the Cyert 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.