

## An Introduction to DCAPs

A Dependent Care Assistance Program (DCAP), also known as a Dependent Care FSA, lets you use pre-tax dollars to pay for your dependent's day care and other expenses necessary for you to work.

Due to the COVID-19 relief bill signed in December 2020, employers have new DCAP options for the 2020 and 2021 plan years regarding rollovers and grace periods.

**DCAP Age Limit Increase:** Plans may allow the maximum age of eligible dependents to increase from 13 to 14.

**DCAP Rollovers:** Plans may permit unused funds in DCAP plans to completely rollover from 2020 into 2021, and 2021 into 2022.

**DCAP Grace Period:** Plans may permit a 12-month grace period for unused benefits for plan years ending in 2020 or 2021.

**DCAP Election Changes:** Plans may allow members to make election changes to their DCAP plans for plan years ending in 2021 without a corresponding life change event.

Please contact your employer to find out whether or not your organization is utilizing any of these options.

The DCAP is an employer-sponsored reimbursement program. Typically, you can set aside a portion of your paycheck, pre-tax, into your DCAP account. After you pay for eligible expenses, you can use the funds in your DCAP to reimburse yourself.

## Eligible expenses

Use a DCAP to be reimbursed for:

- Licensed day care facilities
- Preschool programs
- After-school programs
- In-home child and dependent care services
- Babysitters if the babysitting is to allow the parent to work
- Elder care

*Note: Dependent care expenses for tax dependents over the age of 13 require proof of medical necessity*

- Day camp expenses if not educational in nature
- Certain application fees

During COVID-19, many people have hired relatives or friends to watch children while the parents are at work. This is an eligible expense for DCAP reimbursement as long as the friend or relative isn't your spouse, the parent of the child, your dependent, or your child under age 19.

*Note: If your family member is your employee and no exceptions apply, then you're generally responsible for withholding and paying income and employment taxes. If your family member isn't your employee, then the family member will generally be responsible for paying income taxes and any applicable self-employment taxes on the income earned.*

#### Examples of expenses not eligible for DCAP reimbursement:

- Private tutors
- Lunches and food items
- Education programs
- Overnight camp
- Tuition for kindergarten and higher grades
- Activity fees
- Summer school
- Music and dance lessons
- Swimming lessons
- Virtual day care and virtual day camps

#### Dependents over the age of 13

There are times when your tax dependent is over the age of 13 and, because of a medical reason, requires day care so you can work. The IRS allows reimbursement from the account for these expenses when the following requirements are met:

- The dependent receiving the care is unable to provide the care themselves due to a physical or mental disability. A letter of medical necessity from a qualified medical professional is required to show there is a medical need for the care.
- They live in the home more than 8 hours a day
- They can be claimed as the member's tax dependent

## How it works

- You enroll in the DCAP offered by your employer.
- You elect the amount you want set aside from your paychecks over the course of the year. You can't change this amount for the year once you set it unless you experience a qualifying life event (like the birth or adoption of a child or a job change).
- Contributions are deducted in equal installments throughout the year from your paycheck, so there's no extra work on your part.
- Throughout the year, you can use the funds in your DCAP to pay for dependent care expenses. You must wait until the money accrues in your account before you can use the funds. You can choose to reimburse yourself in one lump sum at the end of the year, or you can reimburse yourself throughout the year as you have expenses. It's your choice.
- You must meet the claims submission deadline set by your employer. Any funds unused past that deadline are returned to your employer.