Dependent Care Flexible Spending Account (FSA)

A dependent care flexible spending account (FSA) is an account where you accumulate funds, through pretax pay deductions, for certain child and dependent care expenses while you work or go to school.

HOW IT WORKS

Dependent care FSAs are considered tax advantaged because, under IRS rules, you don't pay taxes on your contributions. The IRS determines the expenses that are allowed to be paid through your FSA (see Qualified Expenses).

In addition to a dependent care FSA, your employer also may offer a healthcare FSA — which is separate and different — and is described in Healthcare Flexible Spending Account (FSA). Enrollment in FSAs is optional.

Here's how a dependent care FSA works:

1. You estimate dependent care expenses for the upcoming year (see Qualified Expenses).
2. You decide how much to set aside from each paycheck to pay for estimated expenses from step 1 (this amount is called your *election*).
3. Your employer deducts your elected amount from your pay on a pretax basis and directs it into your FSA.
4. During the year, each time you have a qualified expense, you submit the expense for reimbursement through a secure member portal managed by Further, the FSA administrator. Save all your receipts.

Important! The IRS has a *use or lose* rule for FSAs, which means that, at year-end, you risk losing unused FSA funds. Because of the use or lose rule, it is important to estimate expenses carefully each year you enroll in an FSA.

Contributions

You may contribute up to annual limits set by the IRS*. The annual contribution limit for 2022 is $5,000 ($2,500 if married and filing separately; additional limits apply if your spouse earns less than $5,000 a year, is a full-time student, or incapable of self-care).

You do not pay federal income and FICA (Social Security and Medicare) taxes on FSA contributions. You also do not pay SECA taxes on these contributions if you receive a W-2 statement. If you receive 1099 forms rather than W-2 statements, you may not participate in an FSA. State income taxes do not apply to FSA contributions except in New Jersey and Pennsylvania.

The amount you elect to contribute for the year is prorated and deducted in equal amounts each pay period. Funds are available to use as they are deposited in the account. You may be reimbursed for eligible expenses up to the amount in your account at the time you request payment.

Qualified expenses

You may use dependent care FSA funds to pay for dependent care expenses for your

- children under age 13; and
- older family members unable to care for themselves who can be claimed as dependents on your federal tax return.

Qualified expenses include in-home childcare, payments to licensed day care facilities, before- or after-school programs, summer day camps, and adult day care. To qualify under IRS rules, these expenses must be necessary for you or your spouse to work, look for work, or attend school full time. Care must be provided by an individual with a tax ID or Social Security number. Eligible dependent care expenses are outlined on the Further site at learn.hellofurther.com or in IRS Publication 503 at irs.gov.

* The IRS has not yet released limits for 2023. The 2023 limits will be available on pensions.org/members when released by the IRS.

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Dependent care tax credit

The IRS and some states allow a tax credit for qualified dependent care expenses. You cannot claim a tax credit for the same expenses reimbursed from a dependent care FSA. The tax advantages of using a dependent care FSA versus claiming the tax credit vary with individual circumstances. You should consult a tax professional to determine which method is better for you.

Remember, you cannot claim a dependent care tax credit for the same expenses reimbursed from a dependent care FSA.

Enrollment

You may elect a dependent care FSA when you are first eligible and during annual enrollment in the fall. Elections do not automatically renew; you must actively enroll each year. Mid-year changes to your elections typically are not allowed unless you have a qualifying life event, such as a marriage or birth of a child.

Your employer will tell you how to make your elections and will work directly with Further, the FSA administrator, to set up your contributions through payroll deductions. Once enrolled, you will receive a welcome packet from Further with additional information.

LEARN MORE

For more information about dependent care flexible spending accounts, visit pensions.org/members or learn.hellofurther.com. If you have questions, call Further at 800-859-2144 or the Board at 800-773-7752 (800-PRESPLAN).

Save money

A dependent care FSA can help you save taxes.

Boost your budget

Use FSA funds to offset some of your planned expenses for daycare or summer camp.

Sign up

Your employer will explain how to enroll.

This is not a full description of benefits and limitations of the plan. If there is any difference between the information presented here and the provisions of the Benefits Plan of the Presbyterian Church (U.S.A.), the plan terms will govern. Visit pensions.org or call the Board at 800-773-7752 (800-PRESPLAN) for a copy of the plan document.