PENNSYLVANIA FAMILY CARE ACCOUNT PROGRAM BOOKLET

The Family Care Account Program (FCAP) assists employees with children, disabled parents or other family members who require care during the workday. You can set aside up to $5,000 annually (there are some exceptions) from your gross salary on a pre-tax basis to be reimbursed for eligible expenses for child and other dependent day care. This reduces the amount of Federal Income and Social Security taxes withheld from your paycheck, saving you money.

This booklet provides general information about the program and how it works.

If you need help with or have questions about FCAP, contact the HR Service Center at 1.866.377.2672.

Nothing contained in this booklet is intended as legal, accounting, or tax advice. Please consult a professional or IRS representative if you need assistance.

Employees who work in agencies that do not utilize the HR Service Center should contact their agency Human Resource office.

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HOW DOES THE FAMILY CARE ACCOUNT PROGRAM WORK?

The Family Care Account Program (FCAP) allows you to set aside money from your gross salary to be reimbursed for eligible expenses for child and other dependent day care. This reduces your Federal Income and Social Security taxes. You are reimbursed for your dependent day care expenses with pretax dollars. Federal taxes are then calculated on the salary remaining after your account deduction.

FCAP lets you buy more with the money you earn because you get to spend dollars you would otherwise have paid in taxes. For example:

Mr. Smith's biweekly salary is $1,540 (about $40,000 annually). The table below shows how much Mr. Smith saves by placing $192 each pay (or an annual contribution of $4,992) into a Family Care Account.

	Without a Family Care Account	With a Family Care Account
Biweekly Salary	$1,540.00	$1,540.00
Amount Put into Family Care Account	$0	$192.00
Federal Taxable Income	$1,540.00	$1,348.00
Taxes (Federal, State, FICA)	$285.00	$241.00
Take-Home Pay	$1,255.00	$1,107.00
Out of Pocket Family Care Expenses	$192.00	$0
Remaining Pay	$1,063.00	$1,107.00
Extra Take-Home Pay	$0	$44.00

Mr. Smith takes home an extra $44 biweekly by participating in FCAP. On an annual basis, that is a savings of more than $1,144.

WHO CAN SET UP AN ACCOUNT?

You are eligible to establish an account if:

- you are an employee of an agency under the Governor's jurisdiction; or you are an employee of an independent agency that has agreed with the Office of Administration to be covered by this Program;

- you are expected to work 750 or more hours each year for the commonwealth; and

- you are single; or you are married with:

  - a working spouse, or

  - a spouse who is a full-time student at least 5 months during the year while you are working, or

  - a spouse who is incapable of self-care.

WHO QUALIFIES AS A DEPENDENT?

You can use your Family Care Account to pay for the care your dependents receive **while you are at work**. This is limited to those individuals you legally claim as **dependents on your income tax return**.

Eligible dependents include the following:

- your children up to age 13 who live with you for more than one-half of the taxable year
- your spouse who is incapable of self-care and lives with you for more than one-half of the taxable year
- other adults and dependent children age 13 and over if they meet **all** these criteria:
  - they live with you for more than one-half of the taxable year,
  - they cannot care for themselves, and
  - their income does not exceed the individual exemption amount shown on Federal Income Tax Form 1040 for the taxable year.

HOW CAN I ENROLL?

You enroll in FCAP by submitting an enrollment form to the HR Service Center. The enrollment form is available in the Employee Resource Center (ERC), myHRonline.pa.gov, or by contacting the HR Service Center at 866.377.2672. Payroll deductions will begin as stated below. The deductions will continue for the remainder of the calendar year, subject to the rules for changes.

- Open Enrollment – Payroll deductions for accounts established during the open enrollment period will begin the third pay date of the new calendar year. If you want to continue your participation the next year, you must complete another enrollment form during the annual open enrollment period held every November.
- New Employee Enrollment – As a new commonwealth employee, you may join the program during your first 60 days of employment. The effective date will be your date of hire. There will be no retroactivity for payroll deductions. Payroll deductions will be effective with the pay period in which the enrollment is entered.
- Mid-Year Enrollment – If you become eligible due to a change in status, you may make a mid-year enrollment. (For more information on what constitutes a Change in Status, see page 8.) The mid-year enrollment must be requested within 60 days of the date of the change in status. The effective date will be the date of the change in status. There will be no retroactivity for payroll deductions. Payroll deductions will be effective with the pay period in which the mid-year enrollment is entered.

HOW MUCH MONEY CAN I PUT INTO MY ACCOUNT?

You can contribute **up to $5,000 each year.** There are some **exceptions:**

- **if you are married and have a working spouse,** the amount you put into this account cannot exceed the lower of your two earned incomes. For example, if your spouse works part-time and earns $4,000 a year, you can only put up to $4,000 into your Family Care Account.

- **if you are married and filing a separate Federal Income tax return**, the maximum amount you can contribute is $2,500.

- **if your spouse is also eligible to participate in a Family Care Account**, the combined amount you both contribute cannot exceed $5,000.

- **if your spouse is a full-time student (5 months or more a year) or is incapable of self-care**, your spouse is assumed to have an income of not less than $250 a month with one eligible dependent or $500 a month with two or more eligible dependents for each month as a student or incapacitated. Thus, the maximum you can contribute is $250 or $500 for the appropriate number of months. You may wish to consult a tax advisor.

Estimate your total eligible expenses for the year, bearing in mind that it is advisable to underestimate your expenses. Divide your estimated expenses by the number of payroll deductions in your plan year as explained above in "How Can I Enroll?" This is the amount to contribute biweekly into your account, subject to the exceptions above.

You can deposit as little as $5.00 per pay period or as much as $208.33 per pay based on 24 pays per year if you have: 1) that much eligible expense, and 2) sufficient "take-home" pay to cover the deduction.

WHAT EXPENSES <u>CAN</u> BE REIMBURSED FROM MY ACCOUNT?

- licensed adult or child care center

- care given in your home by someone other than your spouse or other dependent

- care given in someone else's home

- service by a housekeeper who provides care at home for your dependent while you work

- the part of school tuition which pays for care before and/or after school

- day camp

EXAMPLES

- your children go to a licensed child care center all day long, or before and after school

- your children go to a neighbor's house all day, or before and after school

- you pay someone to spend the day at your house and take care of your elderly father while you and your spouse are at work

- you have a housekeeper who cleans your house and watches your child until you get home from work

- your child goes to a private school that offers morning and afternoon child care; only the cost for the child care can be paid from the account

- your child goes to day camp for several weeks during the summer

WHAT EXPENSES CANNOT BE REIMBURSED?

- unlicensed day care centers
- care given by your spouse or other person you claim as a dependent for income tax purposes
- the part of school tuition costs that cover your child's education or transportation, e.g. kindergarten
- overnight camp
- caregivers for times when you are not working
- nursing homes or institutions when the dependent with disabilities does not normally live with you

EXAMPLES

- your child receives care in a private home where seven or more other children are also being watched
- your mother who lives with you, and whom you claim as a dependent, watches your children during the day
- your child is gone from home overnight at summer camp for several weeks during the summer
- you hire a babysitter to watch your children on a day off work while you go shopping
- your elderly mother lives in a nursing home year round

IS IT BETTER TO USE THE FEDERAL TAX CREDIT OR THE FAMILY CARE ACCOUNT PROGRAM?

Not everyone will benefit from FCAP. Your family income, number of dependents in day care, and other circumstances will determine if FCAP, the Federal tax credit, or a combination of the two would be most advantageous for you. In the example on page 2, if Mr. Smith used the Federal tax credit instead of FCAP, his tax savings would be $998 annually. Thus, for Mr. Smith, FCAP provides an overall $146 annual tax savings. For families with higher incomes, FCAP can be more advantageous. **If you do combine the methods, any expenses reimbursed through your Family Care Account will reduce the dollar amount of expenses eligible for the tax credit.**

The IRS limits the Federal tax credit to eligible expenses of $3,000 for one dependent and $6,000 for two or more dependents. For most employees the Family Care Account limit is $5,000, regardless of the number of dependents.

Whether you participate in the Family Care Account Program or claim the Federal tax credit, you **must file Form 2441, Child and Dependent Care Expenses**, with your Form 1040 Tax Return. (1040A filers must use Schedule 2.) Form 2441 and instructions are available online at www.irs.gov or at the Post Office.

Since changes to tax forms are likely to occur, you are encouraged to use current tax forms to determine which program is better for you. **As a general rule, the higher your family income above $43,000, the more likely that FCAP will provide the greater tax**

savings for you. However, you may want to use only the Federal Tax Credit, unless your savings will be significant in the FCAP. The exact amount of the Federal Tax Credit may be calculated by following the instructions on IRS Form 2441. **IRS Publication 503, Child and Dependent Care Expenses** www.irs.gov/pub/irs-pdf/p503.pdf may be helpful. Then, if you still have tax questions, you should consult your tax advisor or your local IRS office.

HOW DO I RECEIVE REIMBURSEMENT FROM MY ACCOUNT?

To receive reimbursement from your Family Care Account, submit a reimbursement form to the HR Service Center. The reimbursement form is available in the Employee Resource Center (ERC), myhronline.pa.gov, or by contacting the HR Service Center at 866.377.2672. Proof of incurred expense for services must be attached to the form. Copies of itemized bills, receipts, or statements must contain the following:

- the names of the qualifying dependent individuals
- person or organization to whom payments were made or are due; a Social Security number or Federal tax number is required
- type of service for which the expense was incurred
- dates employment-related dependent care expenses were incurred
- dollar amount of services to be reimbursed

You may submit a Reimbursement Form whenever you incur an expense, (that is, when the service has been provided); or you may submit documentation for multiple expenses on one form. You have until March 31 to submit reimbursement forms for eligible expenses for the prior year.

When the claim is approved, payment will be made directly to you in your biweekly paycheck.

Claims will be reimbursed whenever you have money available in your account. If you do not have enough money in your account to cover the claim, the commonwealth will automatically reimburse you every two weeks as your biweekly deductions are added to your account until the entire claim has been reimbursed.

If you leave commonwealth employment or retire during the plan year, you can still use any money remaining in your account for eligible expenses incurred during the balance of the plan year.

If reimbursement is not approved and you disagree with the reasoning, you may appeal within 20 work days to the HR Service Center. If that appeal is rejected, you may then appeal within 20 work days to the Plan Administrator. The decision of the Plan Administrator is final.

WHAT HAPPENS IF I HAVE MONEY REMAINING IN MY ACCOUNT AT THE END OF DECEMBER?

The Internal Revenue Service requires that you forfeit any money left in your Family Care Account at the end of the year, once you have been reimbursed for all eligible expenses you incurred in that year. You have until March 31 to submit reimbursement forms for eligible expenses for the prior year. Any money left in your account cannot be returned to you or be carried forward into the next year. Money you forfeit will return to the commonwealth.

It is important to very carefully estimate your eligible expenses for the coming year so that you will not have to forfeit any money. It is a good idea to have a little less money deducted than you think you are going to use, just to be on the safe side.

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On December 31, 2016 you have $200 left in your account. During the first week in January 2017, you receive a bill for $250 for child care that took place in December 2016. You can submit a reimbursement form for that expense. You will receive the remaining $200 in your account because the expense was incurred during the 2016 plan year.

However, on December 31, 2016 you have filed all your eligible expenses for that year but you still have $200 left in your account. During the second week in January 2017, you receive a bill for $250 for child care that took place in January 2017. You must forfeit the $200 in your old account and use money that you have deposited in the current year, assuming you set up a new account.

CAN I STOP OR CHANGE DEDUCTIONS DURING THE YEAR?

Once you designate an amount for your Family Care Account, you generally cannot change it until the next annual open enrollment in November. The only time you are allowed to increase or decrease your deduction is when you have a Change in Status (either in family status or in cost or coverage). **The IRS has specified the following exclusive list of Changes in Status** (this list also applies for mid-year enrollments):

- Birth or adoption of a child
- Placement for adoption
- Gain custody of dependent
- Lose custody of dependent
- Child becomes 13 years old
- Death of dependent
- Marriage
- Annulment
- Legal separation
- Divorce
- Death of spouse
- Change in residence of self, spouse, or dependent that affects eligibility for coverage
- Change in employment status of self, spouse, or dependent (includes start or end of employment, strike or lockout, beginning or end of a leave without pay, and change in worksite)
- Change in provider
- Significant increase or decrease in cost of family care (increase or decrease in provider fee charged by a <u>relative</u> does <u>not</u> qualify as a mid-year change)*
- Increase or decrease in hours of family care
- Dependent receiving care is no longer eligible

* In terms of the taxpayer, the IRS defines a <u>relative</u> as follows:

- A son or daughter of the taxpayer, or a descendant of either,
- A stepson or stepdaughter of the taxpayer,
- A brother, sister, stepbrother, or stepsister of the taxpayer,
- The father or mother of the taxpayer, or an ancestor of either,
- A stepfather or stepmother of the taxpayer,
- A son or daughter of a brother or sister of the taxpayer,
- A brother or sister of the father or mother of the taxpayer,

- A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law of the taxpayer.

Ex-in-laws are not relatives.

Changes to your Family Care Account deduction must be made within 60 days of the qualifying event. The effective date will be the date of the change in status if the Status Change Form is submitted within 30 days of the qualifying event. Otherwise, the effective date will be the date the form is submitted. To make a change, submit a status change form to the HR Service Center. The status change form is available in the Employee Resource Center (ERC), myHRonline.com, or by contacting the HR Service Center at 1.866.377.2672.

The changes you make to your account must be consistent with the change in family status or the change in cost or coverage. The commonwealth does not require written proof that a qualifying status change occurred. **It is your responsibility to comply with the tax laws. If you are audited by the IRS, you will have to provide proof that a status change occurred.**

EXAMPLES

If you have another child, you are allowed to increase, but not decrease, the amount you have deducted for your account. If your childcare provider goes out of business and your mother offers to care for your child, free of charge, you can stop deductions.

WILL THE COMMONWEALTH GIVE ME ANYTHING THAT TELLS ME HOW MUCH MONEY I HAVE IN MY ACCOUNT?

Deductions, reimbursements, and balance of your account will be posted to your earnings statement every 2 weeks. On your W-2 form, which you receive in January of each year, you will see the total Family Care deduction for the year, your gross earnings, and your appropriately reduced Federal taxable wages.

In addition, your pretax deductions will be reported to the Internal Revenue Service each year.

HOW WILL MY FAMILY CARE ACCOUNT AFFECT SOCIAL SECURITY BENEFITS?

You might lower your eventual Social Security benefits by using a Family Care Account, because deposits into the Social Security account are calculated on your salary as reduced by Family Care Account deductions.

However, your state retirement benefits are not affected.

FREQUENTLY ASKED QUESTIONS:

Q: Can I pay a relative to care for my children?
A: Yes, as long as the relative is not your dependent and is willing to provide you with his/her social security number.

Q: Can I pay my spouse to care for our children?
A: No, you cannot pay your spouse to care for your children. You also cannot pay your own child under age 19, or any other person you claim as a dependent.

Q: My husband participates in a similar plan at work for our daughter's day care expenses. May I also participate in the FCAP at my workplace?
A: If you both decide to participate in your employers' plans, the combined amount you contribute cannot exceed $5,000. For example, you cannot participate if your husband already is contributing the maximum $5,000. However, you could each contribute $2,500 to your respective employer's plan.

Q: Can residential nursing home charges be considered eligible expenses?
A: No, the dependent elderly parent must reside in your home for more than one-half of the taxable year and be cared for in your home or in a day care center for the elderly.

Q: My elderly mother requires care. I pay someone to take care of her in her own home while I work. Is this an eligible expense?
A: No, the IRS requires that the person needing care reside in your home for more than one-half of the taxable year and that their income does not exceed the individual exemption amount shown on Federal Income Tax Form 1040 for the taxable year.

Q: My twenty-year old son is mentally disabled and lives in my home. We pay a neighbor to care for him while we work. Is this cost reimbursable?
A: Yes, if your disabled dependent son is unable to care for himself, and your spouse also works, then the costs of caring for your son in your home, or at a special day care facility, are reimbursable.

Q: If my spouse works part-time, are my child care expenses reimbursable?
A: Only the child care expenses incurred during the time you are both working are eligible.

Q: What happens if my provider raises or lowers my rates during the Plan Year? Are mid-year election changes permitted?
A: Yes, participants may elect new salary reduction amounts if the care provider changes its rates.

Q: My child was expelled from daycare because of a biting habit and is now being cared for by a family member, free of charge. Can I terminate my account?
A: Yes, since the provider has changed you may stop your deductions.

Q: Will my dependent care deductions be reported to the IRS?
A: Yes, your deductions will be reflected on your W-2 form. You must file IRS form 2441 with your federal tax return.

Q: Does the State guarantee the tax benefits under FCAP?
A: No, the State cannot guarantee that a participant will receive the intended tax benefits. It is up to each participant to make sure that contributions are made for eligible expenses within the legal limits.

Q: Will I have to contribute to FCAP and have services rendered for dependent care before getting reimbursed?

A: Yes. Services must be provided by your caregiver before you may submit your claim for reimbursement.

Q: Are there any reasons for not participating in FCAP?

A: Reasons for not participating include: 1) if using the dependent care tax credit provides a nearly equal or greater tax benefit; 2) if your provider is unwilling to give you his/her social security number for reimbursement purposes; 3) if the reduction in Social Security benefits offsets the tax savings; 4) if the risk of forfeiture is a concern; or 5) if the timely submission of receipts for reimbursement seems burdensome.

Q: If a child is claimed as a qualifying child by two or more taxpayers in a given year, who can claim the child for FCAP purposes?

A: (1) The parent; (2) if more than one taxpayer is the child's parent, the one with whom the child lived for the longest time during the year, or, if the time was equal, the parent with the highest adjusted gross income (AGI); or (3) if no taxpayer is the child's parent, the taxpayer with the highest AGI.

Additional Information

The Family Care Account Program is administered according to a Plan Document. The Plan Administrator is the Office of Administration, Commonwealth of Pennsylvania.

The Plan is authorized by the Executive Board, Commonwealth of Pennsylvania. The assets of the Plan are maintained in a commonwealth account, the sole purpose of which is to provide benefits under the Family Care Account Program.

This Booklet is a summary of the Plan Document. In order to explain the Plan clearly, legal terms and fine print have been eliminated. If there is a difference between the wording of this Handbook and the legal Plan Document, the Plan Document will govern.

You may examine the Plan Document at the Workplace Support Services Division, Bureau of Employee Benefits and Services, Office of Administration in Harrisburg between 8:30 a.m. and 5:00 p.m. on all working days.

If you want a copy of the Plan Document, you may write the Workplace Support Services Division and include your name and e-mail address. A copy will be e-mailed to you. Write: Office of Administration, Bureau of Employee Benefits and Services, Workplace Support Services Division, Room 513 Finance Building, Harrisburg, PA 17120, or e-mail to ra-workplacesupportservices@pa.gov.

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