

You may utilize the Dependent Care Tax Credit (DCTC) when you file your federal income tax return, or your qualifying dependent care expenses may be reimbursed from your contributions to the dependent care flexible spending account (DCFSA) on a before-tax basis. Both options will result in tax savings; however, the specific way in which taxes are reduced differs, and which option is better for you depends on your individual circumstances.

The DCTC applies to \$3,000 of dependent care expenses for one child, \$6,000 for two or more children. The DCFSA maximum remains at \$5,000. You may find through use of this worksheet that a blended approach will maximize your tax savings. For instance, two children in daycare costing \$7,000 would allow you to use DCFSA for \$5,000 of the expenses and DCTC for \$1,000 of the remaining expenses (\$6,000 is the maximum allowed when calculating tax savings).

This worksheet will help you compare options. The process described below involves comparing the total federal income tax savings (including Social Security) resulting from use of DCFSA with the tax savings resulting from the DCTC. Note that state income taxes and the Federal Earned Income Credit are not included in this analysis. Including state income taxes would increase the relative tax savings associated with the DCFSA. If you qualify for the Earned Income Credit, the DCRA may be more tax effective than the Tax Credit, even at lower incomes.

In general, eligible expenses are those that you incur for daycare that enables you (and your spouse, if you are married) to work. If you or your spouse are not employed, you must either be actively seeking employment or be a full-time student in order to claim dependent care expenses. Eligible Dependents are your children under age 13, or a spouse or other dependent who is incapable of caring for himself or herself and whose principal residence is your home. Preschool, latch-key programs, and day camps that substitute for your regular daycare are examples of eligible expenses. Registration fees and deposits are reimbursable, but only after the period for which the fee or deposit is paid begins. Educational expenses at the kindergarten level or higher, food, supply fees, overnight camp, special activity fees, and transportation fees are examples of ineligible expenses.

STEP 1. Estimate Federal Income Tax and Social Security Savings from the Dependent Care Spending Account.

	With Flex	Without Flex
A. Projected family Adjusted Gross Income (same in both columns)	\$	\$
B. Dependent Care Expenses Enter the lesser of: 1) your anticipated dependent care expenses, 2) \$5,000 (\$2,500 if married filing separately) or 3) the earned income of the lower earning spouse. Earned income means income from employment such as wages, salaries and tips. If your spouse is a full-time student or incapable of self-care, you can assume an earned income of \$250/month for one qualifying individual or \$500/month for two or more qualifying individuals.	\$	\$ 0
C. New Adjusted Gross Income (Subtract B from A)	\$	\$
D. Estimated itemized deductions or the standard deduction (\$12,700 for married filing jointly; \$9,350 for head-of-household; \$6,350 for married filing separately)	\$	\$
E. Multiply number of Personal Exemptions times \$4,050. (1 for yourself; 1 for your spouse; and one for each dependent)	\$	\$
F. Taxable Income (Subtract lines D and E from C)	\$	\$
G. Federal Tax (based on line F, determine amount from the table on the back)	\$	\$
H. Social Security Tax (Multiply the amount of your income shown on line C up to \$127,200 by .0765 plus the amount over \$127,200 by .0145 plus the amount over \$200,000 by .009)	\$	\$
I. Total Taxes (add lines G and H)	\$	\$
J. Tax Savings (Subtract line I, Column 1 from Line I, Column 2)	\$	

For Step 1, Line G

Filing Status and Taxable Income					
Married Joint		Head of Household		Married Separate	
Taxable Income	Tax	Taxable Income	Tax	Taxable Income	Tax
Not over 18,650	10% of taxable inc.	Not over 13,350	10% of taxable inc.	Not over 9,325	10% of taxable inc.
Over 18,650 but not over 75,900	1,865 plus 15% of the amount over 18,650	Over 13,350 but not over 50,800	1,335 plus 15% of the amount over 13,350	Over 9,325 but not over 37,950	932.50 plus 15% of the amount over 9,325
Over 75,900 but not over 153,100	10,452.50 plus 25% of the amount over 75,900	Over 50,800 but not over 131,200	6,952.50 plus 25% of the amount over 50,800	Over 37,950 but not over 76,550	5,226.25 plus 25% of the amount over 37,950
Over 153,100 but not over 233,350	29,752.50 plus 28% of the amount over 153,100	Over 131,200 but not over 212,500	27,052.50 plus 28% of the amount over 131,200	Over 76,550 but not over 116,675	14,876.25 plus 28% of the amount over 76,550
Over 233,350 but not over 416,700	52,222.50 plus 33% of the amount over 233,350	Over 212,500 but not over 416,700	49,816.50 plus 33% of the amount over 212,500	Over 116,675 but not over 208,350	26,111.25 plus 33% of the amount over 116,675
Over 416,700 but not over 470,700	112,728.00 plus 35% of the amount over 416,700	Over 416,700 but not over 444,550	117,202.50 plus 35% of the amount over 416,700	Over 208,350 but not over 235,350	56,364.00 plus 35% of the amount over 208,350
Over 470,700	131,628.00 plus 39.6% of the amount over 470,700	Over 444,550	126,950 plus 39.6% of the amount over 444,550	Over 235,350	65,814.00 plus 39.6% of the amount over 235,350

Step 2. Determine Dependent Care Tax Credit	Tax Credit Table	
	Adjusted Gross Income	% Credit
A. Based on your projected family adjusted gross income, select the appropriate tax credit % from the table at the right. _____ %	< \$15,000	35%
	\$15,001 – 17,000	34%
	\$17,001 – 19,000	33%
	\$19,001 – 21,000	32%
B. Qualifying Dependent Care Expenses: \$ _____	\$21,001 – 23,000	31%
Enter the lesser of:	\$23,001 – 25,000	30%
(1) your actual expenses,	\$25,001 – 27,000	29%
(2) \$3,000 for one child or \$6,000 for two or more children,	\$27,001 – 29,000	28%
(3) earned income of the lower earning spouse.	\$29,001 – 31,000	27%
(See Step 1, B3)	\$31,001 – 33,000	26%
C. Estimated Tax Credit (multiply line A times line B) \$ _____	\$33,001 – 35,000	25%
(Note: Cannot exceed Federal Tax calculated for Step 1, Line G, column 2 –“Without Flex”)	\$35,001 – 37,000	24%
	\$37,001 – 39,000	23%
	\$39,001 – 41,000	22%
	\$41,001 – 43,000	21%
	> \$43,000	20%

Step 3. Compare the Tax Savings Estimated in step 1, Line J with the Tax Credit Estimated in Step 2, Line C:

FSA Savings: \$ _____

Tax Credit Savings: \$ _____

This worksheet is intended to help you decide whether to participate in the Dependent Care account, but should be used with the understanding that it has limitations. Each individual's circumstances are unique, and the worksheet is not a substitute for competent tax advice. If you have questions, you should talk to your personal tax advisor.

Note: All tax brackets and dollar figures shown above are based on 2017 rates.