

DEPENDENT CARE REIMBURSEMENT ACCOUNT PROGRAM (DCAP)

HIGHLIGHTS

Child Care



Adult Dependent Care



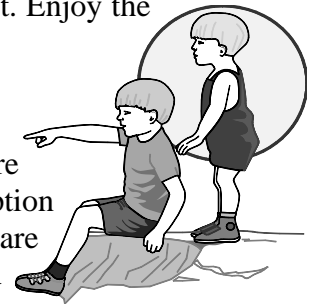
Sonoma County Tax Exempt Program (STEP)
DEPENDENT CARE
REIMBURSEMENT ACCOUNT PROGRAM (DCAP)
(IRS SECTION 129)

HIGHLIGHTS BROCHURE

- Estimate your 2009 dependent care expenses (up to \$5,000 if married filing jointly).
- Authorize a biweekly pre-tax payroll deduction equal to your childcare expenses (annual expenses divided by 26 pay dates equals your biweekly deduction). The *minimum* biweekly deduction is \$20; the *maximum* allowed per calendar year \$5,000.
- Start saving Federal, State, Social Security, and Medicare taxes beginning with the first pay date in 2009.
- Turn in itemized receipts with your claim form for reimbursement. That is it. Enjoy the tax savings.

Introduction

Sonoma County employees have a benefit program called the Dependent Care Reimbursement Account Program (DCAP). It allows eligible employees the option to set aside, on a pre-tax basis, the estimated costs of their dependent care expenses. Choosing this option will reduce the employee's taxable income and Social Security taxes.



This plan allows reimbursement of expenses for dependent care needed in order to work. DCAP can substantially reduce your cost for dependent care, possibly even more than you are currently saving through an income tax credit. And it covers both adult and child care.

This section of the brochure describes the important features of DCAP. Please read it carefully. The Dependent Care Reimbursement Account Program may or may not be right for you. You should evaluate it according to your own situation before enrolling. An official plan document and IRS guidelines govern this program. To read more about the IRS guidelines refer to Publication 503, Child and Dependent Care Expenses. (<http://www.irs.gov/pub>)

Eligibility

All regular County employees paid through the County payroll system are eligible to participate in DCAP except extra help, contract employees, and board or commission members.

Enrollment

Annual open enrollment is the time to enroll for the first time or to re-enroll for the following plan year (January 1 through December 31). Each tax year is separate and enrollment or re-enrollment is required every year to participate. The open enrollment period runs from late October to late November. During that time, by submitting an enrollment form, eligible employees may enroll in the Dependent Care Reimbursement Account Program for the following year. Enrollment forms are available from your payroll clerk or the ACTTC website. You designate how much of your salary you want deducted on a pre-tax basis and placed in your account during the plan year. Deposits for the program are taken in equal installments from each paycheck throughout the year. Once you have

selected an amount, you cannot change your decision during the plan year unless you have a qualified change in status, as explained later in this brochure.

You will receive an acknowledgment packet from the Central Payroll office prior to the start of your period of coverage; new plan year coverage will be effective on January 1 of the following plan year. If you enroll and do not receive the acknowledgment packet, or a deduction is not withheld from your first eligible pay date, notify the Central Payroll office immediately at 565-6024.

Eligible employees who experience a qualified change in status or are hired after the start of a plan year may enroll within 31 days of their date of hire. Enrollment forms received before the payroll processing deadline will take effect on the first available pay date.

If the Central Payroll office does not receive your completed enrollment form prior to the announced deadline, you must wait until the next annual enrollment period to enroll for the following plan year.

When Coverage Begins

Your deduction will appear on your first paycheck in January. For employees enrolling during the plan year such as new hires or employees who enroll due to a qualified change in status, benefits will be effective on the first available payday following enrollment.

If at any time during the plan year your contribution changes (due to leave without pay (LWOP), a change in status, or termination), a *Change in Election* form is required and is available from the ACTTC's Central Payroll office.

Remember: Under IRS rules, non-work related dependent care expenses are **not reimbursable** under the DCAP.

Changing Enrollment

Generally, you can make changes to your DCAP election only during the annual open enrollment period. However, you may make enrollment and coverage changes during the plan year due to certain "changes in status" and other events, as permitted by IRS rules, as briefly described below. In general, your change in coverage must be due to, and consistent with, your change in status event.

Change in Status Events

Change in status events include the following:

- *Legal marital status.* You marry, divorce, become legally separated, your marriage is annulled, or your spouse dies.
- *Number of (tax) dependents.* You gain a dependent through birth, adoption or placement for adoption, or your dependent dies.
- *Employment status.* You, your spouse, or your dependent experiences a change in employment status that results in gaining or losing eligibility for coverage.

For example: beginning or ending employment; changing from part-time to full-time employment or vice versa; taking an unpaid leave of absence or returning from an unpaid leave of absence lasting 30 days or longer; experiencing a strike or lockout; or changing work sites.

- *Dependent status.* Your dependent satisfies or ceases to satisfy the requirements for coverage due to attainment of age, student status, or similar circumstances.
- *Residence.* You, your spouse or your dependent changes place of residence.

For benefit election changes involving DCAP, the consistency rule is satisfied if both of the following requirements are met:

- *Effect on eligibility.* The change in status event affects the amount of dependent care expenses eligible for reimbursement under DCAP.
- *Corresponding election change.* The election change corresponds with the change in status event. (For example, if your dependent child reaches age 13, you may revoke or decrease your DCAP contributions.)

Changes in Cost

If the provider (other than a provider who is your relative) raises rates mid-year, you may increase your dependent care reimbursement account contributions. Similarly, if you change your dependent care provider mid-year, you may change your DCAP contributions to correspond with the new provider's charges.

Changes in Coverage

If your spouse's or dependent's open enrollment period occurs at a different time of year than the County's enrollment period, and if your spouse or dependent changes his or her election under his or her employer's dependent care reimbursement account, then you may make a mid-year election change that corresponds with your spouse's or dependent's election.

You must contact the Auditor's Central Payroll office within 31 days of the event to request an election change. Otherwise, your next opportunity to make changes will be the next annual enrollment period or when you have another change in status, whichever occurs first.

The Dependent Care Reimbursement Account Program

DCAP allows you to pay for dependent (adult or child) care expenses with pre-tax dollars. In order to receive benefits from DCAP, you must have expenses for dependent care that are required so that you can work or look for work. If you are married, your spouse must also work unless he or she is a student or is disabled and thus unable to provide the required care. If you qualify, you can elect to set aside part of your pre-tax salary to pay expenses for adult or child dependent care.

As you incur eligible expenses, you simply pay the bill and then submit your claim for reimbursement from your account. **Reimbursement will be after services are received.** Your funds are still tax-free, even after you withdraw them as reimbursement.

When you enroll, you designate how much of your pre-tax salary you want deducted and placed in your account to pay eligible dependent care expenses during the plan year. Deductions will be taken in equal bi-weekly installments throughout the plan year.

The maximum amount you can put into DCAP each tax year will depend upon your income and your marital and income tax filing status, as follows:

- Single/Head of Household, earning more than \$5,000 a year\$5,000 maximum
- Married, filing a separate return\$2,500 maximum
- Married, filing jointly, both earning more than \$5,000 a year\$5,000 maximum/couple

Eligible Dependents

Expenses are covered only for "qualifying dependents," as defined by the IRS. The dependent must be:

- (1) under the age of 13 and be your child or any other child living in your home for whom you are entitled to claim a tax exemption on your federal tax return or
- (2) your spouse or other dependent who is physically or mentally incapable of taking care of himself or herself, such as a dependent parent who is an invalid.

Special rules apply for children of divorced or separated parents; details are available in IRS Publication 503, available from your local IRS office or on-line at <http://www.irs.gov>.

Eligible Expenses

Expenses eligible for reimbursement under DCAP are similar to those that you can claim a tax credit on your federal and state income tax returns. However, any expenses reimbursed through this program cannot also be claimed for a tax credit. It is important that you complete Form 2441, IRS Child and Dependent Care Expenses, if you itemize when filing your taxes. Contact your tax advisor for more information.

Eligible expenses include:

- In-home services provided by a baby-sitter, nursing aide or attendant. Services provided by a housekeeper or maid may be reimbursed if the person is responsible for the care of an eligible dependent during the day. Also included are any employer's taxes you must pay on behalf of the provider.
- Services provided by a day care center (for children or adults), a baby-sitter, or attendant. A day care center must be licensed if it provides care for more than six individuals that do not normally reside there. Care provided outside your home is a covered expense only if the qualifying dependent regularly spends **at least eight hours a day** in your home. This requirement does not apply for children under age 13. Transportation to and from the place where care is provided is **not** an eligible expense.

Eligible expenses **do not include** any expenses you pay to a person that you could claim as a dependent tax exemption on your income tax return. In addition, expenses for care provided by a child of yours that you do not claim as a dependent, and who will be under age 19 at the end of the current tax year are also **not covered**. Services provided between January 1 and December 31, and during the plan's "grace period" (explained in "Getting Reimbursed" below), are eligible when enrolled for the full year. If newly hired and enrollment is midyear, only expenses incurred between the effective date, the date of your first deduction, through the plan's "grace period" are eligible.

Getting Reimbursed

Expenses incurred during the calendar year and during the plan's "grace period" are eligible for reimbursement. If you participate in the plan in 2009, expenses incurred between January 1, 2009 and March 15, 2010, are eligible for reimbursement from your 2009 account contributions. (The "grace period" runs from January 1, 2010 through March 15, 2010.) Claims incurred during the "grace period" will be applied to any remaining 2009 account balance, and then to your 2010 balance, if you elect to participate in 2010.

The deadline for submitting your claims for reimbursement from your 2009 contributions is March 31, 2010.

When you incur an eligible dependent care expense, submit a completed claim form (*Request for Reimbursement*) with the bill or receipt for the expense. Claim forms are available from your payroll clerk or the ACTTC's Central Payroll office. **The minimum claim is \$20.**

Provide all the information requested on the form, see example on the back of the form, and attach your itemized bill or receipt for the expense. (Be sure to keep copies of the documentation you provide.) Send the claim form and attachment(s) to the ACTTC's Central Payroll office **after** services are received; reimbursement cannot be made in advance. If a claim form is missing information it may be returned to you for completion, this could delay your reimbursement.

Claims can be submitted at any time during the plan year and "grace period," and reimbursement for several expenses can be included on one form. Claims are processed bi-weekly according to the Payment Schedule. If you miss the cutoff date, your claim will be processed on the next processing cycle. If your balance is not high enough to cover the full claim, you will receive whatever balance is available; subsequent reimbursements are made as your contributions are deposited from succeeding paychecks.

Generally, your reimbursement and Explanation of Benefit (EOB) will be mailed to your home address within approximately 14 days. If you sign up for direct deposit you will receive only the EOB; your reimbursement will be deposited directly in your bank account. As this program is a "stand-alone" program, you can have your reimbursement directly deposited to a different bank than you have for your bi-weekly paycheck. A direct deposit enrollment form and Payment Schedule will be included with your welcome packet. You can also request a copy by calling 565-6024 or 565-4690.

Important: When you file your tax returns, if you itemize, you will need to complete the Child and Dependent Care Expense form (form 2441). To complete this form you will be required to provide the name, address, and taxpayer identification number (or Social Security number) for all dependent care providers. The IRS may audit you if this form is not filed or they may contact you regarding this requirement. According to the IRS, it is your responsibility to maintain proper documentation of eligible expenses. Contact the IRS or your tax advisor for more information.

The "Use-It-or-Lose-It" Rule

Plan your contributions carefully! You will forfeit any funds that remain in your DCAP account after the close of the plan's "grace period," as required by the Internal Revenue Code. You can file claims until your account is exhausted or until March 31, 2010 for expenses incurred through the plan's "grace period." After that date, you will lose the unclaimed balance.

If you leave County employment during the plan year, you can continue to file claims against your account for any eligible expenses incurred while in the program. Reimbursement for eligible expenses will be made until your account is exhausted or until March 31, 2010, whichever comes first. After that, the forfeiture provision will apply.

Any forfeited amounts remaining after all claims have been paid at the end of the plan's "grace period" will be distributed equally to all participants whose account is active on the last day of the "grace period." This distribution is taxable income in the year in which it is paid.

A Final Important Note

Participation in this program reduces your taxable wages but does not reduce your earnings for calculations of benefit coverage for salary-based benefits such as life insurance, long-term disability, Workers' Compensation, and qualified retirement benefits.

However, when you participate in a plan such as DCAP, your Social Security taxes are reduced. That reduction may have an impact on your Social Security benefits at the time of retirement. For most people, the savings in income taxes will usually outweigh any loss in Social Security benefits. You should consider that before you enroll in DCAP.