

Using the Dependent Care Spending Account VERSUS Taking the Federal Tax Credit.

Example: A two-income family with two children and \$4,800 in eligible Dependent Care Expenses claiming marital deductions:

| | Federal Tax Credit Chosen | Dependent Care Account Chosen |
|-----------------------------------------------|---------------------------|-------------------------------|
| 1. Combined Annual Income: | \$45,000 | \$45,000 |
| 2. Less Pre-tax Dependent Care Expenses: | \$ 0 | \$ 4,800 |
| 3. Adjusted Gross Income: | \$45,000 | \$40,200 |
| 4. Less Federal/Social Security/State Taxes:* | \$ 9,879 | \$ 8,335 |
| 5. Take-Home Pay: | \$35,121 | \$31,865 |
| 6. Add Tax Credit (20% of \$4,800): | \$ 960 | \$ 0 |
| 7. Less After Tax Dependent Care Expenses: | \$ 4,800 | \$ 0 |
| 8. Spendable Income: | \$31,281 | \$31,865 |
| Additional Spendable Income: | | \$ 584 |

*Social Security taxes are applied up to the taxable wage base.

| | | |
|---------------------------|---------------------------|---------------------------|
| \$00,000 - \$10,000 (30%) | \$16,001 - \$18,000 (26%) | \$24,001 - \$26,000 (22%) |
| \$10,001 - \$12,000 (29%) | \$18,001 - \$20,000 (25%) | \$26,001 - \$28,000 (21%) |
| \$12,001 - \$14,000 (28%) | \$20,001 - \$22,000 (24%) | \$28,001- and up (20%) |
| \$14,001 - \$16,000 (27%) | \$22,001 - \$24,000 (23%) | |

In the second part of the equation, the IRS allows \$3,000 for one child or \$6,000 for two or more. The IRS can give you more information if necessary.

| Which approach is better for you? | Federal Tax Credit Chosen | Dependent Care Account Chosen |
|-----------------------------------------------------------------------------------------|---------------------------|-------------------------------|
| 1. Household Income (Enter in both columns): | _____ | _____ |
| 2. Pre-Tax Dependent Care Expenses: | ↓ | _____ |
| 3. Adjusted Gross Income: (Subtract 2 from 1) | _____ | _____ |
| 4. Estimated Federal/FICA/State Taxes: (Look at last year's tax tables.) | _____ | _____ |
| 5. Take-Home Pay (Subtract 4 from 3): | _____ | _____ |
| 6. Tax Credit (_____% of Dep Care Expense) (From tax credit table above)** | _____ | _____ |
| 7. Add 5 and 6 | _____ | _____ |
| 8. After-Tax Dependent Care Expenses: (Same as <i>pre-tax</i> expenses in # 2 above) | _____ | ↓ |
| 9. Spendable Income: (Subtract Line 8 from Line 7) | _____ | _____ |
| Additional Spendable Income: | _____ | _____ |

**The percentage varies according to your adjusted gross income based on IRS form 2441

Note: The above example and worksheet is provided only for illustrative purposes. Questions about specific tax situations should be addressed to your tax advisor. It is recommended that you review the worksheet carefully with respect to your unique family circumstances.