

**FLORIDA TECH
DEPENDENT CARE SPENDING ACCOUNT (DCSA)**

A. CONTRIBUTIONS AND LIMITATIONS

Contributions to an employee's Dependent Care Spending Account are limited by federal regulations. An employee may elect to contribute a maximum during the **Plan Year** that is the *lesser of*:

- **\$5,000** if the participant's legal marital status is single and files an individual tax return; or if the participant's legal marital status is married and files a joint tax return;
- **\$2,500** if the participant's legal marital status is married and files a separate tax return;
- The participant's taxable income or the spouse's taxable income, whichever is less. (For example, if the participant earns \$25,000 per year and the spouse earns only \$3,000, then the participant's contribution to a Dependent Care Spending Account can be no more than \$3,000 for the year).

Maximum is pro-rated for enrollment period of less than 12 months.

Contributions to all employer-sponsored Dependent Care Spending Account (DCSA) plans cannot exceed \$5,000 on a combined basis in any **Plan Year**.

If a participant's spouse is a full-time student or cannot care for himself, the spouse may be considered to have an income of \$200 per month if there is one qualified dependent or \$400 per month if there are two or more qualified dependents.

B. ELIGIBLE EXPENSES

Eligible expenses are work-related expenses incurred for qualifying individuals. Expenses are for the care of a qualifying person only if their main purpose is the person's well-being and protection, and must be incurred to enable the participant (and spouse, if applicable), to be gainfully employed. These expenses include,

- Work-related babysitting (i.e., not social) and licensed daycare center costs;
- After-school* day care costs;
- Incidental housekeeping services in the employee's home included with day care.

Provider name, address, and taxpayer identification are required to be provided on the employee's tax return. An employee may not claim an exclusion for reimbursement of dependent care expenses unless he provides on his tax return the name, address, and taxpayer identification number (TIN) of the service provider. (No TIN is necessary for tax-exempt organizations) If the caregiver is an individual, the TIN is the individual's social security number.

* Expenses for care do not include amounts for education. The IRS provides an example of a 5-year old child who goes to kindergarten in the morning. In the afternoon, the child attends an after-school day care program at the same school. The total cost of sending the child to school is \$3,000, of which \$1,800 is for the after-school day care program. Only the \$1,800 qualifies as non-educational care with the primary purpose of providing for a child's well-being and protection.

An employee may claim reimbursement for payments made to a relative; however, he may not be reimbursed for payments he makes to one of his tax-eligible dependents or any of his children age eighteen (18) or younger.

C. INELIGIBLE EXPENSES

Expenses, which are ineligible for reimbursement, include, but are not limited to:

- Babysitting for social reasons
- Expenses incurred on or after a child's 13th birthday
- Overnight camp
- Education, food, or clothing expenses that are not incidental to and inseparably part of the care
- Costs of transportation
- Tuition of children in the first grade or above and for kindergarten education
- Payments made for care provided by someone eligible to be claimed as a dependent on the participant's income tax form (although payment to another relative is permissible) or to any of his/her children age eighteen (18) or younger

D. QUALIFYING INDIVIDUALS

Individuals who qualify as dependents for the purpose of the plan are:

- The participant's children who are under the age of thirteen (13) and for whom the participant is entitled to an exemption under Section 151(c) of the Code (Note: A dependent care election may be canceled when a dependent child turns age thirteen (13) in the middle of a Plan Year and is no longer a qualifying individual for purposes of the Dependent Care Spending Account rules)
- A spouse or dependent of the employee who is physically or mentally incapable of caring for himself

For purposes of Dependent Care Spending Account provisions, eligible dependents shall not include an individual legally separated from the employee under a divorce or separate maintenance decree, nor shall it include an individual who, although married to the employee, files a separate federal income tax return, maintains a separate principal residence from the employee during the last six (6) months of the taxable year and does not furnish more than one-half the cost of maintaining the principal place of residence. However, if an employee is divorced or legally separated, he can generally have his child's dependent care expenses reimbursed if he is the custodial parent (i.e., if he has custody of the child for a longer period of time during the year than the other parent). The following exceptions would override the custodial parent rule and permit the employee, as a non-custodial parent, to have his child's dependent care expenses eligible for payment from his Dependent Care Spending Account:

- The custodial parent formally releases claim to the federal income tax dependent care exemption for the year; or

- The employee provides over half the support of the child under a multiple support agreement.

E. FEDERAL REPORTING REQUIREMENT

An employee is required to report on his federal income tax return the name(s) and tax identification number(s) or Social Security number(s) of his providers of dependent care services.

The tax identification number is not required if the provider of dependent care services is a tax-exempt organization (i.e., a church-sponsored nursery school or a county daycare center.)

F. UNDERSTANDING DEPENDENT CARE BENEFIT OPTIONS WITH THE SPENDING ACCOUNT AND THE FEDERAL INCOME TAX CREDIT

The federal government provides an income tax credit for Dependent Care expenses, such as those described earlier. While an employee may take advantage of the tax benefits available under both the Dependent Care Spending Account and the federal income tax credit, he cannot use both the tax credit and the spending account for the same dependent care expenses, and expenses eligible for the tax credit are reduced, on a dollar-for-dollar basis, by the amount he contributes to a Dependent Care Spending Account.

The practical effect of contributing dollars to a Dependent Care Spending Account which he would otherwise receive in his salary is that the income which he reports for federal, applicable state and FICA (Social Security) taxes is reduced, as may be allowed by applicable law. The amount of this contribution will not be reported on the employee's W-2 form as part of his earnings. There will be no taxes due on this amount.

The amount which an employee can save in taxes depends on the amount of his contribution and his taxable income with and without the contribution. He can approximate this amount of savings by determining his marginal, i.e., top tax rate. The higher his marginal tax rate, the greater amount he can save in taxes with this spending account.

In deciding whether to use the Dependent Care Spending Account or the federal tax credit, an employee needs to evaluate which will be more advantageous to him. In most cases, the spending account will provide the greater tax savings.

Since the spending account advantage may change as revisions are made in the tax rules, an employee will want to monitor his personal situation and may also wish to consult a tax advisor.

ELIGIBILITY AND PARTICIPATION

A. ELIGIBILITY PROVISIONS

Any full-time Employee of the Employer who is regularly scheduled to work a minimum of thirty (30) hours per week will be eligible to participate in the Plan, subject to the provision stated in this Article.

B. PARTICIPATION

If an Eligible Employee wishes to open a Dependent Care Spending Account and contribute a portion of his salary to such an account to pay for eligible costs which will be incurred during a Plan Year, an Employee must make such an election by completion of an election form and processing it as directed by the Plan Administrator or its authorized representative. This election must initially be made prior to the effective date, (which is the first of the month following completion of the thirty (30) day waiting period).

Subsequent elections may be made annually during the Open Enrollment period, as designated by the Employer. Such open enrollment elections will become effective on the first day of the next Plan Year and continue in force for the specified Plan Year.

C. CHANGE IN ELECTIONS

Under federal regulations, which govern the Plan, the Employee may change his elections regarding participation once a year during the Open Enrollment period established by the Employer. Such changes may be made for any reason and will become effective on the first day of the next Plan Year.

During the remainder of the Plan Year, an Employee may not change his elections unless he experiences a qualifying change in his status that is on account of and consistent with the change, as discussed below under Section D, "Consistency Rule".

The following events are changes in status:

- **Legal Marital Status**
Events that change an Employee's legal marital status, including the following: marriage; death of spouse; divorce; legal separation; and annulment.
- **Number of Dependents**
Events that change an Employee's number of Dependents, including the following: birth; death; adoption and placement for adoption; and court ordered change in custody or Qualified Medical Child Support Order (QMCSO).
- **Employment Status**
Any of the following events that change the employment status of the Employee, the Employee's Spouse, or the Employee's Dependent: a termination or commencement of employment; a strike or lockout; a commencement of or return from an unpaid leave of absence; and a change in worksite. In addition, if the eligibility conditions of a cafeteria plan or other employee benefit plan of the employer of the Employee, Spouse, or Dependent depend on the employment status of that individual and there is a change in that individual's employment status with the consequences that the individual becomes (or ceases to be) eligible under that plan, then that change constitutes a change in employment (e.g., if a plan only applies to salaried employees and an employee switches from salaried to hourly-paid with the

consequence that the employee ceases to be eligible for the plan, then that change constitutes a change in employment status).

Dependent Satisfies or Ceases to Satisfy Eligibility Requirements

Events that cause an Employee's Dependent to satisfy or cease to satisfy eligibility requirements for coverage on account of age, student status, or any similar circumstance.

D. CONSISTENCY RULE

An election change satisfies the consistency rule only if the election change is on account of and corresponds with a change in status that affects eligibility for coverage under an employer's plan.

If an Employee experiences a change in status, he will be permitted to change his elections, in a manner that is consistent with the change in his status, provided that he does so within thirty-one (31) days. Any such change will become effective on the date of the occurrence, the date that the change of election is received or the first of the month following the date of the change in election, as permissible by law.

E. SPECIAL APPLICATION OF THE CONSISTENCY RULE TO DEPENDENT CARE

The regulations provide that the consistency rule is satisfied for a Dependent Care Spending Account if the election change is on account of and corresponds with a change in status that affects eligibility of Dependent Care expenses for tax exclusions. The following examples illustrate the effect of change in status and consistency rule requirements for a Dependent Care Spending Account change in elections:

- A Dependent child's turning age 13 would affect eligibility for Dependent Care expenses. Therefore, a Dependent Care election may be canceled when a dependent child turns age 13 in the middle of the Plan Year and is no longer qualifying individual for purposes of the Dependent Child Spending Account rules.
- An Employee's or Spouse's leave of absence (paid or unpaid) or change in employment status (part-time to full-time or vice versa) would also represent a special application of the consistency rule under a Dependent Care Spending Account. A change in the number of hours of work performed by the Employee or the Employee's Spouse is a change in coverage. Thus, the Dependent Care election may be changed to correspond with the change in coverage.
- Another special application of the consistency rule under a Dependent Care Spending Account provides that significant changes in the cost for the services of the child care provider represent a change in status that will permit a corresponding change in Dependent Care election. However, no change based on a significant increase or decrease in cost can be made to a Dependent Care Spending Account when a Dependent Care provider who is a relative of the Employer imposes the cost increase for Dependent Care.

F. MEDICARE OR MEDICAID ENTITLEMENT

If the Employee, the Employee's Spouse or qualified Dependent becomes entitled to Medicare or Medicaid (other than coverage consisting solely of benefits under Section 128 of the Social Security Act providing for pediatric vaccines), the Employee may prospectively reduce or cancel his election. Likewise, if the Employee, the Employee's Spouse or qualified Dependent loses eligibility to Medicare or Medicaid coverage, then the Employee may prospectively elect to commence or increase his election.

G. SIGNIFICANT COST OR COVERAGE CHANGES

If an Employee's cost for coverage under the Employer-Sponsored health plan changes significantly during a **Plan Year**, the Employee may choose to revoke his election under the Premium Only Option and in its place receive a prospective basis coverage under another plan providing similar coverage. The Plan Administrator (in its sole discretion) will decide, in accordance with prevailing IRS guidance, whether a cost increase is significant and whether a substitute plan provides similar coverage. If the change in cost is deemed to be insignificant, each Employee's election shall be prospectively decreased or increased to reflect the change. Similarly, if a change in cost is significant but the Employee chooses not to revoke his election, that Employee's election shall be changed accordingly.

Furthermore, an Employee may revoke his election or make a prospective election change during the Plan Year if the change corresponds with an open enrollment period change made by the Employee's Spouse or qualified Dependent, provided that the Employee's election change is consistent with the changes made under the other group benefits plan and the other group benefits plan permits such an election change. Similarly, the Plan Administrator (in its sole discretion) will determine, based upon prevailing IRS guidance, whether the requested change is on account of and corresponds with a change made under the group benefits plan of the Spouse or qualified Dependent.

Finally, an Employee may revoke his election or make a prospective election change during the Plan Year if the coverage under his Employer-sponsored health plan is significantly curtailed or ceases during a period of coverage. The Plan Administrator (in its sole discretion) will decide, in accordance with prevailing IRS guidance, whether coverage has been significantly curtailed.

FILING A CLAIM

A. CLAIMS FOR THE DEPENDENT CARE SPENDING ACCOUNT

Claim forms for expenses covered under the Dependent Care Spending Account Plan should be accompanied by:

A written, dated statement from an independent third party stating the Dependent Care expense has been Incurred and Paid and the amount of the expense. (This means that an Employee is required to submit a statement from the service provider rather than just a proof of payment, such as a canceled check.) The following information must be set forth on the claim for reimbursement:

- Dependent's name

- Nature of Incurred expense
- Amount of requested reimbursement
- Date of service
- Provider's name
- Provider's TIN or SSN

A written statement that the Dependent Care expense has not been reimbursed under any other Dependent Care Spending Account plan (included on claim form).

Claims should be sent to: Florida Tech
ATTN: Benefits Office of Human Resources
150 W. University Blvd., Melbourne, FL 32901

B. RECEIVING REIMBURSEMENT

All payments for claims will be made directly to the Employee and not to a provider of service. Checks will generally be drawn on a monthly basis.

C. CLAIMS IN EXCESS OF EMPLOYEE'S ACCOUNT

If an Employee submits a claim for more than the current balance of his applicable Dependent Care Spending Account, his claim will be paid up to the balance in his account. The remainder of the claim must be resubmitted as additional contributions are made to the account.

D. CLAIMS AT THE END OF THE PLAN YEAR

To enable an Employee to use their Dependent Care Spending Account for expenses Incurred and provided before the end of the Plan Year, s/he may continue to submit claims for up to three (3) months following the close of the Plan Year. Those claims must be for expenses incurred and provided during the appropriate Plan Year or coverage period.

GENERAL RULES AND INFORMATION

A. PLAN YEAR

The Plan Year will be a period of twelve (12) consecutive months, commencing April 1st and ending March 31st.

B. CONTRIBUTIONS

An Eligible Employee may elect to contribute a portion of his salary to pay for eligible costs that will be incurred during a Plan Year.

C. EXCESS EXPENSES

Expenses incurred in excess of an Employee's Dependent Care Spending Account balance at the end of a Plan Year cannot be reimbursed or carried forward for reimbursement in the next Plan Year.

D. USE IT OR LOSE IT RULE

Any balance in an Employee's Dependent Care Spending Account(s) at the end of the Plan Year must be forfeited. Under IRS rules for Spending Account plans, that balance cannot be paid to an Employee in cash, carried over to the next Plan Year, nor be made available to an Employee in any way. Forfeited funds may be used to offset administrative expenses of the Plan.

E. LEAVE OF ABSENCE

If a Participant takes a leave of absence, paid or unpaid, he may still participate in the Plan. Options for continuing, suspending, or revoking participation in the Dependent Care Spending Account Plan will vary according to the leave status as FMLA or non-FMLA. The Participant should contact Human Resources in advance of the leave for more information.