TOTALBEN NEWSLETTER

Dependent Care Assistance Plan

What is a DCAP?

DCAP Overview:

The Dependent Care Assistance Plan ("DCAP") is a tax favored program. It is offered via payroll deduction. A DCAP allows employees to save on dependent care expenses. The Plan is also known as a Flexible Spending Plan and is regulated under §125 and §129 of the Internal Revenue Code.

Why participate?

To save money, as much as $2000 annually or even more.

Can't I just take the tax credit when I file my taxes?

You may realize a substantially larger benefit by participating in a DCAP. In fact, under certain circumstances you can take advantage of both a DCAP and the Dependent Care Tax Credit ("DCTC"). However, the DCTC is only 20% of eligible expenses for households with an adjusted gross income of over $43,000 in 2005. Consult your tax professional for specific advice.

Am I eligible?

If you work and your spouse (if married) works or is a student, you may be eligible. The dependent care provided, such as childcare or eldercare, must be in order for you to work, find work or attend school.

How do I start saving?

Have your employer contact TotalBen to administer the Plan. Call 718-535-7070 or email info@totalben.com for more information.

TotalBen
Opening the door to benefits

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Editor: Moishe Miller

Inside this issue:

With a DCAP you may:

- ☺ Receive reimbursement when you incur the expense, not when you file your taxes.
- ☺ Save 20% - 40% of your eligible expenses.
- ☺ Use-it or lose-it
- ☺ Contribute $260—$5000
- ☺ Change your election with a qualifying event

DCAP Helps you Save on Pre-School and Day Camp too!

A DCAP pays for eligible dependent care expenses, such as childcare or eldercare, so that you – and your spouse, if you are married – can work, look for work, or attend school.

When you enroll in a DCAP, you specify that a portion of your salary be set aside pre-tax via payroll deduction.

These funds may be used to pay for qualified dependent care expenses. The untaxed dollars you spend on dependent care may yield 40% or more in savings, depending upon your tax situation.

After school care is reimbursable

Why Participate in a DCAP?

Working parents can benefit from a Dependent Care Assistance Plan (DCAP). Child care can be very expensive. Many people are also caring for elderly or disabled dependents who are unable to care for themselves.

Choose wisely when estimating your expenses

With a DCAP, you can redirect a part of your pay into a tax-free account and then reimburse yourself for eligible expenses. You save money because taxes never have to be paid on the money that is set aside in the account.

Dependent Care expenses must meet IRS requirements. The expenses must be necessary for you to continue working. If married, you and your spouse must both be working, or your spouse must be a full-time student or disabled. You may not claim reimbursed expenses for income tax purposes.

With a DCAP the savings on your eligible dependent care expenses are based on your tax-bracket; the higher your bracket, the greater the savings. On the other hand, the Dependent Care Tax Credit ("DCTC" on IRS form 2441) offers lower savings with increased income. DCAP savings are available to you as soon as your account is funded with payroll deductions. With the DCTC you must wait until you file taxes and apply the credit.

How Does it Work?

You estimate expenses. Carefully estimate your dependent or elderly care expenses for the DCAP Plan Year. Estimate carefully because the IRS requires that any money not used during the Plan Year be forfeited.

You have money withheld from your paycheck. Complete a DCAP Enrollment form so that deductions from your paycheck can be deposited into your DCAP account. Equal amounts are withheld from each paycheck throughout the Plan Year.

You submit a claim to be reimbursed for your expenses. As soon as you receive the necessary proof of your expenses, you may submit a claim form to be reimbursed for what you spent. You will be reimbursed for each claim up to the amount that is in your account.

Use it, so you won't lose it!!! Be careful when deciding how much to contribute to your DCAP Account! If your eligible expenses for the Plan Year are less than your contributions, you will lose the money left over in your DCAP account.

" Equal amounts are withheld from each paycheck throughout the Plan Year."

Highlights

Your contributions are deducted from your paycheck before federal taxes, Social Security, Medicare and, in most cases, state and local taxes are deducted. This saves you money because it reduces your taxable income, which lowers the taxes you pay. You do not pay taxes on a reimbursement when it is paid out to you. The reimbursement is **EXEMPT** from **all** taxes, it is not earnings.

Your contributions are deducted free from (most) taxes

As you have eligible expenses during the year, you reimburse yourself with the before-tax money in your DCAP account by filing a claim and submitting it to TotalBen.

The DCAP account is subject to annual IRS non-discrimination testing rules. As a result of this test annual contribution by highly compensated employees (like those earning over $95,000 per year in 2005) may be limited to less than $5,000. You will be notified if you are impacted by these tests.

Qualifying Dependents

A qualifying dependent is a person who meets the IRS definition of dependent for income tax purposes. An adult (e.g. parent, grandparent, or adult disabled child) may qualify as your dependent if you are providing more than half of that person's care for the year. A qualifying dependent for the DCAP is:

- Your tax-dependent of any age (including, but not limited to, your parents and parents-in-law) who is mentally or physically incapable of caring for himself or herself.
- Your spouse who is mentally or physically incapable of caring for himself or herself.
- Your tax-dependent who is under age 13

Your child must have been under age 13 when care was provided and you must be able to claim the child as an exemption on your tax return. For an exception to this rule, see "Child of Divorced or Separated Parents" in IRS Publication 503, Child and Dependent Care Expenses.

A dependent of any age (e.g., a parent) who is physically or mentally incapable of self-care qualifies if he or she can be claimed as an exemption on your tax return (or could have been claimed, except for the fact that he or she had $3,050 or more of gross income).

Care for a disabled adult may qualify as an eligible expense

Qualifying Expenses

You can use your DCAP to pay eligible expenses for care of your dependent children under age 13, or for a person of any age whom you claim as a dependent on your Federal Income Tax return and who is mentally or physically incapable of caring for himself or herself. Examples of eligible services include:

✓ Pre-school or day care

✓ Before and after-school care

✓ Care of an incapacitated adult who lives with you at least 8 hours a day

✓ Day camp or a private sitter

✓ Expenses for a housekeeper or visiting nurse whose duties include caring for an eligible dependent

Eligible providers must supply you with their SSN or Tax ID Number (TIN). If your provider does not have one, you must submit a letter indicating that you have attempted to obtain an SSN or TIN from the provider and were unable to do so.

"Day Camp and certain school expenses prior to first grade (pre-school) may be eligible under a DCAP"

Reimbursement

As you have eligible expenses during the year, you reimburse yourself with the before-tax money in your DCAP account by filing a claim and submitting it to TotalBen.

When you file a claim for dependent care expenses, attach your original bills and paid receipts to the Reimbursement Form. Make sure to include the following information:

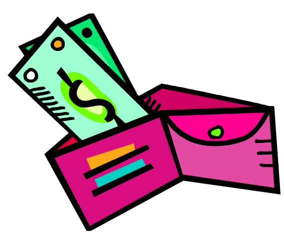
• Name and address of dependent

• Name and address of dependent care provider

• Type of care provided

• Date of service and amount of charges

• SSN or Tax ID number of the care provider. Alternatively, you may have the dependent care provider complete this information in the Dependent Care section of a Reimbursement Form.



File a claim with appropriate documentation to be reimbursed

Your reimbursement can be included directly into your paycheck. It's like getting a raise!

Changing Your DCAP Election

Once you have decided how much you would like to contribute to your DCAP, you may change your election during the Plan Year only if you have a qualifying life event, such as:

- Change in your legal marital status
- Change in the number of your dependents
- Your dependent is no longer eligible as a dependent under the Plan
- Commencement or termination of employment by you, your spouse or your eligible dependent(s)
- Change in work schedule by you, your spouse or your eligible dependent(s) resulting in an increase or reduction in hours of employment
- Change in residence or work site for you, your spouse or your eligible dependent(s)

If you have a qualifying life event, you may be able to increase or decrease your contributions, but the change must be consistent with the life event. For example, if a child is born to you (or you adopt a child), you may increase (not decrease) contributions to your DCAP.

Changes to your election may only be made if you have a qualifying event

You may also change your Dependent Care election during the Plan year if there is a significant change in the cost of the care.

You must notify TotalBen of any qualifying life event that will affect your coverage within 31 days of the change. You must file a Change Form describing the qualifying event. In most circumstances the appropriate documentation will be required to substantiate the event.

TotalBen offers administrative services for employee benefits. Our target market is the small to mid-sized employer.

Flexible spending accounts for Dependent Care are regulated under §125 and §129 of the Internal Revenue Code.

A Families and Work Institute study[1] of 188 firms found that companies chose to implement extra benefit programs because they:

⇒ improve retention (70%)
⇒ can be used as a recruiting tool (60%)
⇒ improve morale (59%)
⇒ reduce stress (30%)
⇒ remain competitive with other firms (24%)
⇒ cut absenteeism (19%)
⇒ maintain good public relations (6%)

[1]Ellen Galinsky, Dana E. Friedman and Carol A. Hernandez, The Corporate Guide to Work-Family Programs, (Families and Work Institute, 1991).

Consider our Commuter Account Plan too! Employees with eligible commuting expenses may be able to save $300—$1200 annually.

TotalBen
Opening the door to benefits

P.O. Box 100496
Brooklyn, NY 11210

Phone: 718-535-7070
Fax: 718-535-7071
E-mail: info@totalben.com

www.totalben.com

Offering free benefits to employers and employees alike.