What is the difference between the Dependent Care Account (DCA) and the Dependent Care Tax Credit?

When considering funding a Dependent Care Spending Account, you need to weigh your potential savings from the spending account versus your savings through the dependent care tax credit. The money reimbursed through a Dependent Care Spending Account will reduce the amount of eligible expenses you can use for the tax credit on a dollar-for-dollar basis.

Tax savings with a Dependent Care Spending Account become more valuable as your income increases. Generally, if your family's adjusted gross income is less than $39,000 a year, it's best for you to take the tax credit rather than participating in the Dependent Care Spending Account.

Some additional points to consider:

- You will save federal, state, Social Security and Medicare taxes when you participate in a Dependent Care Spending Account
- To the extent you reduce your Social Security tax, you may also reduce your Social Security benefits
- Participating in a Dependent Care Spending Account will not affect your eligibility for the Earned Income Credit (EIC), as it is not included in the definition of Earned Income for the EIC

When will I receive a greater tax benefit using the Dependent Care Spending Account instead of the tax credit?

It depends on your family income and dependent care expenses.

If you have one dependent, and spend more than the $3,000 tax credit limit, you're better off with the Dependent Care Spending Account since the limit per family is $5,000.

If you have two dependents and spend more than the $6,000 tax credit limit, you're better off putting $5,000 into the Dependent Care Spending Account and applying the remaining $1,000 in eligible expenses to the tax credit limit. Amounts reimbursed through the Dependent Care Spending Account will reduce the amount eligible for the tax credit dollar for dollar.

If you have little or no taxable income, you're better off in the Dependent Care Spending Account since it allows you to still save on FICA taxes.

Can I use both the tax credit and the Dependent Care Spending Account?

Maybe. If you have two or more qualified dependents and pay more than $5,000 a calendar year in daycare expenses, you can take the remaining amount and apply it toward the tax credit maximum. Based on your family's income level, you'll receive a credit for a percentage of that amount. For example, if your family's income is $33,000 a year, you have two dependents and you spent $7,000 in childcare expenses, you would be eligible to take an additional tax credit of $250 ($1,000 x 25% tax credit percentage based on income level).

Call:
866-451-3399