Tables Showing Relative Federal Tax Benefits of DCAP Participation vs. Dependent Care Tax Credit

Using the same methods and assumptions as in the previous example, we calculated the relative federal tax benefits of DCAP participation versus the Dependent Care Tax Credit for our hypothetical taxpayer with various amounts of gross wages. We also calculated the relative federal tax benefits of the two programs for an unmarried taxpayer filing as head of household. The results of those calculations (and the assumptions we used) are found in the tables that follow.

DCAP vs. Dependent Care Credit: Married Filing Jointly

The following is a comparison for a married couple filing a joint return with two qualifying individuals for the DCAP/Dependent Care Tax Credit, EIC, Child Tax Credit, and ACTC, and **$5,000 of dependent care expenses**, taking the standard deduction and claiming four exemptions. We also show results with one qualifying individual and the couple claiming three exemptions. The couple's wages are their only income (both spouses work, earning equal wages), and they claim no tax credits other than those listed. Only federal tax savings are considered (not state taxes or credits). The figures below are for the 2015 tax year. Some numbers have been rounded.

Participating in DCAP on a salary reduction basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (**if negative, the Dependent Care Tax Credit is better**)

Gross wages of employee and spouse	1 qualifying individual	2 qualifying individuals	**Gross wages of employee and spouse**	1 qualifying individual	2 qualifying individuals
$10,000	($1,977)	($2,368)	**$70,000**	$533	$133
$15,000	$383	($1,916)	**$80,000**	$533	$133
$20,000	$383	$183	**$90,000**	$533	$133
$25,000	$601	$671	**$100,000**	$583	$133
$30,000	$1,142	$1,436	**$125,000**	$1,283	$883
$35,000	$932	$1,296	**$150,000**	$1,033	$883
$40,000	$1,022	$836	**$175,000**	$1,033	$633
$45,000	$1,123	$936	**$200,000**	$1,183	$783
$50,000	$533	$1,077	**$225,000**	$1,183	$783
$60,000	$533	$133	**$250,000**	$873	$473

DCAP vs. Dependent Care Credit: Head of Household

The following is a comparison for a taxpayer filing as head of household with two qualifying individuals for the DCAP/Dependent Care Tax Credit, EIC, Child Tax Credit, and ACTC, and **$5,000 of dependent care expenses**, taking the standard deduction and claiming three exemptions. We also show results with one qualifying individual and the taxpayer claiming two exemptions. The taxpayer has no income other than wages and claims no tax credits other than those listed. Only federal tax savings are considered (not state taxes or credits). The figures below are for the 2015 tax year. Some numbers have been rounded.

Participating in DCAP on a salary reduction basis is better (or worse) than claiming the Dependent Care Tax Credit by this amount (**if negative, the Dependent Care Tax Credit is better**)

Gross wages of employee	1 qualifying individual	2 qualifying individuals	**Gross wages of employee**	1 qualifying individual	2 qualifying individuals
$10,000	($1,977)	($2,368)	**$70,000**	$788	$133
$15,000	$383	($1,916)	**$80,000**	$1,283	$883
$20,000	$683	$581	**$90,000**	$1,283	$883
$25,000	$907	$1,436	**$100,000**	$1,033	$883
$30,000	$872	$1,061	**$125,000**	$723	$323
$35,000	$1,162	$716	**$150,000**	$817	$323
$40,000	$1,133	$1,086	**$175,000**	$873	$473
$45,000	$533	$1,070	**$200,000**	$873	$473
$50,000	$533	$133	**$225,000**	$873	$473
$60,000	$533	$133	**$250,000**	$1,123	$723

Ultimately, it is up to each employee to determine the relative federal and state tax benefits of participating in a DCAP versus claiming the Dependent Care Tax Credit, taking into account the variables that are unique to the employee. Nevertheless, employers should take steps to educate employees about the two programs, including the no-double-dipping requirement.

Employees should be advised that in some cases, the Dependent Care Tax Credit could be more advantageous than participating in the DCAP on a salary reduction basis, or the federal tax savings from participating in a DCAP may be only marginally better. They should also be told how to determine which program is more tax-effective for them. Advising employees of this possibility might be required by Code §129(d) (6), which provides that “reasonable notification of the availability and terms of the [DCAP] shall be provided to eligible employees.”

At a minimum, employees should be prompted to consult with their tax advisors. Employers that wish to do more may furnish a worksheet or other tools to help employees make the comparison between salary reductions under a DCAP and the Dependent Care Tax Credit. The cautious approach is to provide only general information, not tax advice, on these tax issues. Resource: EBIA 2015