

Dependent Day Care Flexible Spending Account



An employee **MUST ENROLL** in the DDCFSA each year.

The Dependent Day Care Flexible Spending Account (DDCFSA) offers employees a tax-free way to pay themselves back for eligible dependent care expenses throughout the year. An employee can contribute between \$120 and \$7,500 each plan year to the DDCFSA to pay for dependent day care and elder care expenses on a pre-tax basis if both the employee and their spouse work, the spouse goes to school full-time, or the spouse isn't able to care for himself or herself. The spouse may also be unemployed but actively looking for work. If the spouse works part-time, the employee's election cannot be greater than either the employee's annual income or their spouse's annual income, whichever is lower. The IRS sets the maximum contribution, which is **\$7,500 per family, per year**.

Qualifying Family Members

Eligible day care expenses may be reimbursed for:

- A "qualifying child" under age 13 for whom the employee is the legal guardian and who has the same principal residence as the employee for more than one-half of the year and does not provide more than one-half of his or her own support during the calendar year.
- A qualifying child (as defined above) of any age, spouse, or other dependent (e.g., a disabled elderly parent), who is physically or mentally incapable of caring for himself or herself and has the same principal place of residence as the employee for more than one-half of the year and who receives over one-half of his or her support from the employee. To reimburse day care received outside of the home, a disabled dependent must spend at least eight hours per day in the employee's home.

Special rules apply for divorced or separated parents with dependent children. Generally, a child must be a dependent for whom the employee can claim an income tax exemption. In other words, the employee must have legal custody of the child for over one-half of the year for day care expenses to be reimbursed through the DDCFSA.

Note: An employee should consult with a tax advisor if they have questions about whether someone qualifies as an income tax dependent.

To contribute, employees must enroll in this plan each year.

How to Use the DDCFSA

An employee can contribute from \$120 to \$7,500 pre-tax each plan year, subject to the following legal limits:

- The \$7,500 maximum applies to all contributions an employee and their spouse make to any DDCFSA during the calendar year, whether through NCFlex or another employer.

- If an employee and their spouse file a joint income tax return, the employee may contribute up to \$7,500 for the year, regardless of the number of eligible dependents they have.
- If an employee and their working spouse file separate income tax returns, the maximum annual contribution is \$3,750.

When an expense qualifies for reimbursement, an employee can either use the NCFlex Convenience Card to pay for the expense or submit a claim with any necessary documentation to receive a tax-free reimbursement. To learn more about how to file a claim, see *How to Submit FSA Claims* on [page 7](#).

When filing a claim, the employee needs to attach a receipt that shows the amount of the charge and date of service with the dependent day care provider's tax identification number or Social Security Number.

Claim Reimbursements

Claims are processed each day, with the exception of holidays. Reimbursements are issued Monday through Friday. The next business day after the claim was adjudicated a reimbursement will be issued to the bank account on file. Depending on how long the banking institution takes to process the payment, it may take an additional 2 to 4 days for the payment to appear in the participant's account. If the employee provides P&A Group an e-mail address, they will automatically notify him/her when the claim is received and again when it is paid.

Claim reimbursement is based on the date the dependent day care service is received, not the date the invoice is paid or the date of billing. For the 2027 plan year, expenses must be incurred January 1, 2027, through March 15, 2028, to be eligible for reimbursement. An employee has until March 31, 2028, to submit claims for reimbursement. **An employee will be reimbursed up to the available balance in their DDCFSA on the processing date. The available balance is equal to the amount the employee has actually contributed to their account (via payroll deductions) minus any previous claim reimbursements. Any unused funds will be forfeited.**

When an employee enrolls in the DDCFSA, they will receive a claims kit containing a claim form and the procedures they need to follow when filing a claim.

NCFlex Convenience Card

An employee can use the NCFlex Convenience Card to pay for eligible dependent care expenses, up to the amount payroll deducted and available in the account.



Eligible and Ineligible Expenses

Go to [ncflex.org](https://www.ncflex.org) for a complete listing of eligible and ineligible DDCFSA expenses, which can be found under the *Flexible Spending Account* section.

Eligible Dependent Day Care Expenses

The employee can be reimbursed through the DDCFSA for:

- Payments to nursery schools, day care centers, or individuals who satisfy all state and local laws and regulations.
- Payments for before-school care and after-school care beginning with kindergarten and higher grades.
- Payments to relatives for care of a qualifying dependent(s); however, the relative cannot be the employee's tax dependent or child if under age 19 as of the end of the calendar year.
- Payments (in lieu of regular day care) to day camp (e.g., soccer, computers, etc.), but not overnight camps.

Ineligible Dependent Day Care Expenses

Some common ineligible expenses include:

- Tuition expenses for education of a qualified dependent beginning with kindergarten and higher grades.
- Expenses incurred while the employee and their spouse are not working (except for short temporary absences like vacation and minor illnesses).
- Expenses for overnight camps.
- Virtual camps.
- Transportation fees.
- Prepayment for services not received while covered.
- Late payment fees.

Plan Carefully

Employees should carefully consider their contributions to the DDCFSA. **Under IRS regulations, any money remaining in an employee's account after the deadline to submit eligible claims — March 31, 2028 — will be forfeited.**

Termination of Employment

If an employee terminates employment or coverage during the plan year, they may submit claims for services incurred on or before the coverage termination date. Services incurred after the termination date will be reimbursed up to the balance available in the account.* In accordance with IRS regulation, any unused money in the account is forfeited and remains with the state.

**Only pertains to the Dependent Day Care FSA.*

Important Issues

If both the employee and their spouse contribute to this plan or to a similar plan where he or she works, the IRS only allows a maximum family contribution of \$7,500 per calendar year.

Keep in mind the annual election cannot be greater than either the employee's annual income or their spouse's annual income, whichever is lower.

Certain IRS rules also affect the amount that an employee may elect on a pre-tax basis:

- If an employee's spouse is a full-time student or totally disabled, they are treated as having income of \$250* a month (\$500* a month if two or more dependents receive dependent day care). If the spouse is actively looking for work, their income for the year must exceed the employee's DDCFSA annual election.
- If the employee is considered highly paid by the IRS (earning over \$160,000* in the previous plan year of 2026 and indexed for inflation in future years), the pre-tax dependent day care election may need to be adjusted based on the results of IRS non-discrimination tests. The employee will be notified if affected.
- An employee who is divorced or legally separated must have legal custody of the child for over half the year to participate in the DDCFSA.

**This amount is subject to the Internal Revenue Service (IRS)'s cost of living adjustment and may be indexed annually.*

DDCFSA Worksheet

Employees can use this worksheet to identify dependent day care out-of-pocket expenses for the upcoming plan year. The DDCFSA worksheet is also available online at ncflex.org.

To get an idea of dependent day care expenses, an employee should review records for the past few years. Using this information, add any new types of expenses anticipated and complete the following worksheet:

Upcoming Plan Year

Child care (children under age 13)	\$ _____
Dependent adult day care	\$ _____
Day camp (not overnight camp)	\$ _____
Cost for preschool (prior to kindergarten)	\$ _____

Total Annual Expenses: = \$ _____

Annual Election

(Enter amount in the benefits enrollment platform) = \$ _____

Example of Tax Savings When Using a DDCFSA

Without DDCFSA		With DDCFSA	
Gross Annual Pay	\$50,000	Gross Annual Pay	\$50,000
Tax Rate (30%)	-\$15,000	Annual Dependent Care FSA Contribution	- \$5,000
Net Annual Pay	= \$35,000	Adjusted Gross Pay	= \$45,000
Annual Dependent Care Expenses	- \$5,000	Tax Rate (30%)	- \$13,500
Final Take-Home Pay	= \$30,000	Final Take-Home Pay	= \$31,500
Take home this much more when a DDCFSA is used			\$1,500

Tax Considerations

The DDCFSA is based on current tax laws. Employees should keep in mind the following tax considerations before participating in the DDCFSA:

- An employee may prefer to use dependent day care expenses to claim a Child Care Credit when filing federal and state income tax returns.
- The law permits an employee to use the Child Care Credit and the DDCFSA but not for the same expense. (The Child Care Credit is reduced dollar-for-dollar by any amount claimed through the DDCFSA.)
- The spending account is an alternative way to save taxes for employees who may prefer not to file for the Child Care Credit or who would receive greater tax savings through the DDCFSA.