



**THE DALTON STATE COLLEGE
DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT**

As of January 1, 2002, Dalton State College implemented a tax-sheltering plan for dependent care expenses. This plan is known as a Flexible Spending Account. It is a good way to achieve tax savings. Authorized under Sections 129 and 125 of the Internal Revenue Code, Flexible Spending Accounts allow employees to use pretax salary dollars to establish an account, which is then used to reimburse the employee for specific kinds of dependent care expenses.

An open enrollment period to participate in the flexible spending account program is in effect from mid October through mid November each year. As a regular employee of Dalton State College you will be able to set up a Dependent Care Flexible Spending Account that will become effective on January 1, the following year. Under this plan, you will be able to pay for your dependent care expenses-such as baby-sitting and day care fees- with before tax dollars.

*****HOW THE SPENDING ACCOUNT WORKS*****

You will be provided with an enrollment form on which you will indicate the amount of the contribution you want deposited into the account for the plan year, January through December. The College will divide this amount by the number of paychecks you will receive during this twelve-month period. This amount will be deducted from each paycheck before Federal, State, and FICA (Social Security) taxes are deducted. This money is deposited into an account for you and records are maintained of your account's activity.

As you incur dependent care expenses, you file claims for reimbursement by completing the Dependent Care Flexible Spending Account Claim Form and processing the form to the Payroll Department. Claims can be filed as frequently as you wish and checks will be distributed through the campus mail. Original receipts are mandatory for reimbursement. Expenditures for the enrolled plan year must be submitted by March 31 of the following year to be reimbursed.

Each quarter you will receive a detailed statement of the activity in your account; however, you are also encouraged to maintain good records.

*****IRS REGULATIONS APPLY*****

Several IRS regulations apply to the use of the Dependent Care Flexible Spending Accounts. You will need to comply with these regulations as you use your Spending Account. The most important regulations are briefly outlined below.

-Qualified Dependents Are Defined As:

1. Your children under the age of 13, and/or
2. Other relatives, such as parents, who depend on you for at least half of their support, who qualify as your dependents for Federal income tax purposes, and who live with you.

-Total Amount Of Money You May Contribute Is Limited To:

\$5,000 per year (or \$2500 if you are married and filing a single return). That means that the maximum amount that can be contributed during the 2003 Plan Year to the Dependent Care Flexible Spending Account is:

- \$416.66 per month for employees on a 12-month pay cycle,
- \$500.00 per month for employees on a 10-month pay cycle, and
- \$208.33 for each of 24 pay-periods for hourly paid employees.

Also, your total contributions may not exceed your earned income, or the earned income of your spouse, which ever is lower.

DSC Dependent Care Flexible Spending Account

LIMIT ON PLAN ELECTIONS

You may elect to open a Dependent Care Flexible Spending Account and specify the amount of your contribution only once per plan year, unless there is a change in your family status, such as marriage, divorce, the birth, adoption, or death of a dependent, or change in employment of your spouse. Changing deductions for personal reasons are not allowable during the year except with a change in status as previously stated. A new election form is required each year during the College's open enrollment period for contributions for the next calendar year.

THE USE-IT-OR-LOSE-IT RULE

The IRS requires that your expenses equal at least the amount you contribute to your spending account during the plan year. Any **UNUSED BALANCE** in your account at the end of the plan year must be **FORFEITED** and **CANNOT** be:

- paid to you in cash,
- made available to you in any other way, or
- carried over to the next plan year.

Should you terminate your employment you can be reimbursed for eligible dependent care expenses until the funds in your account are depleted or until the end of the current plan year; whichever comes first.

IMPORTANT CONSIDERATIONS

It will take careful planning on your part to identify the dependent care expenses you expect to incur each month and determine the contributions you wish to make to your spending account to reimburse those expenses. The tax advantages of using the Dependent Care Flexible Spending Account can be substantial.

You should also be aware that the Internal Revenue Code also allows a Dependent Care Tax Credit which may apply to your dependent care cost. You cannot use the same dependent care expenses for both the Spending Account Plan and the Tax Credit. Therefore, you will need to consider which will provide more in tax savings to you; the Spending Account or the Tax Credit .

While you will want to study your own particular situation with your tax advisor, generally when a Federal income tax rate of 28% or more will be applied to your adjusted income, the Dependent Care Flexible Spending Account will save you more in taxes than taking the tax credit.

If you have regular expenses for dependent care, the flexible spending account may offer you the opportunity to realize important tax savings as you pay those costs.

To participate, your net pay will be reduced appropriately for your monthly deduction
IMPORTANT-The decision to participate is yours; not the employer or the IRS