Pre-Tax Savings Accounts Are Designed To Pay for Child or Dependent Adult Care

Employees who must care for children or have adult care responsibilities sometimes overlook the possibility of using an employer-sponsored Dependent Care Flexible Spending Account (DCFSA) to help out. Yet, these tax-advantaged accounts can provide impressive savings (depending on your tax bracket) when you use them to pay qualifying expenses.

If you're caring for a child, an elderly parent or an adult relative who requires care while you work, it may be worth your while to take a close look at one of these accounts.

Tax Advantages

A DCFSA is a savings account from which an employee can pay for qualified dependent-care expenses. Aside from its specific purpose, it is similar to the Flexible Healthcare Spending Account. Your monthly employee contributions are diverted from your gross earnings and sent into a DCFSA. The pre-tax money thus accumulated can be used to pay qualified expenses (see accompanying story for a list) related to child and/or adult care. The money – there is an annual cap of $5,000 per household per year – can be used to pay for expenses that occur because the caregiver is at work or looking for work. It is not meant to pay for expenses you would incur anyway.

Use or Lose

Because employers set the rules for eligibility, you'll have to check with your company's benefits department to find out about signup details and learn exactly what services will be available, what the limitations are, and how your DCFSA will be administered. Keep in mind there is a "use or lose" rule associated with these accounts.

That is, funds must be used during the defined benefit period, which runs from January 1 of one year to March 15 of the next.