

DEPENDENT CARE FLEXIBLE SPENDING ACCOUNT (FSA) GRACE PERIOD TAX IMPLICATIONS

Important Notice: The IRS has changed the Child and Dependent Care Expenses Tax Form 2441. To account for grace period activity, the IRS has added a new line to the form. Dependent Care FSA participants are required to report any carryover amounts from the previous tax year that he or she used in the current tax year during the plan's grace period on the Child and Dependent Care Expenses Tax Form 2441.

Following is an example of how this may impact you:

You enrolled for \$5,000 in the 2010 Dependent Care Spending Account, which is the maximum amount permitted for your tax filing status. The State of Michigan has adopted a grace period for you to use any remaining money left in your 2009 Dependent Care Spending Account following the 2009 plan year.

If your eligible dependent care expenses reimbursed during the 2009 plan year grace period (January 1, 2010 through March 15, 2010) meant that you would actually be reimbursed during 2010 for more than the \$5,000 deduction you elected in the 2010 plan year, the IRS has taken the position that such excess is a taxable event and must be reported by the taxpayer on Form 2441. This also applies to those of you that were in the 2009 Dependent Care Spending Accounts and may have used 2008 dependent care spending account money during the grace period following the 2008 plan year (January 1, 2009, through March 15, 2009).

Assuming you have two or more qualifying individuals and otherwise meet requirements to claim the Dependent Care Tax Credit (DCTC), you may be eligible for a full or partial DCTC up to \$1,000 of your dependent care expenses that exceed \$5,000. Please consult your tax advisor if you have any questions.