

Cafeteria plans can help

thread is ready to help families make good choices about the early care & learning needs of their children, including understanding information about participating in an employer's **cafeteria plan (dependent care plan)** where funds are deducted from each paycheck on a pretax basis in equal amounts each pay period. Employees choose whether to participate and what amount to set aside.



What is a cafeteria plan?

A cafeteria plan is a separate written plan maintained by an employer for employees that meets the specific requirements and regulations of section 125 of the Internal Revenue Code. It provides participants an opportunity to receive certain benefits on a pre-tax basis. Participants in a cafeteria plan must be permitted to choose among at least one taxable benefit (such as cash) and one qualified benefit.

Average tax savings using a cafeteria plan is **25%**

Is there a limit on the amount allowed?

There is a federal limit of \$5,000 annually.

What types of expenses are eligible?

Any expenses incurred at a daycare center that complies with all state and local regulations are considered eligible expenses.

How does a cafeteria plan work?

Employer contributions to the cafeteria plan are usually made pursuant to salary reduction agreements between the employer and the employee in which the employee agrees to contribute a portion of his or her salary on a pre-tax basis to pay for the qualified benefits. Salary reduction contributions are not actually or constructively received by the participant. Therefore, those contributions are not considered wages for federal income tax purposes.

What is needed to substantiate a claim?

A bill, invoice, or receipt from the provider that shows what period of time that day care services were provided, the charge for these services and the name of the provider. This documentation should be accompanied by a signed Claims Sheet. A canceled check does not establish these requirements.

Can changes be made to the amount elected for dependent care benefits?

Changes to the amount elected can only be made during the open enrollment period each year or in the event of the authorized change in family situations.

we're ready

thread connecting early care & education to alaska

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