

QUESTIONS AND ANSWERS

About the Kaneland Community Unit School District 302 Dependent Care Assistance Plan (Flexible Spending Account Plan)

The Kaneland Community Unit School District 302 Dependent Care Assistance Plan allows you, if you qualify under the tax law and elect to participate, to have a portion of your salary placed in a Dependent Care Spending Account every payday. You may use that money for child care expenses and other dependent care costs that make it possible for you to work. The amount you set aside will be tax-free. That is, you will not pay federal or state income taxes (in most states) or Social Security taxes on it. You must use the money for qualifying dependent care expenses, however, or you will lose it.

QUESTIONS AND ANSWERS

1. Who is eligible to participate?

You must be a Benefit Eligible Employee as defined in the Group Medical and Dental Plan of Kaneland Community Unit School District 302 to participate. The law requires that (a) you must be single, or (b) if you are married, your spouse must be working, looking for work, in school full-time, or handicapped and unable to work. You must be making your dependent care payments to be able to work. New employees are eligible to participate the date they are employed by Kaneland School District #302.

2. Can everyone save taxes this way?

Some people can save more taxes by using the Dependent Care Tax Credit in computing their taxes (Form 2441), so you should examine your own situation carefully before you decide whether to participate. You may wish to consult with a qualified tax advisor before making this choice.

3. What taxes can I save?

You will not have to pay federal income tax on the amounts you put into your Dependent Care Spending Account every payday. Also, in most states, you will not have to pay state income tax on the amounts you put into your Dependent Care Spending Account.

You will not have to pay Social Security tax on the amounts you put into your Dependent Care Spending Account. This means, however, that you will have paid in a smaller total to Social Security over your working lifetime, and your Social Security benefit could be less than it would be if you do not sign up for this plan. For most people, the difference is negligible, but you should be aware of it.

4. How much of my salary can I put into a Dependent Care Spending Account?

If you are single, you may put in up to \$2,500 per year. If you are married, filing a joint federal income tax return with your spouse, you and your spouse together may put in up to \$5,000 per year (but no more than the lower of your two incomes). If you are married, filing separately, your limit is \$2,500. Those limits translate to approximately \$104.16 and \$208.33 per bi-monthly pay period, respectively. These dollar limits apply to the amount of dependent care assistance you receive during the year. Therefore, if you also receive dependent care assistance under the plan of your spouse's employer, those amounts will be offset dollar-for-dollar against the amount you may contribute to the plan.

There are special rules for employees whose spouses are full-time students or disabled.

5. What happens to the money?

Your employer sends information about the money deducted from your paycheck to the Claims Administrator every payday. The Claims Administrator puts it into a Dependent Care Spending Account for you to draw on. See Q #6 for information about how to do that.

6. How do I receive reimbursement for my dependent care expenses?

You submit a claim form to the Claims Administrator with evidence of your qualifying dependent care expenses. The Claims Administrator will process your claim, deduct the money from your account, and send you a check in payment of your claim. They write checks at least monthly.

The minimum reimbursement check amount is \$25. You should save your expenses until they total at least that amount. If you send a claim for less than that, the Claims Administrator will hold it to combine with your next claim. At the end of the year, there is no minimum for the last payment of qualified benefits to obtain what is left in your account.

If there is not enough money in your Dependent Care Spending Account at any time during the year to cover the claim you have submitted, the Claims Administrator will pay you what is there and will hold your claim to pay you more after the next payday, when more money is deposited in your account.

You must include the tax I.D. number (or Social Security number) of the care provider on the claim form to be reimbursed. You should check with your provider to get that number. The tax law requires you to give this number, whether you take the tax credit or are reimbursed from a Dependent Care Savings Account. Your provider is required by law to give you this number.

7. What records will I receive so I will know where my account stands?

With each check, you will receive a form from the Claims Administrator showing what that reimbursement is for, and how much you have in your Dependent Care Spending Account.

8. What expenses qualify?

To be reimbursed in the 2011 plan year, expenses must be *incurred* from January 1 through December 31, 2011.

Expenses can be for care of a child up to 13 years old, or for care of a dependent that is disabled or elderly and frail, which is living with you.

Your child care expenses can be for a sitter or housekeeper in your home, a family day care home, or a day care center. You can include the full amount you pay to a nursery school, even though part of it is for lunch and education expenses. Only the portion of the cost of summer camp that is attributable to day care can be included, and camp deposits made in the winter or spring cannot be reimbursed until the full bill is due; if you have questions about including summer camp costs, contact your tax advisor.

If you use a child care center providing care for more than six children, it must comply with applicable state and local licensing regulations. See Q & A #9 for information on how to find out if your center qualifies.

To use your Dependent Care Spending Account for expenses for a disabled or elderly person, that person must be physically or mentally unable to care for himself/herself. The person must be your dependent for tax purposes, and you must provide more than half of his/her living expenses. He/she must reside in your home at least eight hours a day. Thus you can pay out of your Dependent Care Savings Account for adult day care for a frail elderly parent who lives with you and is a dependent on your tax return. You cannot use this account, however, to pay part of the cost of a nursing home for a parent in another city.

You cannot claim payments to a relative for dependent care unless (a) the relative is not your dependent for the tax year, and (b) the relative is providing child care as an employee of another organization, or as a self-employed person in his/her own home, or as your employee for whom you are withholding Social Security taxes.

9. How can I find out if my child care center qualifies by complying with applicable state and local licensing regulations?

Call the local child care information and referral service for the city, town, or county in which the center operates.

10. Can I sign up for a Dependent Care Spending Account if I'm married and my spouse doesn't work?

No. The law is designed to assist single parents and families where both spouses work (or one is disabled or in school full time).

11. My child care provider doesn't report income to the IRS. Does that affect my ability to use a Dependent Care Spending Account?

You won't be able to get your money out of your Dependent Care Spending Account without the

provider's Social Security number. You must list the provider's name, address, and tax I.D. number on your claim form if you want to be reimbursed. You should get the number from your provider before signing up for the plan. The provider is required by law to give it to you. (The only exception is if it's a non-profit organization under Internal Revenue Code Section 501(c)(3) such as a day care center operated by a non-profit religious or educational organization.) To get the tax benefit, you must provide the identification information. This is true for the tax credit as well as for the Dependent Care Spending Account.

12. May I use both the Tax Credit and the Dependent Care Spending Account?

You may not add the advantages of the tax credit and the Dependent Care Spending Account. If you use the tax credit (Form 2441), every dollar of your salary you have put into a Dependent Care Spending Account reduces by one dollar the expenses you may claim for the tax credit. You may split the tax benefits between both arrangements, but there is generally no advantage to you in doing so.

You should carefully examine your own tax situation. In doing so, you may wish to consult with a qualified tax professional.

13. What happens to the money if any is left over in my account?

You must be careful in estimating your expenses before you sign up. Any amounts left over after the end of the plan year, will be returned to the School District. No money will be returned to participants.

14. How do I sign up?

Use the enrollment form provided to you by the business office.

15. How can I decide how much to have withheld?

Here are the steps to figure out how much to put into your account each payday:

- Add up the dependent care expenses you expect to have in 2011. Include your regular child care costs, what you probably will have to pay for emergencies, and the amount you expect to pay for any special summer arrangements. Account for foreseeable changes in your child care needs during the year, such as a child starting school in September. Don't forget to account for any periods when you might not pay for dependent care, such as vacation.
- If you have a question about what expenses are eligible, call the Claims Administrator.
- Divide the total by 24. This is the amount to have put into your Dependent Care Spending Account each bi-monthly payday.

To be safe, or if you think your estimate might be too high, reduce this figure to be sure you will spend the entire account by the end of the year.

16. Can I change my Dependent Care Spending Account amount during the year?

You may only change your Dependent Care Spending Account deduction during the year if there is a change in your family or job status or certain other changes employment.

If you want to make a change and qualify to do so, you should get in touch with the Claims Administrator and complete a change form.

You may not change your Dependent Care Spending Account deduction because of a “hardship.”

17. What happens to my account if I go on leave–without–pay in 2011?

If you are on leave–without–pay at any time during the year, you may not contribute to your Dependent Care Spending Account during that period. Your contributions will resume at the same rate when you return, unless you have had a change in family or job status or other qualifying change and wish to change your Dependent Care Spending Account deduction. See Q & A #16.

You may continue to draw money out of your Dependent Care Spending Account in the same way for 2011 dependent care expenses while you are on leave.

18. What happens if I leave the School District?

If you leave the School District, no money will be put into your Dependent Care Spending Account after your last paycheck.

You may continue to draw money out of your Dependent Care Spending Account in the same way for 2011 dependent care expenses.