

COMPARING THE FEDERAL TAX CREDIT VERSUS THE DEPENDENT CARE SPENDING ACCOUNT

This is a Worksheet that is being used to help weigh the tax advantages or disadvantages of the Dependent Care Flexible Spending Account and the Federal Tax Credit for 2017 (based on tax rates in effect in 2016).

If you are currently incurring dependent care expenses, you are probably paying for these services with after-tax dollars and taking a Federal Tax Credit on your income tax return. In order to see whether the Dependent Care Spending Account or the Federal Tax Credit is more beneficial for you, complete the following:

Estimating Dependent Care Expenses

1. Compute the total amount of your dependent care expenses. Be sure to take into account vacations or other periods where no dependent care is incurred.

Cost/Week \$ _____ x No. of Weeks _____ = Total \$ _____

2. You can contribute up to a maximum of \$5,000 per calendar year to the Dependent Care Spending Account. This limit is reduced to \$2,500 if you are married and filing separate tax returns. The amount contributed cannot exceed the lesser of your earned income or your spouse's earned income. Other limitations may also apply if your spouse is disabled or is a full-time student.

On the other hand, you can claim a percentage of your dependent care expenses as a Federal Tax Credit on your personal income tax return. The amount of dependent care expenses is limited to a maximum of \$6,000 per calendar year for dependent care expenses for two or more children. This limit is reduced to \$3,000 per calendar year for dependent care expenses for one child. The amount of dependent care expenses is also limited to the lesser of your earned income or your spouse's earned income. Other limitations may also apply if your spouse is disabled or a full-time student.

Federal Tax Credit for Dependent Care Expenses

Calculating the Federal Tax Credit

1. Estimated annual dependent care expenses (total from above) \$ _____
2. Maximum expenses eligible for tax credit (\$3,000 for one child; \$6,000 for two or more children in day care) \$ _____
3. Total adjusted gross income for you and your spouse \$ _____
4. Tax credit percentage from Table 1 below (based on AGI) _____%
5. Estimated Tax Credit (multiply line 4 by the smaller of line 1 or line 2) \$ _____

Table 1

Adjusted Gross Income ("AGI")	Tax Credit Percentage
Up to \$15,000	35%

\$15,001 – \$17,000	34%
\$17,001 – \$19,000	33%
\$19,001 – \$21,000	32%
\$21,001 – \$23,000	31%
\$23,001 – \$25,000	30%
\$25,001 – \$27,000	29%
\$27,001 – \$29,000	28%
\$29,001 – \$31,000	27%
\$31,001 – \$33,000	26%
\$33,001 - \$35,000	25%
\$35,001 - \$37,000	24%
\$37,001 - \$39,000	23%
\$39,001 - \$41,000	22%
\$41,001 - \$43,000	21%
\$43,001 and over	20%

Calculating Tax Savings Using the Dependent Care Spending Account

6. Estimated annual dependent care expenses (from page 1, but limited to \$5,000 or \$2,500 if married filing separately) \$ _____
7. Marginal Federal tax rate using your combined income for you and your spouse from Table 2 below _____ %
8. Social Security tax rate _____ 7.65%
9. State tax rate (currently 4.25%) (*State taxes vary from state to state) _____ %
10. City tax, if applicable
(1.5% if living in the city of Grand Rapids, .75% if working in the city of GR but living out of the city of GR) _____ %
11. Total tax rate (add lines 2, 3, 4 and 5) _____ %
12. Estimated tax savings (multiply line 1 by line 6) \$ _____

Table 2

Federal Tax Rate*	Single	Head of Household	Married Filing Jointly
10%	\$0 - \$9,275	\$0 - \$13,250	\$0 - \$18,550
15%	\$9,276 - \$37,650	\$13,251 - \$50,400	\$18,551 - \$75,300
25%	\$37,651 - \$91,150	\$50,401 - \$130,150	\$75,301 - \$151,900
28%	\$91,151 - \$190,150	\$130,151 - \$210,800	\$151,901 - \$231,450
33%	\$190,151 - \$413,350	\$210,801 - \$413,350	\$231,451 - \$413,350
35%	\$413,351 - \$415,050	\$413,351 - \$441,000	\$413,351 - \$466,950
39.6%	\$415,051 and over	\$441,001 and over	\$466,951 and over

*Based on taxable income (after exemptions and deductions), as calculated on your individual Federal income tax return.

Comparing the Calculations

After you have estimated your dependent care expenses, calculate the Federal Tax Credit and the withholding tax savings using the Dependent Care Spending Account and compare the two calculations. You can then make an informed choice as to which alternative is best for you, or consult your tax advisor.

The Federal Tax Credit is for Federal income tax purposes and does not include Social Security or State income taxes. Generally, if the percentage for your income tax bracket (Table 2) is greater than the percentage allowed for the Federal Tax Credit (Table 1), the Dependent Care Spending Account is the better choice. On the other hand, if the percentage allowed for the Federal Tax Credit (Table 1) is greater, it is likely that the Federal Tax Credit may be a better choice.

MJ_DMS 10882761v11 29763-1