**Summary of new (2021 ONLY) rules for the dependent care credit**

2021 (only) individual tax returns qualify for a refundable credit at a rate of up to 50% for

the first $8,000 of expenses for 1 dependent and up to $16,000 expenses for more than 1

dependent. AGI reduction base amounts were increased almost ten-fold and the

maximum Sec. 125 deferral was doubled. Key points:

• Refundable

• Graduated rate from 50% down to 20%

• $8,000 maximum for 1 dependent, $16,000 for more than 1 dependent

• Reduce expenses by excluded employer paid amounts

• Must live in United States for at least ½ of the year

• Credit reduction begins at AGI of $125,000

• Credit begins phaseout at AGI of $125,000 and fully phases out at $438,000

• Pre-tax cafeteria maximum deferral $10,500

These changes are so different that what may have been the best thing to do in the past (contribute pre tax money) may not be the best option now.

You may have contributed to an employer FSA before these changes were made. It is also important to know that it is not an either/or decision. You can take advantage of both the Dependent Care FSA and Dependent Care Tax Credit, you just can’t double-dip. For example, say you were unaware of the tax code changes and realize at the end of 2021 that you would have been better off taking the Dependent Care Tax Credit, but have already contributed $5,000 into a Dependent Care FSA. If you have one child and spent over $8,000 for their care in 2021, you can still take advantage of $3,000 of expenses ($8,000 childcare expense limit minus the $5,000 of expenses you have already received benefit for through the Dependent Care FSA). For those with an AGI under $125,000 that equates to a dependent care tax credit of $1,500. If you had two or more children and expenses of $16,000 you can claim the additional $11,000 of expenses and receive $5,500 in tax credits. The link below is a calculator to determine which option would be best for your individual situation.

https://harrisonfinancialplanning.com/tools-dependent-care-tax-credit-fsa/

I do not know if the new bill going through Congress will extend the dependent care credit. I will send an email if this situation changes which might allow you to change the pre tax money if that is more to your benefit.