



# Dependent Care Spending Account

## Tax Credit or Salary Reduction

This worksheet is designed to help you compare the financial benefits of participating in the Dependent Care Spending Account or taking the Child Care Credit available on your income tax return. **Although the Dependent Care Spending Account is better for most income levels, there are enough factors that cannot be accounted for in a worksheet that we strongly recommend you consult with a tax advisor.** For example, the Earned Income Credit may affect persons with earned income under \$35,458. This depends on number of

qualifying children, income level and filing status and may make the DCSA less attractive. **IRS Publication 596 will help you determine your Earned Income Credit.**

This worksheet cannot assist you in calculating your Additional Child Tax Credit. **The Additional Child Tax Credit is calculated on Tax Form 8812 and may influence your decision. You can access these forms and publications online at [www.irs.gov](http://www.irs.gov) or through a link on our administrator's website.** The amount of State Income Tax is also a consideration and may make the DCSA more attractive.

## Definitions

**Adjusted Gross Income.** Generally, income from all sources (salary, hourly wages, interest and dividend income, rentals, partnership income and distributions, etc.) less adjustments for things such as alimony and deductible IRA and Keogh contributions.

**Taxable Income.** Adjusted gross income reduced by (1) the greater of itemized or standard deductions, and (2) exemptions.

**Qualified Dependent Care Expenses.** Amounts paid for the care of eligible dependents to enable you to work and have earned income.

## Interpreting Worksheet Results

- ▶ If step 10(a) is larger than step 10(b), then your marginal tax rate is less than the dependent care percentage rate and there may be no tax savings for participation.
- ▶ If step 10(a) is smaller than step 10(b), your tax savings may be greater under the plan than with the tax credit.

For best results, please use the Tax Savings Calculator on our administrator's website.

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1.	Enter your household estimated adjusted gross income		\$	_____
2.	Enter the greater of your estimated itemized deductions or the following standard deductions: (2010 amounts)			
	(a) Married, filing jointly	\$11,400		
	(b) Married, filing separately	\$5,700		
	(c) Head of household	\$8,400	Less	\$ _____
3.	Enter number of eligible exemptions (Yourself, spouse and two children would be 4)			_____
4.	Calculate total exemptions by multiplying eligible exemptions by \$3,650		Less	\$ _____
5.	Estimated taxable income (item 1 minus item 2 and item 4)		\$	_____
6.	Go to Federal Income Tax Brackets and Combined Marginal Tax Rate Sheet (shown below):			
	(a) Find the Marginal tax rate for your level of taxable income (item 5)	_____ %	\$	_____
	(b) Find the Dependent Care Credit Percentage for your level of adjusted gross income (item 1)	_____ %	\$	_____
7.	Enter estimated costs for Qualified Dependent Care Expenses		\$	_____
8.	Calculate amount of Tax Eligible Qualified Dependent Care Expenses by: Enter number of eligible dependents: _____ x \$3,000 =		\$	_____
9.	Enter the smaller of item 7, item 8 or \$6,000		\$	_____
10.	Calculate the benefit of the Dependent Care Credit versus Salary Reduction by:			
	(a) Estimated Dependent Care Credit [multiply step 6(b) by Step 9]		\$	_____
	(b) Estimated Federal Tax Benefit of Salary Reduction [multiply step 6(a) by step7]		\$	_____
11.	Worksheet Results (shown above):			

## 2010 Federal Income Tax Brackets and Combined Marginal Rates of Federal Income and FICA Taxes

DEPENDENT CARE CREDIT PERCENTAGE				MARRIED INDIVIDUALS FILING JOINTLY		MARRIED FILING SEPARATELY		HEAD OF HOUSEHOLD	
adj. gross income	percentage	adj. gross income	percentage	taxable income	percentage	taxable income	percentage	taxable income	percentage
\$0 - 15,000	35%	29,001 - 31,000	27%	\$0 - 16,750	17.65%	\$0 - 8,375	17.65%	\$0 - 11,950	17.65%
15,001 - 17,000	34%	31,001 - 33,000	26%	16,751 - 68,000	22.65%	8,376 - 34,000	22.65%	11,951 - 45,550	22.65%
17,001 - 19,000	33%	33,001 - 35,000	25%	68,001 - 106,800	32.65%	34,001 - 68,650	32.65%	45,551 - 106,800	32.65%
19,001 - 21,000	32%	35,001 - 37,000	24%	106,801 - 137,300	26.45%	68,651 - 104,625	35.65%	106,801 - 117,650	26.45%
21,001 - 23,000	31%	37,001 - 39,000	23%	137,301 - 209,250	29.45%	104,626 - 106,800	40.65%	117,651 - 190,550	29.45%
23,001 - 25,000	30%	39,001 - 41,000	22%	209,251 - 373,650	34.45%	106,801 - 186,825	34.45%	190,551 - 373,650	34.45%
25,001 - 27,000	29%	41,001 - 43,000	21%	373,651 +	36.45%	186,826 +	36.45%	372,651 +	36.45%
27,001 - 29,000	28%	43,001 +	20%						