



Notification for Civilian Sponsors Using Installation-Based Department of Defense Subsidized Child Development Programs during Tax Year 2010



Frequently Asked Questions

Q.1. Why might I be taxed?

A. Title 26, United States Code, section 61 and title 26, Code of Federal Regulations, section 1.61-1, Internal Revenue Code, provide that child care subsidies are generally treated as gross income. This gross income is generally calculated by adding the value of the subsidy to the gross income of civilian employees who benefit from the subsidies.

Q.2. What information will be provided to me?

A. The installation-based child development program director is required to provide each civilian sponsor the amount of the cash value of the child care space utilized by a child regardless of age. The value of the space is determined using a formula that accounts for appropriated fund support and the number of child care spaces available within the child development system of care. The cash value of the subsidy for tax purposes is unique and may vary slightly each year.

Q.3. What information will I be required to furnish?

A. You will be required to furnish your Social Security number and the names of your dependent children who receive child care through a DoD child care program to the Third Party Administrator. The Third Party Administrator will maintain patron information relevant to child care subsidies. The Third Party Administrator will also provide each civilian sponsor with the IRS Form 1099, Miscellaneous Income, at the end of each tax year, **only** when the net value of the subsidy exceeds \$5,000 (\$2,500 for married individuals filing separately). Each sponsor is responsible for reporting this information to the IRS when his or her taxes are filed.

Q.4. How will I know the value of the child care subsidy for installation based programs?

A. Each civilian sponsor will receive specific information about the tax value of the subsidy for the relevant tax year.

Q.5. How will you compute the taxable amount of the child care subsidy I receive?

A. For families utilizing installation-based child development programs, the Third Party Administrator will deduct child care fees paid by the parent/sponsor from the fair

market value of the child care space. This net value is the amount attributed to gross income. Subsidies for families utilizing programs in the community-based programs are computed based on the actual dollar amount of the subsidy payment.

Only child care subsidies that exceed the \$5,000 (\$2,500 for married individuals filing separately) exclusion are taxable and reportable.

To qualify for this exclusion, civilian employees must claim the child as a dependent on the employee's Federal income tax return. Additional guidance may be found in the Internal Revenue Service Publication 503 "Child and Dependent Care Expenses."

Q.6 I'm enrolled in a Dependent Care Flexible Spending Account (DCFSA). How does this affect me?

A. Civilian employees are also eligible to make pre-tax contributions up to \$5,000 in a Dependent Care Flexible Spending Account. Civilian employees enrolled in a DCFSA whose children receive care in a DoD child development program should note that Dependent Care Flexible Spending Account contributions are included in the \$5,000 (\$2,500 for married individuals filing separately) tax exempt amount. Thus the tax exempt \$2,500 or \$5,000 is an aggregate of the net value of the subsidy of the care provided to children enrolled in DoD installation and community based child development programs, defined as programs approved by USD (P&R) or the designated office and located on non-government property, and the Dependent Care Flexible Spending Account contribution.

Q.7. Does this apply only to civilian sponsors?

A. Yes. While there is no differentiation between civilian patrons and Service member patrons in regard to fee schedules, subsidies, or quality of care provided, there are distinctions in tax code requirements. Section 134 of the Internal Revenue Code was amended by the Military Family Tax Relief Act providing an exclusion from taxes for subsidies under dependent care assistance programs for active duty Service members.

Q. 8. How does the tax issue apply to retired military personnel who are not DoD employees but whose dependent children utilize CY5 Child Care Programs?

A. Individuals are subject to a potential tax on child care subsidies on the basis of their status when they enroll in the child development system of care. For example, a parent/sponsor who enrolls their child on the basis of their civilian employment status, regardless of previous military service, is subject to the taxation and must report the subsidy. A parent/sponsor who enrolls their child on the basis of prior military service, as a retiree, is not subject to taxation.

Please note that civilian employees are granted a higher priority status for enrollment. A Service may allow retirees to enroll on a waiver/space available basis. Once enrolled, a parent/sponsor cannot change their enrollment status to avoid the potential for taxation on the value of the subsidy exceeding the \$5,000 exclusion.

Q.9. I'm a civilian employed overseas. How does this apply to me?

A. DoD is required to track the child care subsidy-value information, regardless of the domestic or foreign locations of the employee. It is the responsibility of the employee/ sponsor to take advantage of any exemption or exclusion that a taxable foreign-based recipient may have under the Code.

Q.10 What is the difference between an installation-based child development program and a community based program?

A. For the purpose of the cost per space determination, installation based child development programs are defined as those programs that are located on property owned or leased by the federal government and programs supported by DoD installation personnel off the installation that are also funded by direct and indirect appropriated support.

A community based child development programs is defined as a program approved by the Under Secretary of Defense for Personnel and Readiness, USD (P&R), or the designated office, and located on non-government property.

Q.11 My child attends a community based child care program. How will I be affected?

A. The cash value of the subsidy paid to the community based child care provider on your behalf by your DoD employing organization, will be reported to a Third Party Administrator who will maintain patron information relevant to child care subsidies. The Third Party Administrator will also provide each civilian sponsor with the IRS Form 1099, Miscellaneous Income, at the end of each tax year, **only** when the net value of the subsidy exceeds \$5,000 (\$2,500 for married individuals filing separately). This differs from installation child development programs where the value of the child care space, reported to the Third Party Administrator, is impacted by both direct and indirect appropriated fund support.

Q.12 What is a Dependent Care Assistance Plan?

A. A Dependent Care Assistance Plan is the formal document or documents establishing the guidelines, requirements, and authority for subsidizing a portion of the cost of child care incurred by DoD civilian employees. The Internal Revenue Code allows exemptions on child care subsidies up to \$2,500 (for married individuals filing separately), or \$5,000 (for individuals filing as single, head of household, or married filing jointly), from gross income if the subsidies are made available through an employer Dependent Care Assistance Plan.

Q.13 What if I have additional tax-related questions?

A. You may also wish to consult your tax advisor to ensure that you have calculated the child care credits and exemptions correctly. This memo is not intended to replace the specific advice of a tax expert.