



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
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IN REPLY
REFER TO DES-Q

SEP 03 2009

MEMORANDUM FOR SITE DIRECTOR, DES BATTLE CREEK
SITE DIRECTOR, DES COLUMBUS
SITE DIRECTOR, FORT BELVOIR
SITE DIRECTOR, DES RICHMOND
SITE DIRECTOR, DES SAN JOAQUIN
SITE DIRECTOR, DES SUSQUEHANNA

SUBJECT: Notification for Employees of Potential Tax Liability Related to Child Care Subsidy
– Letter to Civilian Parents/Sponsors

This memorandum provides information on civilian employee tax issues related to the Department of Defense (DOD) child care program which may result in a 2009 tax liability for certain civilians using the DOD child care programs. The attached memo signed by the Acting Under Secretary of Defense for Personnel and Readiness, *Notification for Civilian Employees of Potential Tax Liability Related to Child Care subsidy*, dated March 12, 2009, requires additional information be provided to civilian parents and sponsors. A copy of this memorandum has been provided to the program managers of the Military Services and other Defense agency child development programs who in turn are to provide the information to their customers. The detailed information is provided in the two attachments to the USD(P&R) memo.

Each Site Director is responsible for ensuring each civilian parent and sponsor is provided a copy of the USD(P&R) memo with the two attachments. Your local Child and Youth Programs Coordinator is the point of contact for this issue.

The point of contact for this issue is Ms. Deborah Reeves, DES-Q, (703)767-7103, DSN 427-7103, or e-mail: deborah.reeves@dla.mil.

THOMAS M. LAFFEY
Colonel, USAF
Director, DLA Enterprise Support

Attachment





PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

JUL 23

MEMORANDUM FOR ASSISTANT SECRETARY OF THE ARMY
(MANPOWER AND RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE NAVY
(MANPOWER AND RESERVE AFFAIRS)
ASSISTANT SECRETARY OF THE AIR FORCE
(MANPOWER AND RESERVE AFFAIRS)
DIRECTOR, DEFENSE LOGISTICS AGENCY
DIRECTOR, NATIONAL SECURITY AGENCY
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY

SUBJECT: Notification for Civilian Employees of Potential Tax Liability Related to Child Care Subsidy – Letter to Civilian Parent/Sponsor

The attached memorandum is provided for your information only. The 12 Mar 09, Acting Under Secretary of Defense for Personnel and Readiness memorandum, *Notification for Civilian Employees of Potential Tax Liability Related to Child Care Subsidy* required that additional information be provided to the civilian parent/sponsor. A copy of this memorandum has been provided to the program managers of the military and Defense Agency child development programs who in turn will provide the information to the civilian sponsor.

The OSD point of contact (POC) for this issue is Carolyn Stevens, Office of Family Policy/Children and Youth. She may be reached by email at Carolyn.stevens@osd.mil.

Tommy T. Thomas
Deputy Under Secretary of Defense
(Military Community and Family Policy)



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

JUL 23

MEMORANDUM FOR CHILD DEVELOPMENT PROGRAM DIRECTORS

The Acting Under Secretary of Defense for Personnel and Readiness, memorandum, *Notification for Civilian Employees of Potential Tax Liability Related to Child Care Subsidy*, dated 12 Mar 09 and forwarded under separate cover, provided information on civilian employee's potential tax issues related to the Department of Defense (DoD) child development program. A copy of the attachment to the 12 Mar 09 memorandum explaining the issue is provided in Attachment A. As noted in the attachment, child care subsidies may result in a 2009 tax liability for some civilians using the DoD child care programs.

Additional information for parents is provided in Attachment B in the form of *Frequently Asked Questions*. You must provide a copy of both Attachments to each civilian sponsor. Service member sponsors are not impacted as they are exempt from this potential tax liability.

The earlier memorandum required each Component to designate a representative at the Service/Directorate level. Civilian sponsors may address their questions and concerns to these Component representatives. Your OSD point of contact for this issue is Carolyn Stevens, Office of Family Policy/Children and Youth at Carolyn.stevens@osd.mil.

Tommy T. Thomas
Deputy Under Secretary of Defense
(Military Community and Family Policy)

Notification for Civilian Employees of Potential Tax Liability Related to Child Care Subsidy

Department of Defense (DoD) civilian employees are a valued resource and an essential part of the Total Force. DoD strives to ensure an agile, diverse, and mission-ready civilian workforce and is committed to establishing policies, programs, and initiatives promoting work life balance and support of employees and their families. Installation-based child development programs, established for children of Military Service members and utilized by children of civilian employees, are an example of DoD's commitment to families. While there is no differentiation between civilian employees and Military Service members in regard to fee schedules or quality of care provided, there are distinctions in their treatment under the tax code. This memorandum provides information on Internal Revenue Code (IRC) rules that apply to civilian employee patrons of the installation based DoD child development programs.

The cost of the DoD installation based child development programs is subsidized for both Military Service members and civilian patrons through appropriated funds. These subsidies include direct support for a limited number of staff salaries, equipment and supplies. Additional financial support is provided in the form of installation contracts, facility and grounds maintenance, and other personnel support. In the absence of subsidies, the cost of child development programs offered to both Military Service members and civilian employees would be significantly higher. 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.

Title 26, United States Code, section 61 and title 26, Code of Federal Regulations, section 1.61-1, Internal Revenue Code (IRC), provide that child care subsidies are generally treated as cash income. This cash income is generally calculated by adding the value of the subsidy to the taxable income of civilian employees who benefit from the subsidies. The IRC allows exemptions up to \$2,500 (for married individuals filing separately), or \$5,000 (for married couples filing jointly or single heads of household), from gross income if the subsidies are made available through an employer Dependent Care Assistance Plan (DCAP).

The Office of Children and Youth, Military Community and Family Policy (MC&FP), Office of the Secretary of Defense (OSD), in conjunction with the Office of General Counsel (OGC), has developed a formula to establish a cost value for each child care space regardless of the age of the child. Each civilian family will receive specific information about the subsidy value for the relevant tax year, beginning with 2009. The information will be provided each year in a letter to each civilian sponsor and will also appear on the employee's Form W-2, Wage and Tax Statement. In addition, MC&FP is working with Civilian Personnel Policy and OGC to clarify the DCAP during the 2009 tax year to allow civilian employees utilizing DoD child development centers on

installations to continue to benefit from the exclusion of up to either \$2,500 or \$5,000 from their pre-tax gross income.

To qualify for the DCAP 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." Employees may also wish to consult your tax advisor to be sure that you have calculated the child care credits and exemptions correctly. This memo is not intended to replace specific advice from civilian employees' tax preparer.

Civilian employees are also eligible to make pre-tax contributions up to \$5,000 in a Dependent Care Flexible Spending Account (DCFSA). Civilian employees enrolled in a DCFSA whose children receive care in a DoD child development program should note that DCFSA 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 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 DCFSA contribution.

The increasing value of the subsidized portion of care provided through DoD installation child development programs may cause patrons with more than one child enrolled or those employees also enrolled in a DCFSA to exceed the tax exempt amount in the 2009 tax year. The Service child development program staff will provide an update on the value of the subsidy portion of care for the respective tax year to all civilian families.