

DCAP vs. Dependent Care Tax Credit Comparison Worksheet

Dependent Care Tax Credit

If you are thinking of participating in the DCAP, you should also consider the Dependent Care Tax Credit. Some employees benefit more from the Dependent Care Tax Credit, while others benefit more from participating in the DCAP. Further, due to a change in the law for 2003, if you have more than \$5,000 in dependent care expenses for two qualified individuals (\$2,500 if married and filing a separate tax return), you may be able to participate in the DCAP AND claim the Dependent Care Tax Credit based on your excess expenses. Highly compensated employees usually realize the greatest tax benefit by participating in a DCAP. This comparison only takes into account your federal income taxes and Social Security taxes. ****It does not take into account state or local income taxes.**

1. Estimate your Dependent Care Tax Credit for 2003

The employee and (if married) the employee's spouse each have earned income in excess of the amount entered in Step I-A.

Step 1-A Enter the qualified dependent care expenses you expect to pay in 2003 (up to \$3,000 if you have one qualifying individual, up to \$6,000 if you have two or more qualifying individuals). \$ _____
Expected Dependent Care Expenses

Step 1-B Enter your applicable percentage from the table below: _____ %
Tax Credit Applicable Percentage
To determine your applicable percentage you must estimate your adjusted gross income (AGI) that you would report on your tax return for 2003. If your only income is W-2 wages, and you have no adjustments to income, your AGI is the amount in Box 1 of your W-2 (generally, your gross wages less any pre-tax salary reductions and salary deferrals). If you plan to participate in the DCAP and claim a partial Dependent Care Tax Credit (see Section 3 below and the Caution box at the end of Section 4), be sure to adjust your AGI downward to reflect any DCAP salary reductions. If you are married and you file a joint tax return, include your spouse's income in your adjusted gross income. Take your applicable percentage from the following table:

If your adjusted gross income is:		Your applicable percentage is:		If your adjusted gross income is:		Your applicable percentage is:	
Over:	But not over:			Over:	But not over:		
\$0	\$15,000	35%		\$29,000	\$31,000	27%	
\$15,000	\$17,000	34%		\$31,000	\$33,000	26%	
\$17,000	\$19,000	33%		\$33,000	\$35,000	25%	
\$19,000	\$21,000	32%		\$35,000	\$37,000	24%	
\$21,000	\$23,000	31%		\$37,000	\$39,000	23%	
\$23,000	\$25,000	30%		\$39,000	\$41,000	22%	
\$25,000	\$27,000	29%		\$41,000	\$43,000	21%	
\$27,000	\$29,000	28%		\$43,000	No limit	20%	

Step 1-C Multiply the amount in Step 1-A by the applicable percentage in Step 1-B and enter the result. \$ _____

Step 1-D Calculate your total estimated federal income tax, based on your taxable income in Step 2-D and using the tax tables provided in Step 2-E, and enter the amount here. \$ _____
Estimated Income Tax
 (If the amount you enter is less than the amount in Step 1-C, and if you expect that you will have an alternative minimum tax (AMT) liability too, add that expected AMT amount to the amount you initially entered and enter the total here).

Step 1-E Enter the lesser of the amount from Step 1-C and Step 1-D. This is the Dependent Care Tax Credit that you can take to reduce your tax liability. \$ _____
Estimated Tax Credit

**These estimates are based on estimates published in various tax publications.*

2. Estimate your Tax Savings From Participating in the DCAP in 2003

This Part 2 assumes that the employee and (if married) the employee's spouse each have earned income in excess of the amount entered in Step 2-A.

Step 2-A Enter your estimated adjusted gross income for 2003, determined prior to any salary reductions you will make if you elect DCAP benefits. If you are married and you file a joint tax return, include your spouse's income in your adjusted gross income. \$ _____
Adjusted Gross Income Before DCAP Salary Reductions

Step 2-B Enter your salary deductions or your itemized deduction. \$ _____
Standard Deduction

If your filing status is:	Your standard deduction is:*
Single	\$4,750
Head of Household	\$7,000
Married Filing Jointly or Qualifying Widow(er)	\$7,950
Married Filing Separately	\$3,975

***Caution: These are only estimates for 2003.* Verify your standard deduction later this year when final figures are released.**

Step 2-C Enter your personal exemptions (*\$3,050.00 for each person whom you claim as an exemption, including you, your spouse and your tax dependents). **Caution: This is only an estimate for 2003. Verify your personal exemptions later this year when final figures are released.** \$ _____
Personal Deduction

Step 2-D Subtract the amounts in Steps 2-B and 2-C from the amount in Step 2-A and enter the result. This is your estimated taxable income for 2003. **Caution: Recalculate later this year when final figures are released.** \$ _____
Estimated Tax Income

Step 2-E Enter your tax bracket from the table below. Using your estimated taxable income (Step 2-D) and taking into account your filing status; determine your highest income tax bracket from the tables below. \$ _____
Tax Bracket

If your filing status is:
Single

If your filing status is:
Head of Household

If your taxable income is:

If your taxable income is:

Over:	But not over:	Your tax bracket is:	Over:	But not over:	Your tax bracket is:
\$0	\$6,000	10%	\$0	\$10,000	10%
\$6,000	\$28,400	15%	\$10,000	\$38,050	15%
\$28,400	\$68,800	27%	\$38,050	\$98,250	27%
\$68,800	\$143,500	30%	\$98,250	\$159,100	30%
\$143,500	\$311,950	35%	\$159,100	\$311,950	35%
\$311,950		38.6%	\$311,950		38.6%

If your filing status is:
Married Filing Jointly

If your filing status is:
Married Filing Separately

If your taxable income is:

If your taxable income is:

Over:	But not over:	Your tax bracket is:	Over:	But not over:	Your tax bracket is:
\$0	\$12,000	10%	\$0	\$6,000	10%
\$12,000	\$47,450	15%	\$6,000	\$23,725	15%
\$47,450	\$114,650	27%	\$23,725	\$57,325	27%
\$114,650	\$174,700	30%	\$57,325	\$87,350	30%
\$174,700	\$311,950	35%	\$87,350	\$115,975	35%
\$311,950		38.6%	\$115,975		38.6%

Note: The above referenced tax brackets are for 2003, but the amounts within the tax brackets are only estimates.

*These estimates are based on estimates published in various tax publications.

Step 2-F Enter the estimated amount of your salary reduction contributions for the DCAP for 2003 \$ _____
Salary (maximum is \$5,000 unless you are married and filing a separate return, in which case it's
Reductions \$2,500).

Step 2-G Multiply the amount in Step 2-F by the percentage in Step 2-E and enter the result. *This is* \$ _____
Income Tax *your estimated federal income tax savings.* If your taxable income from Step 2-D is \$0, enter
Savings \$0 here.

Caution: Recalculate later this year when final figures are released. Note About Straddling Two Brackets: If the amount of your estimated DCAP salary reductions would reduce your estimated taxable income into a lower percentage tax bracket, multiply the amount of the salary reduction that falls into the higher income bracket by the higher percentage for that bracket and multiply the amount of the salary reduction that falls into the lower income bracket by the lower percentage for that bracket to get an accurate estimate of your tax savings.

Step 2-H Calculate your Social Security tax savings as follows:
Social Security
Tax Savings

1) If your estimated taxable income is **\$89,700** or less (**Note: \$89,700 is the estimated 2003 Social Security Wage Base**), multiply the amount from Step 2-F by 7.65% (the Social Security tax withholding rate) and enter the result; Shortcut – If you make a DCAP contribution of \$5,000, your Social Security tax savings will be \$382.50; OR

2) If your estimated taxable income is more than **\$94,700 (Note: \$94,700 is \$5,000 more than the estimated Social Security Wage Base)** multiply the amount from Step 2-F by 1.45%; OR

3) If your estimated taxable income is over **\$89,700**, but not over **\$94,700**, then multiply a portion of the DCAP salary reduction amount from Step 2-F by 1.45% and a portion by 7.65%.

This is your estimated Social Security tax savings. Note: recalculate later this year when final figures are released. Note: These figures are based on estimated 2003 figures.

Recalculate later this year when final figures are released.

Step 2-I Add the amounts in Steps 2-G and 2-H, and enter the result. \$ _____
Social Security *This is your total estimated tax savings from participating in the DCAP.*
Tax Savings **NOTE: These figures are based on estimated 2003 figures. Recalculate later this year when final 2003 figures are released.**

3. Participating in the DCAP and Claiming a Partial Dependent Care Tax Credit

For 2003, if you have more than one qualifying individual, you can fully utilize the DCAP (e.g., if married and filing a joint return, make \$5,000 in salary reduction contributions) and still receive a Dependent Care Tax Credit based on up to \$1,000 of additional qualified dependent care costs.

a) Do not complete this Section 3 unless both of the following apply to you: (a) your expected dependent care expenses for 2003 are more than the \$5,000 (or \$2,500 if married filing a separate return); and (b) you have two or more qualifying individuals for 2003. Go directly to Section 4 unless you meet these two conditions.

b) Complete Part 1 once again to calculate your estimated Dependent Care Tax Credit, but in Step 1-A enter the lesser of \$1,000 or the amount by which the qualified dependent care expenses you expect to pay in 2003 exceed \$5,000 (or if you are married filing a separate return, the lesser of \$500 or the amount you expect to incur in excess of \$2,500). *This is your estimated tax savings for the partial Dependent Care Tax Credit.* \$ _____

c) Add the figures from Step 2-I and 3-C. \$ _____
This is your estimated tax savings from fully utilizing the DCAP and Dependent Care Tax Credit if you have two or more qualifying individuals and expected expenses in excess of \$5,000 (or in excess of \$2,500 if married and filing a separate return).

4. Summary

- Tax Savings if claiming the Dependent Care Tax Credit only (from Step 1-C) \$ _____

- OR -

- Tax Savings if participating in the DCAP only (from Step 2-I) \$ _____

- OR -

- Tax Savings (from Step 3-C if participating in the DCAP up to the maximum \$5,000 (or \$2,500) \$ _____

AND taking the Dependent Care Tax Credit for excess dependent care expenses.

Caution: Advice of legal and tax counsel is required, these examples are provided for information only and should not be construed as legal or tax counsel.

*These estimates are based on estimates published in various tax publications.