

TAX INFORMATION RELATED TO BACKUP CARE SUBSIDIES THROUGH CARE.COM



To ensure compliance with current IRS standards and practices, Harvard withholds and reports taxes on certain dependent care benefits received through Care@Work, which are subsidized by Harvard University.

What are the taxable benefits?

If the total of your backup care subsidies received in a calendar year (or total of your subsidies plus your annual Dependent Care Flexible Spending Account (FSA) election) exceeds the annual \$5,000 tax-free limit allowed by the IRS, amounts over \$5,000 will be considered imputed (taxable) income.

How is imputed income calculated and reported?

The value of benefits **incurred January through October** that exceeds the annual \$5,000 tax-free limit will be **added as earnings in December**, and taxes will be withheld on those benefits at the IRS-required supplemental income rate (currently 34.65%). The value of benefits **incurred in November and December** that exceeds the annual tax-free limit will be **added as earnings in January**, and taxes will be withheld on those benefits. Benefits in excess of \$5,000 are added to your Form W-2 for the year in which taxes were withheld. For example, the value of benefits incurred November 2020 through October 2021 are added to your 2021 Form W-2.

Examples

There are two in-home dependent care co-pay rates based on benefits salary tier: \$6/hour for those with an annual salary below \$100K, and \$12/hour for those with an annual salary of \$100K and above. For the purposes of calculating imputed income, the value (subsidy amount after your co-pay) of a day of care is calculated at:

- In-home care annual salary <\$100k = \$132* per 8-hour day
- In-home care annual salary \$100K or more = \$84* per 8-hour day
- Center-based care = \$91 per child per day

* Note that the actual rates may vary depending on location of in-home care, whether care is for child or adult, age and number of children, and the number of hours of care provided for any one day.

Scenario One

- You have elected \$4,500 in your dependent care FSA
- You have an annual salary of \$110K and have used 12 days of in-home care from January through October at a total value of \$1,008
- Your total dependent care benefit (FSA election plus backup care subsidy) is \$5,508. This exceeds the \$5,000 IRS tax-free limit by \$508
- You will see additional tax withholdings of \$176.02 on your December paycheck ($\$508 \times 34.65\%$ (supplemental income tax rate))

Scenario Two

- You have elected \$3,000 in your dependent care FSA
- You have used 14 days of center-based care from January through October at a total value of \$1,274
- Your total dependent care benefit is \$4,274. Because this does not exceed the IRS tax-free limit, you will not see any additional tax withholdings

This information is provided for your general review only. Harvard cannot provide personal tax advice. Please consult a tax professional for guidance on your individual tax situation.

Please contact us at 617-496-4001 or by email at benefits@harvard.edu with any questions.