



HAYS COMPANIES

# Stimulus Package Temporarily Expands Dependent Care Assistance Exclusion

The [American Rescue Plan Act of 2021](#), enacted on Thursday, March 11, includes a temporary increase in Dependent Care Assistance Plan (DCAP) exclusion limits. (See Part 4 – Dependent Care Assistance, Sec. 9632 for details.) For the 2021 tax year, up to \$10,500 of dependent care expenses (\$5,250 for a married couple filing a separate tax return) reimbursed under a DCAP may be excluded from a participant's taxable compensation.

This provision addresses concerns regarding how reimbursements from prior plan year account balances affect participants' 2021 exclusion limits, which have been expressed by plan sponsors who adopted (or wanted to adopt) the optional temporary DCAP carry over provision or 12-month extended claim (grace) period. Such carry over or grace period provisions, if adopted by the plan sponsor, permit plan participants to receive reimbursement of unspent 2020 election amounts for 2021 plan year incurred expenses, up to the exclusion limit stated above.

Note the Act's increased DCAP exclusion limit does not require plan sponsors to increase participants' annual election or reimbursement caps under their dependent care flexible spending accounts (FSAs). As is the case with respect to the carry over and expanded grace period, this is a permissive rule. Furthermore, the increased exclusion limit can be implemented by the plan sponsor regardless of whether the plan also includes a carry over or grace period for the 2021 tax year, but it is not required.

Plan sponsors who wish to implement the increase in the DCAP exclusion limit or adopt the optional carry over or extended grace provision should amend their cafeteria plan documents accordingly. To the extent necessary, such amendments should be adopted by the last day of the plan year in which the amendment is effective.

The Act also includes a temporary increase to individual dependent care tax credit and income thresholds for the credit. It also extends the definition of a "qualifying child" to a child under age 18 for the 2021 tax year. Taxpayers claim the credit on eligible dependent care expenses less amounts reimbursed under a Dependent Care Assistance Plan by filing Form 2441, attached to their federal tax returns.

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