

## **Tax Implications for the Back-up Care Advantage Program**

The *Back-up Care Advantage Program* provides certain eligible employees with certain types of dependent care at a cost that is less than the market rate for these services. The difference between the market rate and the employee cost is treated by the IRS as additional income to the employee.

### **How is the additional income calculated?**

The following example illustrates how the additional income is calculated.

An employee uses 10 hours of childcare services under the program.

Value of service provided = \$25.00/hour x 10 hours = \$250.00

Cost of service to employee = \$4.00/hour x 10 hours = \$40.00

From the standpoint of the Internal Revenue Service, the difference of \$210.00 (\$250.00 - \$40.00 = \$210.00) represents additional income to the employee.

### **How is the additional income reported?**

The additional income is reported as Other Income and will be subject to the following taxes:

Medicare

OASDI

Federal income tax

State income tax

### **How will the additional taxes be paid?**

The taxes based on the additional income will be withheld from the next scheduled check to the employee.

### **Can Back-up Care Advantage Program charges be claimed on Personal Income Tax Returns?**

The University is precluded from offering advice regarding personal income tax matters. You should consult with your tax advisor in determining the eligibility of dependent care expenses paid through this program.