

Oregon Dependent Care Tax Credit Guide



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Oregon Dependent Care Tax Credits (DCTC)

Oregon is among several states in the nation that offer a state tax credit for dependent care assistance provided to employees. Oregon's tax credit permits an employer to offset 50 percent of its child and elder care expenditures against its state tax liability for child care and elder care services. The credit allows an annual limit of \$2,500 per employee for child care support costs.

The state tax credit for child or elder care applies to these costs:

- ◆ Contracting with a third-party child or elder care provider up to \$2500 per employee;
- ◆ Purchasing employee child or elder care through payments to a third-party provider up to \$2500 per employee;
- ◆ Providing direct subsidies or vouchers to employees up to \$2500 per employee; and
- ◆ Contracting for child and elder care resource and referral services at 50% of the cost

Federal Dependent Care Tax Credits

In June 2001, as part of the Economic Growth and Tax Relief Reconciliation Act, Congress enacted into law the first federal employer tax credit for child care. Beginning in tax year 2002, the law allows employers:

- ◆ a 25% credit for the costs of acquiring, constructing, rehabilitating, or expanding a child care facility, the costs of operating a child care facility, *or the costs of contracting with a third-party child care provider.*
- ◆ in addition, the law gives employers a 10 percent credit for the costs of providing child care resource and referral services to employees. The total credit has an annual limit of \$150,000 in tax assistance per employer.

The federal and state tax credits may be combined to offer a larger financial incentive to employers. The state tax credit will decrease an employer's state tax liability. However, if an employer lowers its state tax liability by claiming a credit, the federal tax liability will be higher than it would have been if the employer had not claimed the credit. This is because state taxes are deducted from income in the calculation of federal taxable income. Despite this interaction, an employer's combined federal and state tax liability will be lower as a result of claiming a credit than it otherwise would have been.

Getting Started

Employers are providing child and elder care assistance to their employees because it makes good business sense – improved employee recruitment, retention and performance. And, for some employers, a combination of federal and state tax incentives helps offset the costs of employer-supported child care. Child and elder care assistance is a tax-deductible business expense. Employers may be eligible for state and federal tax credits for dependent care benefits provided to their employees if they have state and federal state tax liability.

If you have decided to use the DCTC, it is required that you fill out the Oregon Employment Department's application for use of dependent care tax credits. This application can be found at <http://www.oregon.gov/EMPLOY/CCD/docs/DependantCareTaxApp.pdf>.

Information and Referral Services

This credit is for employers who provide information and referral services to help their employees find dependent care. The credit is 50 percent of the amount the employer paid to provide these services. **The credit is available for expenses incurred before January 1, 2017.**

Employer Paid Dependent Care Credit

This credit is for employers who pay for the care of their employees' dependents. The person receiving the dependent care must be an employees:

- ◆ Dependent, who is under the age of 13, or
- ◆ Dependent, who is physically or mentally incapable of taking care of themselves, or
- ◆ Spouse who is physically or mentally incapable of taking care of themselves.

The credit is the smaller of:



- ◆ 50 percent of the qualifying expenses paid by the employer, or
- ◆ \$2,500 per employee receiving assistance.

The employer must have a written dependent care assistance plan and must be certified by the Oregon Employment Department Child Care Division.

The credit is only available for dependent care provided in Oregon. The care provider cannot be the employee's spouse, dependent, or child under age 19. Business deductions claimed on the employer's tax return must be reduced by the amount of the credit claimed. **This credit is available for expenses incurred before January 1, 2017.**

How to Claim Dependent Care Assistance Tax Credits

To claim either one of these credits, complete the Dependent Care Credits for Employers form 150-102-032. You can download the form at www.oregon.gov/DOR or call 503.378.4988 in Salem, or 1-800-356-4222 toll-free from an Oregon prefix for a copy.

Create a Section 129(d) Plan

In order to claim the Oregon Dependent Care Assistance Tax Credits, an employer must have an Internal Revenue Code (IRC) Section 129(d) Plan. The following information identifies the most important aspects of developing the 129(d) plan. ***Please work with a qualified benefits specialist to finalize your plan.***

The following requirements apply to the Oregon Dependent Care Assistance Credit as stated by ORS 316.012.

1. Qualifications. To qualify for this credit, the following requirements must be met:

- a) The assistance must be provided to an employee pursuant to a program, which meets the requirements of Internal Revenue Code (IRC) 129 (D).
- b) In the case of an on-site facility, the credit shall be based upon the value of the services actually provided to the dependents of employees. The value of services provided to the dependent of non-employees shall not be included. In determining the value of services actually provided to dependents of employees, the employer shall use the actual direct and indirect costs, or a fair market value amount.
- c) The provider of the dependent care cannot be the spouse, a dependent, or a child under age 19 of the employee.
- d) Dependent care assistance funded by a salary reduction cannot be included in the computation of the credit. If assistance is provided by both a salary reduction and an employer contribution, only that portion of the assistance provided by the employer contribution shall qualify for the credit.
- e) Only amounts paid or incurred for dependent care assistance services performed in Oregon are eligible for the credit.

f) The individual receiving the dependent care must meet the requirements of IRC21(b)(1). (Note: An eligible employee).



2. Computation of the Credit. The credit is equal to 50% of the qualifying expenses paid or incurred by the employer. However, not more than \$5,000 paid or incurred for the care of the dependents of each employee can be included for the purpose of this computation.

3. Deductions. An employer must reduce deductions claimed on the employer's tax return by the dollar amount of the dependent care assistance credit allowed.

Components of 129(d) Plan

(1) In General.

For purposes of this Section, a dependent care assistance program is a separate written plan of an employer for the exclusive benefit of his employees to provide such employees with dependent care assistance which meets the requirements of paragraphs (2) through (8) of this Subsection. If any plan would qualify as a dependent care assistance program but for a failure to meet the requirements of this Subsection, then, notwithstanding such failure, such plan shall be treated as a dependent care assistance program in the case of employees who are not highly compensated employees.

(2) Discrimination.

The contributions or benefits provided under the plan shall not discriminate in favor of employees who are highly compensated employees (within the meaning of Section 414(q)) or their dependents.

(3) Eligibility.

The program shall benefit employees who qualify under a classification set up by the employer and found by the Secretary not to be discriminatory in favor of employees described in Paragraph (2), or their dependents.

(4) Principal Shareholders Or Owners.

Not more than 25 percent of the amounts paid or incurred by the employer for dependent care assistance during the year may be provided for the class of individuals who are shareholders or owners (or their spouses or dependents), each of whom (on any day of the year) owns more than 5 percent of the stock or of the capital or profits interest in the employer.

(5) No Funding Required.

A program referred to in Paragraph (1) is not required to be funded.

(6) Notification Of Eligible Employees.

Reasonable notification of the availability and terms of the program shall be provided to eligible employees.

(7) Statement Of Expenses.

The plan shall furnish to an employee, on or before January 31, a written statement showing the amounts paid or expenses incurred by the employer in providing dependent care assistance to such employee during the previous calendar year.

(8) Benefits.

(A) In General.

A plan meets the requirements of this Paragraph if the average benefits provided to employees who are not highly compensated employees under all plans of the employer is at least 55 percent of the average benefits provided to highly compensated employees under all plans of the employer.

(B) Salary Reduction Agreements.

For purposes of Subparagraph (A), in the case of any benefits provided through a salary reduction agreement, a plan may disregard any employees whose compensation is less than \$25,000. For purposes of this subparagraph, the term "compensation" has the meaning given such term by Section 414(q)(4), except that,

under rules prescribed by the Secretary, an employer may elect to determine compensation on any other basis which does not discriminate in favor of highly compensated employees.

Disclaimer:

The information in this guide, offered by WorkLife Oregon as a service to the public, is intended merely to give a general overview of Oregon Dependent Care Tax Credit. WorkLife Oregon does not represent that the information selected for these pages is comprehensive or complete. *For this reason, you should neither rely nor act upon any of the information without contacting your accountant and/or a benefits specialist.*



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