

EBIA Weekly Archives

Can Our DCAP Reimburse Application Fees, Deposits, and Similar Expenses?

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QUESTION: One of our DCAP participants has asked to be reimbursed for an application fee paid to a day-care center. Can our DCAP reimburse application fees, deposits, and similar expenses?

ANSWER: Under IRS regulations, expenses such as application fees and deposits that are not directly for care may qualify for reimbursement from a DCAP if the employee is required to pay the expenses in order to obtain related care. To be reimbursable, these “indirect” expenses must otherwise meet the requirements for reimbursement under the DCAP rules and the plan document, and the care to which they relate must be provided. Consequently, these expenses will not be reimbursable if the care they relate to is not ultimately received. For example, assume that a DCAP participant is planning to switch day-care providers for her infant child in three months and must pay a \$100 application fee in order for the child to obtain care from the new provider. The application fee is considered to be for care and can be reimbursed by your company’s DCAP, but not before the related care is provided to the participant’s child. Now assume that a DCAP participant pays a \$100 deposit to a preschool in May to reserve a place for the participant’s child in the fall. However, the participant later decides not to enroll the child in the preschool, makes other day-care arrangements, and forfeits the \$100 deposit. Because the preschool did not provide care to the participant’s child, the deposit is not an employment-related expense and will not qualify for reimbursement from your company’s DCAP.

The regulations do not indicate whether indirect expenses can be reimbursed in full as soon as the care commences or must be reimbursed proportionately over the duration of the agreement with the provider. Absent IRS guidance, the more cautious approach is to provide reimbursement over the agreement’s duration. For example, if a participant has a month-to-month agreement with a provider, it might be acceptable to reimburse the entire fee after the first month of related care has been provided. But if the agreement has a longer duration, then the fee would be prorated. Although not official guidance, the federal government’s flexible spending plan takes this approach with certain fees (e.g., up-front au pair fees are reimbursed proportionately over the duration of the agreement with the au pair).

For more information, see EBIA’s [Cafeteria Plans](#) manual at Section XXIV.F.4 (“Indirect Expenses May Be for Care”). See also our [Question of the Week](#) regarding fees paid to an existing provider to hold a qualifying individual’s spot during a period when care is not needed.

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