

Citi Dependent Day Care Benefits

2023 Potential Tax Implications

Employees using Citi's Dependent Day Care benefit programs and resources are familiar with the many advantages of using these programs to assist in the care of their young children. However, Citi wishes to ensure that employees are also aware of potential related tax implications.

Based on IRS regulations, Citi can provide up to \$5,000 of dependent day care benefits to employees as a tax-free benefit. Any dependent day care benefit that exceeds \$5,000 is considered *imputed income* and is taxable.

Dependent Day Care Benefits include the following offerings:

1. Dependent Day Care Spending Account (DCSA):

Employees can contribute between \$120 and \$5,000 per year on a before-tax basis for day care expenses for qualified dependents. In some instances, employees may be eligible for Citi to contribute a percentage of the funds going into their DCSA. In any event, the total amount of an employee's DCSA is considered a dependent day care benefit, and the total contribution, including Citi's contribution cannot exceed the IRS noted limit.

2. Citi Child Care Centers and Back-Up Care Advantage (BUCA) Program:

Employees using one of Citi's child-care centers, full service or back-up or Citi's BUCA program, which is in-home back up child-care, may be eligible to pay tuition amounts that are less than fair market value for the care provided (based tuition subsidization from Citi). The monetary difference between the fair market value and the amount the employee pays for this care is also considered to be a dependent day care benefit.

Citi is obligated to calculate any Dependent Day Care Benefits, as described above (1 & 2), for each employee. Once the employee's total Dependent Day Care Benefits for 2023 exceeds the \$5,000 IRS-exclusion amount, payroll tax withholdings on the imputed income amount (including FICA, Federal, State and Local taxes – if applicable) will be automatically deducted from his/her paycheck.

Your Imputed Income Self-Calculations:

To estimate the amount of imputed income you may accrue in 2023, please consider the following:

- The monetary amount you commit to a DCSA during 2023 Annual Enrollment (this includes any amount that you or Citi contributes toward your DCSA). *Maximum \$5,000*

- The difference between fair market value and what you actually pay for the child-care received by your dependent while using one of Citi’s child-care centers or Citi’s BUCA program:
 - Full service child care centers: For 2022, Citi used Tuition Band 1 (or the standard/highest tuition rate) to represent fair market value and then calculated the amount of discount employees received to determine the dependent day care benefit value. To calculate an estimated annualized rate, employees can take their typical bi-weekly tuition discount they receive for Citi child-care and multiply by 26.
 - Back-up child-care centers and BUCA programs: For 2022, Citi used \$55 per day as the fair market value for center-based back-up care and \$7/hour/child for in-home back-up care, and then calculated the difference between this value and the amount paid by the employee to determine the dependent care benefit.

- By adding the two values of your DCSA contribution and child care discounts noted above, and subtracting the \$5,000 IRS exclusion, employees will have a rough estimate of taxable imputed income for 2023. Please note that the self-calculation information presented here is meant to provide employees with a tool with which to estimate their 2023 imputed income. Tax codes, tuition rates and Citi’s contribution to these programs may change periodically and may affect the imputed income calculations presented.

Example 1 - Child Care Program Benefit (Summary Table)

A. Fair Market Value of annual Tuition for Citi Child Care Program (\$300.00 x 26 pay periods)	\$7,800
B. Amount of Tuition Paid by Citi Employee (\$275.00 x 26 pay periods)	<u>\$7,150</u>
C. Dependent Day Care Benefits (A-B)	\$650

DCSA Program Benefit

D. DCSA Contribution by Citi Employee	\$3,360
E. DCSA Contribution by Citi	<u>\$1,440</u>
F. Dependent Day Care Benefit (D+E)	\$4,800

Total Dependent Care Benefit and Imputed Income

G. Total Dependent Day Care Benefit—Reported on W-2, box 10 (C+F)	\$5,450
H. IRS Exclusion	<u>\$5,000</u>
I. Imputed Income—Reported on W-2 boxes 1,3, and 5 and subject to FICA, federal, state, and local tax withholdings (G-H)	\$450

Note, based on IRS guidelines, Dependent Day Care Benefits for 2023 (resulting from the use of Citi’s child-care resources) will be reported for the 12-month period covering November 1, 2022 through October 31, 2023