

## Citi Dependent Care Benefits

### 2021 Potential Tax Implications

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Employees using Citi's Dependent Care benefit programs and resources are familiar with the many advantages of using these programs to assist in the care of their young children and adult dependents. However, Citi wishes to ensure that employees are also aware of potential tax implications that may be created as a result.

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

Dependent Care Benefits include the following offerings:

**1. Dependent Care Spending Account (DCSA):**

Employees can contribute between \$120 and \$5,000 per year on a before-tax basis for child 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 accounts. The total amount of an employee's DCSA account is considered a dependent care benefit.

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

Employees using one of Citi's full service or back-up child care centers or Citi's Back-Up Care (BUC) program for children and adults, pay copay amounts that are less than fair market value for the care provided (based on 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 care benefit.

Citi is obligated to calculate any dependent care benefits, as described above (1 & 2), for each employee and once the employee's total Dependent Care Benefits for 2021 exceed the \$5,000 IRS-exclusion, payroll tax withholdings on the Imputed Income amount (including FICA, Federal, State and Local taxes – if applicable) will begin to be automatically deducted from his/her paycheck.

**Your Imputed Income Self-Calculations:**

To estimate the amount of Imputed Income you may accrue in 2020-2021, please consider the following:

- The monetary amount you commit to a Dependent Care Spending Account (DCSA) during 2021 Annual Benefit Enrollment (this includes any amount that you or Citi contributes toward your DCSA account). *Maximum \$5,000*
- The difference between fair market value and what you actually pay for the care received by your dependent while using one of Citi's full service or back-up child care centers or Citi's Back-Up Care (BUC) program:

- Full Service child care centers: For 2020-2021, Citi used Tuition Band 1 (or the standard/highest tuition rate) to represent fair market value, and calculated the amount of discount employees received to determine the dependent 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 and BUCA programs: For 2020-2021, Citi used \$55 per day as the fair market value for center-based back-up care and \$7/hour/child for in-home child & adult 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 above and subtracting the \$5,000 IRS exclusion, employees will have a rough estimate of taxable Imputed Income for 2020-2021. Please note that the self-calculation information presented here is meant to provide employees with a tool with which to estimate their 2021 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 Care Benefits (A-B)	<b>\$650</b>

**DCSA Program Benefit**

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

**Total Dependent Care Benefit and Imputed Income**

G. Total Dependent Care Benefit—Reported on W-2, box 10 (C+F)	<b>\$5,450</b>
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)	<b>\$450</b>

Note, based on IRS guidelines, dependent care benefits for 2020-2021 (resulting from the use of Citi’s child care resources) will be reported for the 12-month period covering November 1, 2020 through October 31, 2021.

If you have any questions, please contact Connect One at 1-800-881-3938 and select Payroll and HR Administration then Payroll & HR Policy Inquiry.

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Parent’s Signature:

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Date: