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Ken Berry • Aug. 16, 2016

Back in the 1950s, when TV shows like "Father Knows Best" were popular, the husband was usually portrayed as the sole breadwinner of the family, while the wife stayed home and raised the kids. Not anymore. These days, it's likely that both parents are working full-time for a living as someone else cares for their children during the workday. And single parents, such as the character of Dr. Miranda Bailey

To help ease the burden of hard-working parents, employers may institute a dependent care assistance plan for employees. Under such a plan, payments made to third parties like babysitters and day care centers are excluded from income if the costs would qualify for the dependent care credit. Similarly, if the employer provides accommodations on the business premises, the value of this benefit is tax-free.

Typically, a dependent care assistance plan may cover expenses necessary for the employee's gainful employment. The annual amount that may be excluded from taxable income is limited to the lesser of:

- The employee's earned income (or the earned income of the lower-earning spouse if the employee is married);
- The dependent care benefits received; or
- $5,000 ($2,500 if married and filing separately).

In other words, you can't reap the tax rewards if one spouse is a stay-at-home parent. Also, expenses paid to your dependents or your spouse or children under age 19 aren't eligible either.

Furthermore, the plan must meet these six requirements in the tax law:

1. It must provide dependent care assistance exclusively to employees.
2. Dependent care assistance can't discriminate in favor of highly-compensated employees (HCEs) or their dependents.
3. No more than 25 percent of the program's assistance benefits incurred during the year may be provided for shareholders or owners of the business.
4. he average benefits provided to non-HCEs must be at least 55 percent of average benefits provided to HCEs.

5. Thee plan must provide reasonable notification of the program's availability

contribute up to $5,000 a year to your account on a pre-tax basis. Distributions for qualified expenses are tax-free. However, if contributions aren't exhausted by the end of the year, the remainder is forfeited. Employers may offset this "use-it-or-lose-it rule" by allowing a 2½ month grace period or a $500 carryover to the next year.

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