

**NOTIFICATION FOR CIVILIAN SPONSORS UTILIZING DEPARTMENT OF  
DEFENSE SUBSIDIZED CHILD DEVELOPMENT PROGRAMS  
DURING TAX YEAR 2017**

The Department of Defense (DoD) is required to notify you annually of the tax value of the child care subsidy for your installation-based child development program. This letter serves as your notification.

The Internal Revenue Code (IRC) commonly referred to as “tax code or law,” is provided in title 26, United States Code, section 61 and title 26, Code of Federal Regulations, section 1.61-1. The IRC requires that child care subsidies generally be treated as cash income, in addition to normal earnings. While no direct subsidy payment is made to any sponsor, either military or civilian, the DoD installation based child development programs are equally subsidized for all sponsors through appropriated funds. These subsidies enable the programs to provide quality care to your children at a rate less than would normally be charged. These subsidies reduce your cost of this nationally accredited child care.

While the IRC requires child care subsidies to be potentially taxable, there are tax exclusions on the value of subsidies up to \$2,500 (for married individuals filing separately), or \$5,000 (for married couples filing jointly or single heads of household), from gross income if the subsidies are made available through an employer Dependent Care Assistance Plan (DCAP), which is the case for children enrolled in DoD installation child care programs.

The IRC also stipulates that the child must be claimed as a dependent on the Federal income tax return of their parent or guardian in order to qualify for the \$2,500 or \$5,000 exclusion. This stipulation applies to civilian employee sponsors with children enrolled in DoD subsidized child care programs. Additional guidance may be found in the Internal Revenue Service Publication 503, "Child and Dependent Care Expenses."

Each year the DoD must determine the value of the child care subsidy. The Third Party Administrator (TPA) performs this equation on behalf of the Department by deducting the amount of your child care fees from the tax value of the child care space to determine a “net value” of the child care space. **This net value is the amount that is considered potentially taxable income associated with the DoD child care subsidy.** Only child care subsidies that exceed the \$5,000 (\$2,500 for married individuals filing separately) exclusion are taxable and reportable. Sponsors are responsible for considering any Dependent Care Flexible Spending Accounts (DCFSAs) to determine if the net value plus the DCFSA value exceeds the \$5,000 or \$2,500 amount, which would be considered potentially taxable income. If you have questions regarding your potential tax liabilities, you should consult with your tax advisor.

## Tax Year 2017 Information

**The cash value of the subsidy for 2017 tax purposes is \$4,921.**

The 2017 **net value** of the subsidy for each income category is listed below:  
*Only child care subsidies that exceed the \$5,000 (\$2,500 for married individuals filing separately) exclusion are taxable and reportable.*

- Families in Category I have a child care subsidy net value of **\$1,853/year** for a full time, full day space.
- Families in Category II have a child care subsidy net value of **\$1,073/year** for a full time, full day space.
- Families in Category III have a child care subsidy net value of **\$189/year** for a full time, full day space.
- Families in Categories IV – IX have a NO child care subsidy net value (**\$0/year**) for a full time, full day space based on the yearly total of fees paid for child care.