

# Quick Decision Required: DCAP Limit for 2021

By: Alex Mattingly on March 11, 2021 on [graydon.law](https://graydon.law)

The American Rescue Plan Act (“ARPA”) will affect benefit plans in multiple ways. In addition to the COBRA subsidy (discussed [here](#)), employers with a qualified dependent care assistance program (“DCAP”) now have the ability to increase the DCAP flexible spending limit. Employers interested in providing this benefit to employees will need to act fast; not only is this benefit only available in 2021, but the benefit will only be useful to employees if employers implement the change early in the year.

DCAPs are typically funded by employees on a salary reduction basis under a cafeteria plan. Employees make contributions to the DCAP, and reimbursements from the plan are tax-free if used for qualifying expenses. The normal annual limit permits an individual to exclude up to \$5,000 from gross income under a DCAP (\$2,500 for married filing separately). This amount is not indexed annually for inflation like most benefit plan limits, so many argue \$5,000 is no longer a sufficient amount (just ask anyone with a child in daycare).

ARPA increased this limit to \$10,500 (\$5,250 for married filing separately), but only for taxable years beginning in 2021. Note that plan participants are able to change their elections under a DCAP prospectively in 2021 (see our [prior article](#) on this issue), but to implement this change, plan amendments must be adopted by the last day of the plan year.

Unlike health FSAs, DCAPs are not subject to the uniform coverage rule, and therefore participant reimbursements are typically restricted to the amount currently in the participant’s DCAP Account (i.e., the amount the participant has contributed in the plan year so far, minus any prior reimbursements). Employers must therefore act quickly if they want to provide the 2021 increased benefit limit to participants by making employees aware of the increased limit and providing them with enough time to increase their DCAP contributions. Participants will have to prepare for the reduction in their paychecks each period and will want to spread the contributions over as many pay periods as possible.

If you want to provide this increased DCAP benefit to your employees, you should act quickly so participants can reap the full reward of the benefit. If you have questions about this issue or need help implementing the change, please contact any Graydon benefits attorney.

