



HR Updates

by Insurance Marketing Center

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Amounts Attributable to Previously Issued Relief Generally Not Taxable

On May 10, 2021, the Internal Revenue Service (IRS) released [guidance](#) on the taxability of dependent care assistance programs (DCAPs) for 2021 and 2022, clarifying that amounts attributable to previously issued [carryover and extended grace period relief](#) generally are **not taxable**.

Specifically, if these dependent care benefits would have been excluded from income if used during taxable year 2020 (or 2021, if applicable), these benefits will **remain excludible** from gross income and are not considered employee wages for 2021 and 2022.

IRS Notice 2021-26 also clarifies, using a number of examples, the interaction of this standard with the one-year increase in the exclusion for employer-provided dependent care benefits from \$5,000 to \$10,500 for the 2021 taxable year under the American Rescue Plan Act.

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