Tax Implications for the Back Up Care Advantage Program

Imputed Income

The Back Up Care Advantage Program provides ladder rank faculty members and lecturers SOE, also referred to here as employees, with in home and center-based dependent care at a cost that is less than the market rate for these services. The difference between the market rate for the in home and center-based care and the employees' cost is treated by the IRS as additional income to the employee, also known as imputed income, and is taxable.

The employee who has used the Back Up Care Advantage program is required to pay taxes on the imputed income corresponding to the hours of care used and the employee's department or school matches the employees' tax contribution.

Imputed income calculations

Imputed income = the market rate cost of the care minus the employee's co-pay.

The following example illustrates how the imputed income is calculated if the employee uses 10 hours of in-home childcare services and the market rate is $27.50 per hour of care:

Value of service provided = $27.50 x 10 hours = $275
Cost of service to employee = $4 an hour co-pay x 10 hours = $40

The imputed income is $235 – which is the difference of $275 minus $40

Employee Taxes on Imputed income & how these taxes are deducted

The imputed income is reported to the IRS as Other Income and is subject to the following taxes which are deducted from the employee's paycheck through the campus Central Payroll:

Medicare: 1.45%
OASDI: 6.2% with $118,500 income limit
Federal income tax
State income tax

The Central Payroll also charges the OASDI and Medicare taxes to the employees' department or school.

Questions:

If you have any questions regarding the Back Up Care Advantage Program and imputed income, please contact ofew@berkeley.edu or 642-1935.