BENEFITS GENIUS GUIDE · 2026

The DCFSA Just Jumped to $7,500

A 40-year cap finally moved. Here is exactly what employers need to do at open enrollment.

$7,500

NEW DEPENDENT CARE FSA LIMIT (WAS $5,000)

Per-employee FICA savings of up to $574/year. The first increase since 1986. The plan-document amendment is the only thing standing between your team and the new limit.

FOR HR DIRECTORS, CFOS, AND BUSINESS OWNERS

BENEFITS GENIUS

The 2026 Dependent Care FSA Increase

An Employer's Guide to the $7,500 Update Under the One Big Beautiful Bill Act

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What Changed

The One Big Beautiful Bill Act (OBBBA), signed into law on July 4, 2025, raised the Dependent Care FSA contribution limit under IRC §129(a)(2)(A) from **$5,000** to **$7,500** per household. The change takes effect for tax years beginning on or after **January 1, 2026**.

This is the **first increase to the DCFSA limit in 40 years**. The previous $5,000 cap had been in place since the Tax Reform Act of 1986. Adjusted for inflation, the original limit would be worth roughly $14,000 today — so while the $7,500 new figure does not close the inflation gap entirely, it represents the first meaningful update in four decades.

	OLD (2025)	NEW (2026)
Per-household maximum	**$5,000**	**$7,500**
Married filing separately	**$2,500**	**$3,750**
Increase per household	**—**	**+$2,500**
Effective	**—**	**January 1, 2026**

WHY IT MATTERS NOW

Childcare is one of the largest expenses your working-parent employees face. Average annual center-based childcare in the US runs $10,000 to $17,000+ depending on state and child age. An additional $2,500 in pre-tax sheltering doesn't close the gap but it is meaningful: at a 25–38% combined tax bracket, that's $625 to $950 in additional employee take-home, on top of the employer's payroll-tax savings.

The Employer Math

When an employee elects pre-tax DCFSA contributions under Section 125, those dollars are excluded from "wages" subject to FICA under IRC §3121(a)(5)(G). Your employer-side FICA tax (7.65% — 6.2% Social Security plus 1.45% Medicare) is calculated on the reduced wage base, so for every dollar an employee shelters in their DCFSA, your payroll-tax expense drops by 7.65 cents.

Per-employee FICA savings at the new limit

SCENARIO	PRE-TAX DCFSA ELECTION	EMPLOYER FICA SAVINGS (7.65%)
Full 2026 limit	**$7,500**	**$574**
Just the increase (was at old limit)	**+$2,500**	**+$191**

If you already offer a DCFSA and your participating parents max out, you pick up an additional **$191 per electing employee per year** in payroll-tax savings just from raising the plan limit. That's free money on the table for the cost of one plan-document amendment.

Total employer savings by company size

Assumes **30% of employees** have qualifying dependent care expenses and elect the full $7,500 limit. Adjust up or down for your workforce demographics.

EMPLOYEES	PARTICIPATING SHARE	ANNUAL EMPLOYER FICA SAVINGS
25	**30%**	**$4,303**
50	**30%**	**$8,606**
100	**30%**	**$17,213**
250	**30%**	**$43,031**
500	**30%**	**$86,063**

Math: employees × participation rate × $7,500 × 7.65%. Conservative. Actual savings vary with salary distribution (employees with wages above the $184,500 Social Security wage base contribute only 1.45% Medicare to your savings, not the full 7.65%), the share of your workforce with dependent care needs, and how much they actually elect.

Who Qualifies

The DCFSA can be used for expenses that allow a parent (and spouse, if married) to work, look for work, or attend school full-time. Eligible expenses include:

- Daycare and preschool for children under age 13
- Before- and after-school care
- Summer day camp
- Au pair or nanny costs (for the work-enabling portion)
- Adult dependent care for a dependent incapable of self-care

Not eligible: overnight camps, tuition for kindergarten or above, expenses for a non-dependent (e.g., college-age child).

What Employees Need to Know

DCFSA vs. Dependent Care Tax Credit

Employees who use the DCFSA may still be eligible for the Child and Dependent Care Tax Credit, but the amounts **interact**: only dependent care expenses ABOVE the DCFSA contribution count toward the tax credit. For most families, fully utilizing the DCFSA first is the larger benefit, but high-income households should model both.

Annual election lock-in

Employees elect a DCFSA amount once at open enrollment (or upon hire) and lock in for the plan year. Mid-year changes require a qualifying life event (marriage, birth, change in childcare provider that triggers a cost change, etc.).

Use-it-or-lose-it

DCFSA balances not used by the end of the plan year (or any grace period offered) are forfeited. Communicate this aggressively. Employees should estimate carefully — it is better to under-elect a bit than over-elect and forfeit.

Plan Document Amendment

> **DEADLINE**
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> If you choose to adopt the new $7,500 limit (you are not required to), your Section 125 plan document must be amended by **December 31, 2026** to reflect the change. Operating under a stale plan document is the most common DOL / IRS audit finding for cafeteria plans — do not let the OBBBA update slip past your TPA or counsel.

Required actions:

1. **Decide whether to adopt the new limit.** Most employers will. The plan-level cost is one document amendment; the per-employee employer-side savings are **$191 per electing employee per year.**
2. **Amend the §125 plan document.** Coordinate with your TPA or ERISA counsel. Standard amendment, not a re-draft.
3. **Update employee communications.** Open enrollment materials, Summary Plan Description, FAQ.
4. **Update payroll deduction limits.** Coordinate with ADP / Gusto / Paychex / your processor so the new maximum is available at election time.
5. **Re-test nondiscrimination.** The higher limit can make the 55% Average Benefits Test harder to pass, since highly-compensated employees are more likely to max out. Watch HCE vs. NHCE participation rates.

Compliance Watch-Outs

The 55% Average Benefits Test

Section 129 requires that the average DCFSA benefit provided to non-highly-compensated employees (NHCEs) be at least 55% of the average provided to highly-compensated employees (HCEs). When the limit was $5,000, HCEs often capped out and the test was forgiving. At $7,500, more HCE contribution headroom exists, so the test gets harder. Plan for it.

Mitigation

- Improve communication so NHCEs actually use the benefit. Many forfeit eligibility because they did not know about it.
- Consider an employer DCFSA contribution that goes to all eligible employees (it counts in the test math).
- Run NDT mid-year, not just at year-end. Mid-year visibility lets you adjust before HCEs over-shoot relative to NHCEs.

> **A SUBTLE BUT MEANINGFUL POINT**
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> The OBBBA increase rewards employers whose workforce includes **working parents at scale** — senior-care franchises, multi-unit restaurant operators, healthcare systems, retail chains. If your workforce skews older or single, the benefit is muted. If your workforce skews mid-career with kids, the FICA savings can be material at the operator level.

Next Steps

1. **Model your numbers.** The FICA Calculator at **benefitsgenius.co/tools/fica-calculator** takes your headcount, average wage, and estimated participation and returns annual FICA savings. Use it for board-deck talking points.
2. **Read the full guide on the DCFSA change.** Deeper context, FAQs, and the legislative timeline: **benefitsgenius.co/learn/dependent-care-fsa-7500-limit-2026**.
3. **Get the plan amendment scoped.** A 15-minute conversation with David Toves usually pins down whether your existing TPA is on top of the change or whether it's about to be missed at open enrollment.

Questions on adopting the $7,500 DCFSA limit?

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David works directly with HR leaders, CFOs, small business owners, franchise operators, and broker partners on Section 125, ACA compliance, and group health strategy.

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