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TO: Noah Savant

FROM: Mike Matthews

CC: Keith Jackson

SUBJECT: Dependent Care Account (DCA) Extension

The IRS has recently modified rules to provide an additional 2 ½ months beyond the current calendar-year allowance for individuals to incur eligible dependent care expenses for reimbursement under the Dependent Care Account (DCA). The Company plans to implement the extension for the 2005 and 2006 plan years. In past years, when reimbursements of DCA amounts were limited to the calendar year when incurred, some employees had to forfeit their contributions to this account. The decision to implement the 2 ½ month extension should reduce the potential forfeitures by BellSouth participants.

Employees will continue to be responsible for ensuring that they file claims accurately and comply with IRS guidelines. Employees should file all claims for the 2005 plan year before submitting claims for the 2006 plan year to ensure they are applied to the correct plan year account. Claims will be filed on a first in first out basis. Although the 2 ½ month extension is available, employees may be taxed on amounts reimbursed in a calendar year above \$5,000 (the current dependent care deduction limit). This information will be communicated during the annual enrollment process. The attachment provides two examples of how claims will be handled.

Please indicate your concurrence by signing below.

Noah Savant  
Vice President- District 3  
Communication Workers of America