AccountingAidSociety

Nonrefundable Credits

What Are Nonrefundable Credits?

- A nonrefundable credit reduces the amount of tax you owe **dollar for dollar**.
- It **cannot** reduce your tax below zero — meaning you won't get money back from this part of the credit.

Example:

- Tax owed: $1,500
- Nonrefundable credit: $2,000
- Credit applied: $1,500 (brings tax to zero)
- Remaining $500 is **not used** (but may qualify for the refundable Additional Child Tax Credit if eligible).

Pub 4012 Reference: Tab G (Nonrefundable Credits)

Child and Dependent Care Credit

Child & Dependent Care Credit

This credit helps cover **child and dependent care expenses** for eligible taxpayers.

It's available to those who **paid for child care in order to work or look for work**.

- A **qualifying person** includes:
  - A **child under age 13**
  - A **spouse** unable to care for themselves due to physical or mental condition
  - A **dependent** who can't care for themselves

Example:

Maria is a single mother with a 6-year-old son. She works full time and paid **$2,500** to a licensed daycare in 2025 so she could work.

- Her son qualifies because he is **under age 13**.
- The credit is based on a percentage of her child care expenses, limited by IRS rules.

(Source: IRS Publication 4012, Tab G)

Child & Dependent Care Credit

How the Credit Works

- The credit covers **20% to 35%** of eligible care expenses
- The exact percentage depends on the taxpayer's **earned income and AGI**
- The credit is **nonrefundable**:
  - It can reduce the tax owed to **$0**
  - **No refund** is issued for any unused portion

Example:

David is single and raising his 10-year-old daughter. He works full time and paid **$5,000** to an after-school program so he could work.

- His daughter qualifies because she is **under age 13**.
- The maximum expenses allowed for one child is **$3,000**, even though he paid $5,000.
  - If his credit rate is **30%** (based on income), his credit is:

    $3,000 × 30% = **$900 credit**.

(Source: IRS Publication 4012, Tab G)

Child & Dependent Care Credit

Employer-Provided Dependent Care Benefits

- Some employers offer **Dependent Care Benefits** through:
  - **Flexible Spending Accounts (FSAs)**
  - **Reimbursement Accounts**
- These benefits are shown on **Form W-2, Box 10**
  - Taxpayers may be able to **exclude** some or all of these benefits from income
- Taxpayers who receive employer-provided dependent care **must complete Form 2441, Part III** to determine if they can exclude all or part of these benefits from their taxable income.
- **Reminder:** The **Child and Dependent Care Credit is nonrefundable** and only benefits taxpayers with **tax liability because it is nonrefundable.**

(Source: IRS Publication 4012, Tab G)

Employer-Provided Dependent Care Benefits Example

Lena’s employer offers a **Dependent Care Flexible Spending Account (FSA)**. In 2025, she contributed **$4,000** through payroll deductions. This amount shows up on her **Form W-2, Box 10**.

- Lena paid a total of **$6,000** in child care expenses for her 2 children under age 13.
- She must complete **Form 2441, Part III** to determine how much of the $4,000 can be excluded from income.
- The maximum allowable exclusion is **$5,000**.
- After excluding $4,000, only **$2,000** of expenses remain for calculating the **Child and Dependent Care Credit**.

Result:

- $4,000 is excluded from income (not taxed).
- $2,000 is eligible for the nonrefundable credit calculation.

Child & Dependent Care Credit

The taxpayer's expenses are subject to an earned income limit.

- **Earned Income Limit-** The amount of work-related expenses used to figure the credit cannot be more than:
    - Expenses used to calculate the credit **can't exceed** the taxpayer's earned income
    - If **Married Filing Jointly**, the **lower** earned income of either spouse
- In addition to the earned income limit, there is a **dollar limit** on the amount of work-related expenses that can be used to figure the credit.
    - **$3,000** for one qualifying person
    - **$6,000** for two or more qualifying persons
    - If there are two qualifying persons, one may have **no care expenses** while the other has expenses **over $3,000**. In that case, enter **$0** for the person with no expenses and the actual expense amount for the other person. The **$6,000 total limit** applies to both individuals combined and **does not have to be split evenly between them**.

(Source: IRS Publication 4012, Tab G)

Child & Dependent Care Credit

Example: Earned Income Limit

- Emma is single with **one qualifying child** (age 4).
- She paid **$5,000** in daycare expenses.
- Her earned income is **$2,800**.

Result:

- Her expenses are limited to **$2,800** (cannot exceed earned income).
- Dollar limit for one child is $3,000, so $2,800 is used.
- If her credit percentage is 30%, credit = $2,800 × 30% = **$840**.

Child & Dependent Care Credit

Example 2: Married Filing Jointly – Lower Spouse's Income Applies

- Jack earned **$35,000**; Maria earned **$2,500**.
- They paid **$7,000** for daycare for their two children (ages 2 and 5).

Result:

- Expenses cannot exceed the **lower earned income** ($2,500).
- Dollar limit for two or more children is $6,000, but $2,500 is used (lower of the two).
- If credit rate is 20%, credit = $2,500 × 20% = **$500**

Child & Dependent Care Credit

Example: Dollar Income Limit

- Alex has two children, ages 2 and 10.
- He paid **$5,500** for daycare for the 2-year-old, and **$0** for the 10-year-old.
- Earned income is $40,000.

Result:

- Enter **$0** for the 10-year-old and **$5,500** for the 2-year-old.
- Total expenses ($5,500) are under the $6,000 limit for two or more children.
- If credit rate is 25%, credit = $5,500 × 25% = **$1,375**.

Child & Dependent Care Credit

There are **five eligibility tests** the taxpayer must meet to qualify for the credit:

Eligibility Test #1: Qualifying Person:

- Must be **claimed as a dependent by the taxpayer and under the age 13** when the care was provided and
  - If the child turned 13 during the year, only expenses **incurred before their 13th birthday** count.
- A qualifying person can also include someone who is **physically or mentally unable to care for themselves** and who the taxpayer either **claims as a dependent** or **could claim as a dependent** except if:
  - The person had **gross income above the current year limit** (failing the qualifying relative income test).
  - The person filed a **joint tax return**.
  - The taxpayer or spouse (if filing jointly) could be **claimed as a dependent** on another person's tax return.

Additionally, a **spouse who is unable to care for themselves** and lived with the taxpayer for **more than half the year** also qualifies.

(Source: IRS Publication 4012, Tab G, pp. G-3 to G-5)

Eligibility Test #1: Qualifying Person Example:

Example 1: Child Under 13

Samantha is a single mother with an 8-year-old son. She paid $3,200 to a daycare center so she could work.

- Her son qualifies because he is **under 13** when care was provided.
  - All $3,200 counts toward the Child and Dependent Care Credit, subject to the income and dollar limits.

Example 2: Child Turning 13 During the Year

James has a daughter who turned 13 on **August 1, 2025**. He paid $4,000 in after-school care:

- $2,500 was paid **before** her 13th birthday (January–July).
- $1,500 was paid **after** her birthday (August–December).
  - **Result:** Only the **$2,500** paid before she turned 13 qualifies for the credit.

Example 3: Dependent Adult Unable to Care for Themselves

Laura supports her father, who has Alzheimer’s and lives with her full-time. She pays $5,000 for in-home care while she works.

- Her father’s gross income is below the annual threshold, so he qualifies as her **dependent**.
  - The entire $5,000 is eligible for the credit, subject to the $3,000 (one person) or $6,000 (two or more people) expense limit.

Child & Dependent Care Credit

Eligibility Test #2: Earned Income Test

To claim the **Child and Dependent Care Credit**, the taxpayer (and spouse, if MFJ) must both have **earned income** during the year.

- A **spouse is treated as having earned income** if, for any month, they are:
  - A **full-time student**, **or**
  - **Physically or mentally incapable of self-care**
- In these cases, the spouse is considered to have:
  - **$250 per month** of earned income (if one qualifying person)

    $500 per month (if two or more qualifying persons)

⚠️ **Important:** If *both* spouses are full-time students or unable to care for themselves in the same month, only one spouse can be considered to have earned income of either $250 for one qualifying person or $500 for two qualifying persons for that month

Eligibility Test #2: Earned Income Test Example:

Example 1: Spouse as Full-Time Student

Mark and Lisa are married filing jointly. Lisa is a full-time student for **6 months** of the year and has no earned income during that time. Mark works full time and has earned income. They have **one qualifying child**.

- For the 6 months Lisa is a full-time student, she is treated as having **$250 per month** of earned income.
- Total "earned income" attributed to Lisa for those months = 6 × $250 = **$1,500**.
- This amount counts toward the earned income limit for calculating the credit.

Example 2: Spouse Unable to Care for Themselves

John and Maria are married. Maria was physically unable to care for herself for **4 months** during the year. John has earned income, Maria has none. They have **two qualifying children**.

- For those 4 months, Maria is treated as having **$500 per month** earned income (since they have two qualifying persons).
- Total earned income attributed to Maria for those months = 4 × $500 = **$2,000**.

Example 3: Both Spouses Are Full-Time Students

Alex and Jamie are married and both are full-time students for **3 months** during the year with no earned income. They have **one qualifying child**.

- For those 3 months, **only one spouse** can be considered to have $250 per month earned income.
- Total combined earned income attributed = 3 × $250 = **$750**.
- The other spouse's income is not counted for these months.

Child & Dependent Care Credit

Eligibility Test #3: Work-Related Expense Test

Work-Related Expenses Must Meet BOTH Criteria:

- The care must allow the taxpayer (and spouse, if filing jointly) to work or actively look for work.
- The care must be for the well-being and protection of a qualifying person (e.g., child under 13 or a dependent who cannot care for themselves).

- Qualifying care includes:
  - Daycare
  - Babysitters
  - After-school programs
- Non-qualifying expenses include:
  - Education (e.g., school tuition)
  - Overnight camps
  - Care not primarily for the person's well-being

- For married couples, generally both spouses must be working or looking for work to claim the credit.
- A spouse is considered to be working during any month they are:
  - A full-time student, or
  - Physically or mentally unable to care for themselves

Example:

Jessica and Mark are married and filing jointly. Both work full time and have a 4-year-old child.

- They paid $3,500 for daycare and after-school programs to care for their child while they work.
- These expenses qualify because they are for the **child's well-being and protection** and allow Jessica and Mark to work.
- Jessica's younger sister occasionally babysits their child, and those costs also count.
- They **cannot** include expenses paid for their child's summer overnight camp, because overnight camps are not eligible.

Child & Dependent Care Credit

Eligibility Test #3 (cont.):

Qualifying Work-Related Expenses Include:

- **Care outside the home** for children under age 13
  - Preschool, home day care, before- or after-school programs
- **Care for other qualifying persons** (e.g., disabled spouse or dependent care)
- **Household services** that are paid partly for the qualifying person's well-being and protection
  - Includes housekeepers, cooks, maids, and similar domestic help

Non-Qualifying child care expenses Include:

- Education expenses for **kindergarten or higher** grade
- Cost of sending a child to **overnight camp**
- **Transportation costs** not provided by the care provider

Eligibility Test #3: Example

Example 1: Qualifying Expenses

- Maria pays **$4,000** for her 3-year-old son's **daycare** so she can work.
- She also pays **$1,200** for **after-school care** for her 10-year-old daughter.
- All of these expenses qualify for the Child and Dependent Care Credit because they are for the **children's well-being and protection**

Example 2: Non-Qualifying Expenses

- John pays **$5,000** for his 5-year-old's **kindergarten tuition**.
- He also pays **$700** for his 8-year-old to attend a **two-week overnight camp**.
- He spends **$300** on a private driver to take the children to and from daycare.

None of these expenses qualify:

- Kindergarten tuition is considered **education**, not care.
- Overnight camp is specifically **excluded**.
- Transportation costs not provided by the care provider are **not eligible**.

Child & Dependent Care Credit

Eligibility Test #4: Joint Return Test

General Rule

- Married taxpayers must file a **Joint Return** to claim the Child and Dependent Care Credit

Exception:

A taxpayer filing **Married Filing Separately (MFS)** may still claim the credit if they:

- Were **legally separated** under a divorce or separate maintenance decree on the last day of the year, **or**
- **Lived apart** from their spouse for the **last 6 months of the year**, **and**
    - Paid **more than half** the cost of keeping up the home, **and**
    - The home was the **main home of the qualifying person** for **more than half the year**

✅ If eligible under this exception, the taxpayer must **check the box on Form 2441** to indicate they qualify.

Eligibility Test #4: Example

Example: Married Filing Separately Exception

Situation:

- Emily is married but separated from her husband.
- She lived apart from him for the **last 7 months** of the year.
- She has a 5-year-old son who lived with her the entire year.
- Emily paid **more than half the cost** of keeping up their home.
- She paid $4,000 for daycare so she could work.

Result:

- Even though Emily is filing **Married Filing Separately**, she can still claim the **Child and Dependent Care Credit** because:
    - She lived apart from her spouse for the last 6 months of the year.
    - She paid more than half the cost of the home.
    - Her son lived with her more than half the year.

Child & Dependent Care Credit

Eligibility Test #5: Provider Identification Test

To claim the **Child and Dependent Care Credit**, the taxpayer must report **care provider information** on **Form 2441**.

🔹 **Required Information**:

- **Name** of the care provider
- **Address** of the provider
- **Taxpayer Identification Number (TIN)**

🔸 The TIN depends on the provider type:

- For **individuals** → use their **Social Security Number (SSN)**
- For **organizations** → use their **Employer Identification Number (EIN)**
- Some **tax-exempt organizations** may be exempt from the EIN requirement

⚠️ Omitting this information may **disqualify the credit** unless the taxpayer can show due diligence in trying to obtain it.

Child and Dependent Care Credit

- Form 2441 is divided into three parts:
  - Part I is for general information about the care provider
  - Part II is where the child and dependent care credit is calculated
  - Part III is where information is entered if the taxpayer reports employer-provided dependent care benefits.
- All taxpayers complete Part I first.
- Taxpayers who did not receive dependent care benefits from their employers then complete Part II.
- Taxpayers who did receive these benefits complete Part III and then Part II.

Practice Scenario

- **Taxpayer:** Jasmine
- **Filing Status:** Head of Household
- **Employment:** Full-time nurse
- **Child:** Ava, age 5
- **Care Situation:** Jasmine pays $5,500 to “Little Stars Daycare” so she can work her regular shifts. Little Stars provides their EIN on the invoice.
- **Living Situation:** Jasmine is unmarried and pays all household expenses. Ava lives with her all year.

Practice Scenario

✅ Does Jasmine Qualify for the Credit? Let's Apply the 5 Tests:

1. **Qualifying Person Test**
   ✔ Ava is under age 13 and lived with Jasmine all year. She's a qualifying person.

2. **Earned Income Test**
   ✔ Jasmine works full-time and has earned income.

3. **Work-Related Expense Test**
   ✔ The $5,500 was spent for child care that allowed Jasmine to work.

4. **Joint Return Test**
   ✔ Jasmine is **unmarried** and filing as **Head of Household** — this test is satisfied.

5. **Provider Identification Test**
   ✔ Jasmine has the **name, address, and EIN** of Little Stars Daycare and enters it on **Form 2441**

💡 Result:

Jasmine **qualifies** for the Child and Dependent Care Credit!
Her eligible expenses are **limited to $3,000** (since she has one qualifying person), and the exact credit will depend on her income.

Practice Scenario

Scenario:
Carlos and Ana are married and file jointly. They both work full-time. In 2025, they paid **$5,200** to a licensed daycare provider for care of their **3-year-old child**, allowing them to work.

They received a **W-2** showing earned income and provided the **daycare provider's name, address, and EIN** on Form 2441.

❓**Question:**
Are Carlos and Ana eligible to claim the **Child and Dependent Care Credit**?

A. No, because they earned too much
B. Yes, because both spouses worked and care was for a qualifying child
C. No, because daycare expenses are not deductible
D. Yes, but only if the provider is a relative

Practice Scenario

Scenario:
Carlos and Ana are married and file jointly. They both work full-time. In 2025, they paid **$5,200** to a licensed daycare provider for care of their **3-year-old child**, allowing them to work.

They received a **W-2** showing earned income and provided the **daycare provider's name, address, and EIN** on Form 2441.

❓**Question:**
Are Carlos and Ana eligible to claim the **Child and Dependent Care Credit**?

A. No, because they earned too much
B. Yes, because both spouses worked and care was for a qualifying child
C. No, because daycare expenses are not deductible
D. Yes, but only if the provider is a relative

Explanation:
They meet all eligibility tests:

- Child under 13
- Both parents worked
- Expenses were work-related
- They provided valid provider information

Practice Scenario

Scenario:
Marcus is a single parent with one child who turned **13 in September 2025**. He paid **$2,000** in after-school care expenses **from January through August** while he worked.

❓**Question:**
Can Marcus claim the full $2,000 for the Child and Dependent Care Credit?

A. Yes, because the child was under 13 for part of the year
B. No, because the child turned 13 during the year
C. Yes, but only $1,000 is allowed
D. No, after-school care is not a qualifying expense

Practice Scenario

Scenario:
Marcus is a single parent with one child who turned **13 in September 2025**. He paid **$2,000** in after-school care expenses **from January through August** while he worked.

❓**Question:**
Can Marcus claim the full $2,000 for the Child and Dependent Care Credit?

A. Yes, because the child was under 13 for part of the year
B. No, because the child turned 13 during the year
C. Yes, but only $1,000 is allowed
D. No, after-school care is not a qualifying expense

Explanation:
Expenses incurred **while the child was under 13** are eligible for the credit. Marcus may claim the full amount paid before the child turned 13.

Retirement Savings Contributions Credit

Retirement Savings Contributions Credit

A **nonrefundable tax credit** for eligible taxpayers who make voluntary contributions to a retirement plan, such as:

- Traditional or Roth IRA
- 401(k), 403(b), or other employer-sponsored plans

If the contribution is **tax-deductible** (e.g., Traditional IRA), the taxpayer may benefit from **both**:

- A deduction, **and**
- A tax credit

The credit is calculated using **Form 8880, Credit for Qualified Retirement Savings Contributions**.

Who is eligible?
To qualify, the individual must:

- Be **at least 18 years old**
- **Not** be claimed as a **dependent** on someone else's tax return
- **Not** be a **full-time student**
- Have income **below the IRS limits** for the credit.

Retirement Savings Contributions Credit

What Are Eligible Contributions?

To qualify for the Saver's Credit, the taxpayer's contributions must be **elective or voluntary**—whether made through an employer-sponsored plan **or** an individually established retirement account.

A contribution is considered **voluntary** as long as it is **not required** as a condition of:

- Employment
- Participation in the employer's retirement plan
- Receiving benefits under the plan

Eligible contributions include:

- **Traditional or Roth IRA contributions** (excluding rollovers)
- **Elective deferrals** to:
  - 401(k), Roth 401(k), or 403(b) plans
  - Governmental 457(b) plans
  - SIMPLE and SEP IRAs
- **Voluntary employee contributions** to:
  - Federal Thrift Savings Plan (TSP)
  - Other qualified retirement plans under IRC §4974(c)
  - 501(c)(18)(D) plans

Retirement Savings Contributions Credit

- Eligible retirement contributions are usually reported on **Form W-2, Box 12**
  - Look for codes: **D, E, F, G, H, S, AA, BB, or EE** — these indicate qualifying contributions
- If the W-2 is **entered correctly in the tax software**, the information will **flow to Form 8880 automatically**
- The credit is worth **up to $1,000** for single filers, or **$2,000** for those **Married Filing Jointly**
  If **either spouse received a retirement distribution** during the testing period, both must **reduce their eligible contribution** by that amount

Retirement Savings Contributions Credit

Tips for Identifying Eligible Contributions:

- **Always review Form W-2** for possible retirement contributions
  - An entry in **Box 12** or an **"X" in the Retirement box** may signal eligibility for the Saver's Credit
- **Box 14** may also show contributions (e.g., to a **state retirement system**)
  - In **TaxSlayer**, if the contribution qualifies:
    - Use the drop-down in Box 14 and select:

      "Retirement (Not in Box 12) Carry to Form 8880"
- ⚠️ **Note:** Contributions treated as **employer contributions** do **not** qualify for the credit

Example

Example – Retirement Contribution Outside of Employer

Daniel is 35 years old, single, and not claimed as a dependent.
In 2024, he earned **$32,000** in wages.

He did **not contribute through his employer**, but made a **$6,000 contribution to a Traditional IRA** on his own.

Daniel did **not take any retirement distributions** during the year.

He meets all eligibility requirements for the **Retirement Savings Contributions Credit**, including:

- Over age 18
- Not a full-time student
- Not claimed as a dependent
- Income is within the allowable limit

✅ **Result:**
Daniel qualifies for the **Retirement Savings Contributions Credit**. The credit will be calculated on **Form 8880**.

Practice Scenario

Taxpayer: Carlos, age 29
Filing Status: Single
Income: $33,000 in W-2 wages
Retirement Contribution:

- Carlos contributes **$2,000** to his **Roth IRA**
- His W-2 shows code **D** in **Box 12** with $1,500 (401(k) deferral)
- He also contributes **$500** directly to his Roth IRA outside of work

Carlos **did not receive any retirement distributions** in the last 3 years.

Practice Scenario

✅ Does Carlos Qualify? Let's Check the Requirements:

- **Age 18+? ✔** Yes
- **Not a full-time student? ✔** Yes
- **Not a dependent? ✔** Yes
- **Made eligible contributions? ✔** Yes – Roth IRA and 401(k)
- **Income within limits? ✔** Yes – Under threshold for full or partial credit

🧾 His W-2 information is entered **accurately** in TaxSlayer
📝 **Form 8880** will include both the Roth IRA and 401(k) contribution

💡 Result:

Carlos qualifies for the **Retirement Savings Contributions Credit**!
His credit will be based on **50%, 20%, or 10%** of his **$2,000** total contribution — depending on his AGI.

(Maximum possible credit: $1,000)

Energy Efficient Home Improvement Credit

Energy Efficient Home Improvement Credit

- **The Inflation Reduction Act of 2022 (IRA)** amended the credits for residential energy property and energy efficient home improvements
  - Residential Clean Energy Credit
    - The IRA extended the credit through 2034, modified the applicable credit percentage rates for 2033 and 2034, and added battery storage technology as an eligible expenditure
    - The credit applies for property placed in service in 2022 through 2034
- Energy Efficient Home Improvement Credit
  - The IRA increased the credit for tax years after 2022
  - Beginning with tax year 2025, the amount of the credit is 30% of amounts paid for certain qualified expenditures
  - Beginning January 1, 2023, there is no longer a $500 lifetime credit limit (or $200 limit for windows)
  - There are limits on the annual credit allowed and on the amount of credit for certain types of expenditures
  - The credit is allowed for qualifying property placed in service in tax years 2023 through 2032

Note: The previous lifetime limit no longer applies. The limits are annual per tax year.

Energy Efficient Home Improvement Credit

Energy Efficient Home Improvement Credit – Eligible Items

- **Exterior Doors**
  - 30% of the cost
  - Up to **$250 per door**, **max $500 total**
- **Exterior Windows & Skylights**
  - 30% of the cost
  - Up to **$600 total**
- **Insulation & Air Sealing Materials/Systems**
  - 30% of the cost
- **Home Energy Audits**
  - 30% of the cost
  - Up to **$150**

All improvements must meet **energy efficiency standards** as defined by the IRS

Energy Efficient Home Improvement Credit

The following energy efficient home improvements are eligible for the Energy Efficient Home Improvement Credit:

- Residential energy property (30% of costs, including labor, up to $600 for each item) satisfying the energy efficiency requirements under the Energy Efficiency Requirements section:
    - central air conditioners;
    - natural gas, propane, or oil water heaters;
    - natural gas, propane, or oil furnaces and hot water boilers; and
    - improvements to or replacements of panelboards, sub-panelboards, branch circuits, or feeders that are installed along with building envelope components or other energy property that enable its installation and use.

Energy Efficient Home Improvement Credit

Energy Efficient Home Improvement Credit

The following energy efficient home improvements are eligible for the Energy Efficient Home Improvement Credit:

- A separate **$2,000 aggregate yearly credit limit** applies across all heat pumps and biomass stoves and biomass boilers (30% of costs, **including labor)**
  - Must satisfy the **energy efficiency requirements** under the Energy Efficiency Requirements section
- Eligible items include:
  - **Electric or natural gas heat pump water heaters**
  - **Electric or natural gas heat pumps**
  - **Biomass stoves and biomass boilers**

Energy Efficient Home Improvement Credit

Example 1: Electric Heat Pump Water Heater

- In 2025, Sarah installs an **electric heat pump water heater** for **$5,000**, including labor.
- The credit is **30% of costs**, but limited to the **$2,000 yearly cap** for heat pumps and biomass equipment.

Calculation:
$5,000 × 30% = $1,500 credit (below $2,000 cap)

Example 2: Heat Pump and Biomass Stove in the Same Year

- Mark installs a **natural gas heat pump** for **$6,000** and a **biomass stove** for **$4,000** in 2024.

Calculation:

- 30% of $6,000 = $1,800
  30% of $4,000 = $1,200
- Combined = $3,000, but credit is capped at **$2,000 for the year**.

Result: Mark claims **$2,000** total.

Example 3: Biomass Boiler

- Maria installs a **biomass boiler** costing **$3,000**.
  Calculation:
  30% of $3,000 = $900 credit (under $2,000 cap).

Energy Efficient Home Improvement Credit

- The credit is available for certain qualifying energy efficiency improvements or residential energy property costs.
- The qualifying items are:
  - Heating, ventilating, air-conditioning (HVAC)
  - Insulation
  - Roofs (metal and asphalt)
  - Water heaters (non-solar)
  - Windows and doors

Energy Efficient Home Improvement Credit

Energy Efficient Home Improvement Credit – Limitations

- The **total combined credit limit** for all tax years after 2005 is **$500**
- The **combined credit limit for windows** is **$200**
- **Maximum credit for residential energy property costs**:
  - **$50** for any **advanced main air circulating fan**
  - **$150** for any **qualified natural gas, propane, or oil furnace, or hot water boiler**
  - **$300** for any **item of energy efficient building property**
- **Important Notes**:
  - The credit is only available for **existing homes** that are the **taxpayer's main home**
  - **New construction** and **rental properties** do **not** qualify
  - The **taxpayer must own the home** to qualify
  - **Subsidized federal, state, or local energy financing** amounts **do not qualify** for the credit
  - The **adjusted basis of the home is reduced** by the residential credit received

Practice Scenario

Taxpayer: Linda, age 45
Filing Status: Single
Home Ownership: Owns and lives in a 20-year-old home in Michigan
Project Year: 2025
Property Type: Personal primary residence (not rental or new construction)

🛠️ Home Improvements in 2025:

- Replaced **two exterior doors**: Total cost = $900
- Installed **new windows**: Total cost = $1,200
- Added **insulation and air sealing**: Cost = $2,000
- Installed a **natural gas furnace**: Cost = $3,200 (including labor)
- Paid out-of-pocket for all upgrades — **no government energy subsidies**

Practice Scenario

✅ **Does Linda Qualify for the Credit?**

- **Yes**, the home is her **primary residence** and **not new construction or rental**
- She **owns the home** and paid for improvements **out-of-pocket**
- All items are **eligible energy-efficient improvements** under IRS guidelines
- No disqualifying federal or state financing involved

💵 **How the Credit is Calculated:**

- **Exterior doors**: 30% of $900 = **$270** (limited to $250 per door, max $500 total) → **$500 allowed**
- **Windows**: 30% of $1,200 = **$360** → **limited to $200 for windows**
- **Insulation**: 30% of $2,000 = **$600**
- **Natural gas furnace**: Credit limited to **$150** (per IRS cap for qualified furnaces)

TOPICS

Child Tax Credit

AccountingAidSociety

Child Tax Credit

Child Tax Credit (CTC) – Overview

- The **Child Tax Credit** is a **nonrefundable credit**
- Taxpayers can claim **up to $2,200 per qualifying child**
- The credit **reduces the taxpayer’s tax liability**
- Taxpayer must have **at least one qualifying child** to claim the credit
- The child must be the taxpayer’s **dependent**
- Taxpayers with ITINs can no longer claim this credit. A valid SSN is required. For Married Filing Jointly, only one spouse needs to have a valid SSN to qualify.

Child Tax Credit

Qualifying Child Requirements for CTC

- The child must be **under age 17** as of **December 31** of the tax year
- The child must have **lived with the taxpayer for more than six months**
  - *(Special rules apply for divorced, separated, or parents living apart)*
- The child **did not provide more than half** of their own support
- The child meets the **relationship test** (e.g., son, daughter, sibling, etc.)
- The child must be a **U.S. citizen**, **U.S. national**, or **U.S. resident**
- The child must have a **valid Social Security number**

Child Tax Credit

Example: Child Tax Credit

Situation:

- Olivia is a single mother with two qualifying children, ages 7 and 10.
- She owes **$3,500** in federal income tax before credits.

Calculation:

- CTC is **$2,200 per child** = 2 × $2,200 = **$4,000** potential credit.
- Since the credit is **nonrefundable**, it can only reduce tax to **zero**.

Result:

- $3,500 of credit is applied → tax liability reduced to $0.
- $500 of credit is unused

Child Tax Credit

Child Tax Credit – Additional Rules & Reminders

- Taxpayers **must have a valid SSN or ITIN** by the **due date of the return (including extensions)**
- The **qualifying child must have a valid SSN** by the **due date of the return (including extensions)**
- The credit is calculated on **Schedule 8812**
    - **Tax software** will calculate the credit based on entries made in the return
- If the full credit can't be used, the taxpayer may be eligible for the **refundable Additional Child Tax Credit** *(covered later)*

Example:

- **Situation:**
    - John has a 4-year-old child who only has an **ITIN** (no SSN).
    - John files his return claiming the child as a dependent.
- **Result:**
    - The child is **not eligible** for the Child Tax Credit because they do not have a valid SSN by the return due date.
    - John may still claim other credits (e.g., **Credit for Other Dependents** if qualified).

Practice Scenario

Taxpayer: Maria
Filing Status: Head of Household
Dependents:

- **Sofia**, age 10 – Maria’s daughter, lived with her all year
- **Mateo**, age 5 – Maria’s nephew, lived with her 7 months
- **Tax Year:** 2025
- **Income:** $32,000
- **Identification Info:**
  - Maria has a valid **ITIN**
- Sofia and Mateo both have **valid Social Security Numbers (SSNs)**

Practice Scenario

✅ Facts & Eligibility Check

- **Does Maria meet the ID requirement?**
  ❌ **No** – Maria has an ITIN, not an SSN → She is **not eligible** to claim the **Child Tax Credit or Additional Child Tax Credit**

- **Do the children qualify otherwise?**
  ✔ Yes – Both children are under age 17, lived with Maria over 6 months, and are U.S. citizens with SSNs
  ✔ Sofia is Maria's dependent child
  ✔ Mateo is her qualifying relative dependent and meets relationship/residency/support tests

⚠️ Important Reminder

- Even though the children qualify, **Maria cannot claim the CTC** because **she does not have a valid SSN**
- If she tries to claim it anyway, she may face a **2-year ban** for incorrectly claiming the credit

💡 Conclusion:

Maria should **not claim the Child Tax Credit**. She may still benefit from other credits (e.g., **Credit for Other Dependents**) but must avoid incorrectly claiming the CTC to prevent penalties.

Practice Scenario

Scenario:
Emily is a single parent filing as **Head of Household**. In 2025, she earned **$38,000** in wages. She has one daughter, **Sophie**, who:

- Is **6 years old**
- Lived with Emily **all year**
- Did **not provide over half of her own support**
- Is a **U.S. citizen** with a **valid SSN**
- Is properly claimed as a **dependent** on Emily's return

❓**Question:**
Based on the information, is Emily eligible to claim the **Child Tax Credit** for Sophie?

A. No, because Emily is not married
B. Yes, because Sophie meets all the qualifying child requirements
C. No, because Sophie did not earn any income
D. No, because the Child Tax Credit is only for joint filers

Practice Scenario

Scenario:

Emily is a single parent filing as **Head of Household**. In 2025, she earned **$38,000** in wages. She has one daughter, **Sophie**, who:

- Is **6 years old**
- Lived with Emily **all year**
- Did **not provide over half of her own support**
- Is a **U.S. citizen** with a **valid SSN**
- Is properly claimed as a **dependent** on Emily's return

❓**Question:**

Based on the information, is Emily eligible to claim the **Child Tax Credit** for Sophie?

A. No, because Emily is not married
B. Yes, because Sophie meets all the qualifying child requirements
C. No, because Sophie did not earn any income
D. No, because the Child Tax Credit is only for joint filers

📝 **Explanation:**

To qualify for the **Child Tax Credit**, the child must meet all of the following:

- **Age Test:** Under 17 at the end of the year ✅
- **Relationship Test:** Son, daughter, or other qualified relative ✅
- **Residency Test:** Lived with the taxpayer for more than half the year ✅
- **Support Test:** Child did not provide more than half of their own support ✅
- **SSN Requirement:** Child has a valid Social Security Number ✅

Sophie meets **all the criteria**, so Emily qualifies to claim the **Child Tax Credit of up to $2,000**.

Practice Scenario

Scenario:
Ana and Luis are married and filing jointly. They have two children:

- Mateo (age 5) – lived with them all year, valid SSN
- Camila (age 8) – lived with them all year, valid SSN

Their combined income is **$55,000**. Both children are U.S. citizens and properly claimed as dependents.

❓**Question:**
How much **Child Tax Credit** may Ana and Luis be eligible for?

A. $1,000
B. $2,000
C. $3,000
D. $4,400

Practice Scenario

Scenario:
Ana and Luis are married and filing jointly. They have two children:

- Mateo (age 5) – lived with them all year, valid SSN
- Camila (age 8) – lived with them all year, valid SSN

Their combined income is **$55,000**. Both children are U.S. citizens and properly claimed as dependents.

❓**Question:**
How much **Child Tax Credit** may Ana and Luis be eligible for?

A. $1,000
B. $2,000
C. $3,000
D. $4,400

Explanation:
Both children qualify for the Child Tax Credit ($2,200 each). Their income is well below the phaseout threshold, so they can claim the full $4,000 CTC.

Credit for Other Dependents

Credit for Other Dependents

Credit for Other Dependents (ODC) – Key Rules

- A **$500 nonrefundable credit** is available for each dependent who **does not qualify** for the $2,000 **Child Tax Credit**
- Examples of dependents who may qualify:
  - Children who are **age 17 or older**
  - Dependents with **other relationships** (e.g., **elderly parents**)
  - Children who **do not have a valid SSN**

- To qualify for the credit:
  - The dependent must be a **U.S. citizen, U.S. national, or U.S. resident**
  - The dependent must have a **valid identification number** (**SSN, ITIN, or ATIN**)
- ⚠️ The taxpayer **cannot claim the credit** for **themselves** or **their spouse** (if Married Filing Jointly)
- Taxpayers with ITINs are eligible to claim this credit in place of the Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC).

Examples

Example 1: Child Age 17

- Rebecca has a 17-year-old son who is her dependent.
- He is too old to qualify for the $2,000 Child Tax Credit but meets all other dependency tests.

Result:

- Rebecca can claim the **$500 Credit for Other Dependents** for him.

Example 2: Elderly Parent

- Carlos supports his 70-year-old mother, who lives with him and qualifies as his dependent.
- She has a valid SSN and U.S. residency status.

Result:

- Carlos can claim the **$500 credit** for his mother.

Example 3: Child Without SSN

- Anita's 6-year-old daughter has an ITIN but **does not have an SSN**.
  The child does not qualify for the $2,000 Child Tax Credit but is a valid dependent.

Result:

- Anita can claim the **$500 Credit for Other Dependents** instead.

Practice Scenario

Scenario 1 – Elderly Parent Dependent

Scenario:
Nina files as Single. Her mother, Margaret (age 74), lives with her all year. Margaret received $3,000 in Social Security and no other income. Nina provides more than half of her support, and Margaret has a valid SSN.

❓**Question:**
Can Nina claim the **Credit for Other Dependents** for Margaret?

A. Yes, because Margaret is her qualifying child
B. No, because Margaret receives Social Security
C. Yes, because Margaret qualifies as a dependent and has a valid SSN
D. No, because Margaret is over the age limit

Practice Scenario

Scenario 1 – Elderly Parent Dependent

Scenario:
Nina files as Single. Her mother, Margaret (age 74), lives with her all year. Margaret received $3,000 in Social Security and no other income. Nina provides more than half of her support, and Margaret has a valid SSN.

❓**Question:**
Can Nina claim the **Credit for Other Dependents** for Margaret?

A. Yes, because Margaret is her qualifying child
B. No, because Margaret receives Social Security
C. Yes, because Margaret qualifies as a dependent and has a valid SSN
D. No, because Margaret is over the age limit

Explanation:
Margaret is not a qualifying child, but she is a **qualifying relative**. Since she meets the support, income, and residency tests — and has a valid SSN — Nina qualifies for the **$500 nonrefundable credit**.

Practice Scenario

Scenario 2 – Child Without SSN

Scenario:
Jorge has a 10-year-old daughter, Lucia. She lived with him all year and meets all dependency tests. However, she does **not** have a valid SSN — only an **ITIN**.

❓**Question:**
Can Jorge claim **any credit** for Lucia?

A. Yes, he can claim the full $2,000 Child Tax Credit
B. No, because the child has an ITIN
C. Yes, but only the **Credit for Other Dependents**
D. Yes, but only if Lucia earned no income

Practice Scenario

Scenario 2 – Child Without SSN

Scenario:
Jorge has a 10-year-old daughter, Lucia. She lived with him all year and meets all dependency tests. However, she does **not** have a valid SSN — only an **ITIN**.

❓**Question:**
Can Jorge claim **any credit** for Lucia?

A. Yes, he can claim the full $2,000 Child Tax Credit
B. No, because the child has an ITIN
C. Yes, but only the **Credit for Other Dependents**
D. Yes, but only if Lucia earned no income

Explanation:
Children claimed as dependents **must have an SSN** to qualify for the **Child Tax Credit**. Since Lucia only has an **ITIN**, Jorge cannot claim the $2,000 CTC, but may claim the **$500 Other Dependent Credit**, assuming all other requirements are met.

Practice Scenario

Scenario 3 – College-Aged Child

Scenario:
Thomas (Head of Household) supports his 21-year-old son, Chris, who is a full-time college student. Chris lived with Thomas all year and earned only $2,000 in 2025. He has a valid SSN and is properly claimed as a dependent.

❓**Question:**
Can Thomas claim the **Credit for Other Dependents**?

A. No, because Chris is over 17
B. Yes, because Chris is a dependent but not a qualifying child
C. No, because Chris is a full-time student
D. Yes, because all college students qualify

Practice Scenario

Scenario 3 – College-Aged Child

Scenario:
Thomas (Head of Household) supports his 21-year-old son, Chris, who is a full-time college student. Chris lived with Thomas all year and earned only $2,000 in 2025. He has a valid SSN and is properly claimed as a dependent.

❓**Question:**
Can Thomas claim the **Credit for Other Dependents**?

A. No, because Chris is over 17
B. Yes, because Chris is a dependent but not a qualifying child
C. No, because Chris is a full-time student
D. Yes, because all college students qualify

Explanation:
Chris is over age 17, so he **does not qualify for the Child Tax Credit**. However, since he is a dependent with income under the threshold and a valid SSN, Thomas may claim the **$500 Other Dependent Credit**.

End of Non-Refundable Credits

Take a few moments with your table and discuss any questions you may have regarding this topic.