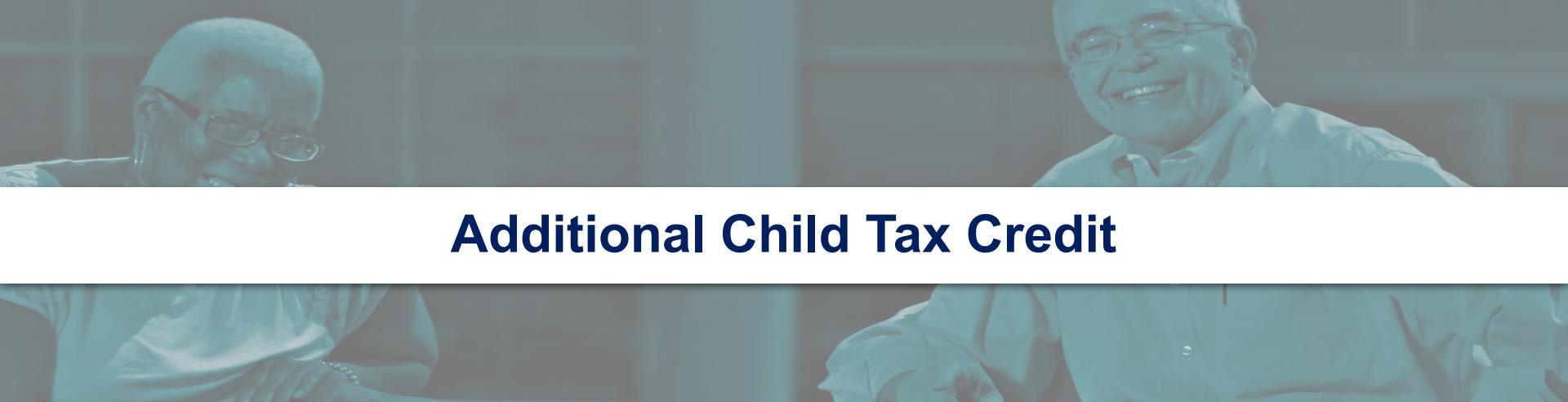


AccountingAidSociety

Refundable Credits

Refundable Credits

- A refundable credit can zero out a taxpayer's liability and result in a cash refund to the taxpayer.
- Types of refundable credits:
 - Additional Child Tax Credit
 - Earned Income Credit



Additional Child Tax Credit

Additional Child Tax Credit

- Taxpayers who do not get the full \$2,200 of the child tax credit may qualify for the refundable additional child tax credit (ACTC).
- The additional child tax credit may give taxpayers a refund even if they do not owe any tax.
- The additional child tax credit allows eligible taxpayers to claim up to \$1,700 for each qualifying child.
- Taxpayers with three or more children may also be eligible for additional child tax credit regardless of their income.
- Schedule 8812 is used to calculate the credit, which is entered on the additional child tax credit line of Form 1040. This is done automatically by TaxSlayer once you enter in all the taxpayer's data.
- 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.

Practice Scenario

Brandon is a single father of two children, 9 and 11 years old respectively, and is filing as head of household. He earned wages of \$12,500 in 2025. He had no other income or credits to claim. Since his income is too low to have tax liability he isn't eligible for the child tax credit. How much, if any, of the **additional child tax credit** is Brandon eligible to claim?

- A. \$1,700
- B. \$3,400
- C. \$0
- D. \$1,000

Practice Scenario

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- A. \$1,700
- B. \$3,400**
- C. \$0
- D. \$1,000

Brandon is eligible to claim the full ACTC and that is worth \$1,700 per qualifying child, two in this case. ($\$1,700 \times 2 = \$3,400$)

Practice Scenario

Your client Tonya is a single mother filing as head of household and she has one qualifying child of 7 years old. Her only income of the year was \$9,000 of SSI disability income. She is frustrated when she doesn't get an additional child tax credit on her return. How do you explain this to the taxpayer?

- A. Tell her TaxSlayer knows best and not to question it.
- B. Explain that you need at least \$2,500 of taxable income to get any of the ACTC.
- C. Submit a ticket to TaxSlayer support because clearly she should be eligible for a refund.
- D. Create a schedule C with some income so Tonya gets a refund.

Practice Scenario

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- A. Tell her TaxSlayer knows best and not to question it.
- B. Explain that you need at least \$2,500 of taxable income to get any of the ACTC.**
- C. Submit a ticket to TaxSlayer support because clearly she should be eligible for a refund.
- D. Create a schedule C with some income so Tonya gets a refund.

Because Tonya's income is solely nontaxable she is not eligible for the ACTC.



Earned Income Credit

Earned Income Credit

- The earned income credit (EIC) is a refundable tax credit for most people who work but do not earn high incomes.
- The purpose of the EIC is to reduce the tax burden and to supplement the wages of working families whose earnings are less than the maximums for their filing status.
- Eligible taxpayers can receive a refund with this credit, even if they have no filing requirement, owe no tax, and had no income tax withheld.
- All taxpayers and dependents must have valid Social Security numbers by the due date of the return (including extensions) to claim the credit.
- The refund for taxpayers claiming the EIC will not be issued prior to February 15.
- The three main factors when calculating the amount of the EITC depend on the recipient's income, number of qualifying children and the taxpayer's age.

Earned Income Credit: Who Qualifies?

- Rules for everyone:
 - Taxpayers & qualifying children must all have SSN that is valid for employment by the due date of the return (including extensions)
 - Taxpayer must be between the ages of 25 and 65 by the end of the tax year.
 - Filing status can't be married filing separately unless you meet an exception.
 - Must be a U.S. citizen or resident alien all year.
 - Can't file Form 2555 (relating to foreign earned income).
 - Investment income must be \$11,600 or less.
 - Can't be a qualifying child of another person.
 - You must have **earned income**.
 - Taxpayers who receive a disability pension (1099-R with a code 3) and retired **before their company's retirement age** may be eligible to claim the EITC.

Earned Income Credit (EIC)

For 2025, the maximum credit increased to:

- \$8,046 with three or more children
- \$7,152 with two children
- \$4,238 with one child
- \$649 with no children

To be eligible for a full or partial credit, the taxpayer must have earned income and AGI of at least \$1 but less than:

- \$61,555 (\$68,675, if Married Filing Jointly) with three or more qualifying children
- \$57,310 (\$64,430 if Married Filing Jointly) with two qualifying children
- \$50,434 (\$57,544 if Married Filing Jointly) with one qualifying child
- \$19,104 (\$26,214 if Married Filing Jointly) with no qualifying child

What is earned income? Deeper Dive

What does earned income include in regards to the EIC?

- Taxable wages, salaries, and tips
- Union strike benefits
- Taxable long-term disability benefits received prior to minimum retirement age
- Net earnings from self employment
- Gross income of a statutory employee
- Household employee income
- Nontaxable combat pay election
- Nonemployee compensation
- Election/Poll worker compensation

Earned Income Credit - Qualifying Child

- There are general sets of rules for claiming the earned income credit:
 - Rules for taxpayers with a qualifying child:
 - Child must meet the relationship, age, residency test and joint return tests but not the support test. The child doesn't have to be your dependent.
 - Qualifying child can't be used by more than one person to claim the EIC.
 - The taxpayer can't be a qualifying child of another person.

Qualifying Child Rules

Relationship Test

- Is the child your son, daughter, stepchild, adopted child, or eligible foster child, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them?

Age Test

- Under the age of 19
- Under the age of 24 and a full-time student and younger than the taxpayer
- Any age and permanently and totally disabled

Residency Test

- Child must have lived with taxpayer for more than half of the year.

Joint Return

- Child did not file a joint return.

Earned Income Credit - No Qualifying Child

- There are general sets of rules for claiming the earned income credit:
 - Rules for taxpayers who do not have a qualifying child:
 - Must be at least age 25 but under age 65 as of December 31.
 - Can't be the dependent of another person.
 - Must have lived in the United States more than half the year.
 - Can't be a qualifying child of another person.

Practice Scenario

Nicole is 34 and a single mother of her 6 year old child. She is filing as head of household. Her only income is \$18,000 of wages. She has no investment income. Both her child and herself have valid social security numbers. Nicole cannot be claimed as a dependent by anybody else. **Is Nicole eligible to claim the EITC?**

Practice Scenario

Nicole is 34 and a single mother of her 6 year old child. She is filing as head of household. Her only income is \$18,000 of wages. She has no investment income. Both her child and herself have valid social security numbers. Nicole cannot be claimed as a dependent by anybody else. **Is Nicole eligible to claim the EITC?**

- **Yes, she is!** Nicole meets the income limits, has a qualifying child, is not a dependent on someone else's tax return, has valid SSNs for everyone listed on the return, and is not MFS.

Practice Scenario

David is single, 27 years old, and has no children. He earned wages of \$11,000 with no other income. He is not a dependent, he lived in the US all year, and he has a valid SSN. **Is David eligible to claim the EITC?**

Practice Scenario

David is single, 27 years old, and has no children. He earned wages of \$11,000 with no other income. He is not a dependent, he lived in the US all year, and he has a valid SSN. **Is David eligible to claim the EITC?**

- **Yes, he is!** David meets the income limits, is a US citizen with a valid SSN, is not a dependent, is not MFS, and falls within the age range of claiming the EITC with no qualifying children. So, he is eligible for the EITC.

Practice Scenario

Your client Sandra is 30 years old and has a 4 year old daughter who she will claim and file as head of household. She earned wages of \$10,000 and earned dividends of \$12,000. Both Sandra and her child are US citizens with valid SSNs. Sandra cannot be claimed as a dependent. **Is Sandra eligible to claim the EITC?**

Practice Scenario

Your client Sandra is 30 years old and has a 4 year old daughter who she will claim and file as head of household. She earned wages of \$10,000 and earned dividends of \$12,000. Both Sandra and her child are US citizens with valid SSNs. Sandra cannot be claimed as a dependent. **Is Sandra eligible to claim the EITC?**

- **No, she is not.** Sandra and her dependent both are valid US citizens with valid SSNs and Sandra is not MFS. The reason that Sandra does not qualify for EITC is because of her **investment income**. Remember, the maximum investment income you can have and still claim the EITC is \$11,600. Because Sandra has investment income of \$12,000 this disqualifies her from claiming the EITC.

End of Refundable Credits

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