



## Refundable Credits

# Refundable Credits

- A refundable credit can zero out the tax liability and result in a cash refund to the taxpayer.



## Additional Child Tax Credit

# Additional Child Tax Credit

- Taxpayers who do not get the full \$2,000 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.



## 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 two main factors when calculating the amount of the EITC depend on the recipient's income and number of qualifying children.

# Earned Income Credit

- There are general sets of rules for claiming the earned income credit:
  - Rules for everyone:
    - Taxpayers & qualifying children must all have SSN that is valid for employment by the due date of the return (including extensions)
    - 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.

# Earned Income Credit

- There are general sets of rules for claiming the earned income credit:
  - Rules for everyone:
    - You must have earned income to qualify for this credit. Your earned income **and** AGI must be less than:

Number of Dependents	AGI for any filing status other than MFJ	AGI for MFJ	Maximum amount of credit you can claim
Three or more qualifying children	\$59,899	\$66,819	\$7,830
Two qualifying children	\$55,768	\$62,688	\$6,960
One qualifying child	\$49,084	\$56,004	\$4,213
No qualifying child	\$18,591	\$25,511	\$632



# Earned Income Credit

## 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

- 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

- 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.