Nonrefundable Credits

Nonrefundable Credits

- A nonrefundable credit is a dollar-for-dollar reduction of the tax liability.
- A nonrefundable credit can only reduce the tax liability to zero.

Child and Dependent Care Credit

Child and Dependent Care Credit

- This credit is available to eligible taxpayers as a portion of their child and dependent care expenses.
- The credit may be claimed by taxpayers who, in order to work or look for work, pay someone to take care of their qualifying person.
- A qualifying person is a:
  - Qualifying child under age 13
  - Spouse who is physically and mentally incapable of self-care
  - Dependent who is incapable of self-care

Child and Dependent Care Credit

- The credit ranges from 20% to 35% of the taxpayer’s expenses.
- The percentage is based on the taxpayer’s earned income and adjusted gross income.
- The amount of the credit cannot be more than the amount of income tax on the return.
- It can reduce an individual’s tax to $0, but it will not give the taxpayer a refund.

Child and Dependent Care Credit

- Some taxpayers receive dependent care benefits from their employers, which may also be called “flexible spending accounts” or “reimbursement accounts.”
- Taxpayers may be able to exclude these benefits from their income. Employer-provided dependent care benefits appear in the taxpayer’s Form W-2, Box 10.
- Because the child and dependent care credit is a nonrefundable credit, only taxpayers with taxable income can claim the credit.
- However, all taxpayers who receive employer-provided dependent care benefits are required to complete Form 2441, Part III to determine if they can exclude all or part of these benefits from their taxable income.

Child and Dependent Care Credit

- The taxpayer’s expenses are subject to an earned income limit.
- The amount of work-related expenses used to figure the credit cannot be more than:
  - The taxpayer’s earned income for the year or
  - If Married Filing Jointly, the smaller of the taxpayer or spouse’s earned income for the year
- 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.
  - This limit is $3,000 for one qualifying person or $6,000 for two or more qualifying persons.
  - It is possible a qualifying person could have no expenses and a second qualifying person have expenses that exceed $3,000. In that case, list $0 for one person and the actual amount for the second person. The $6,000 limit does not need to be divided equally among them.

Child and Dependent Care Credit

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

1. Qualifying person test:
   - Any of the following are qualifying persons:
     - A qualifying child who is the taxpayer's dependent and under age 13 when the care was provided.
       a. If a taxpayer's qualifying child turned 13 during the tax year, their qualifying expenses include amounts incurred for the child while under age 13.
     - Someone who was physically or mentally incapable of self-care who the taxpayer claims as a dependent or for whom the taxpayer could claim, except that:
       a. The person had income greater than the current year threshold amount (gross income test for a qualifying relative)
       b. The person filed a joint return
       c. The taxpayer or spouse, if Married Filing Jointly, could be claimed as a dependent on someone else's current year tax return
     - Spouses who were physically or mentally unable to care for themselves and lived with the taxpayer more than half the year.

Child and Dependent Care Credit

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

2. Earned income test:
   - The taxpayer (and spouse, if married filing jointly) must both have earned income during the year.
   - A taxpayer’s spouse is treated as having earned income for any month the spouse is physically or mentally incapable of self-care, or is a full-time student.
   - The spouse’s income is considered to be $250 for each month if there is one qualifying person in the home or $500 each month if there are two or more qualifying people.
     - If, in the same month, both the taxpayer and the taxpayer’s spouse are full-time students or are not able to care for themselves, 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.

Child and Dependent Care Credit

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

3. Work-related expense test:
   - Expenses are considered work-related only if both of the following are true:
     - The expenses allow the taxpayer (and spouse, if married filing jointly) to work or look for work and
     - The expenses are for a qualifying person's care, and to provide for that person's well-being and protection
   - For married taxpayers, generally both must work or be looking for work.
   - Taxpayers' spouses are treated as working during any month the spouses were full-time students or were physically or mentally unable to take care of themselves.

Child and Dependent Care Credit

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

3. Work-related expense test:
    - The following expenses count as work-related:
        - Cost of care outside the home for dependents under age 13, for example, preschool or home day care, or before-school or after-school care for a child in kindergarten or higher grade
        - Cost of care for any other qualifying person, for example, dependent care
        - Household expenses that are paid at least partly for the well-being and protection of a qualifying person, for example, the services of a housekeeper or cook
    - Examples of child care expenses that do not qualify as work related include:
        - Education expenses to attend kindergarten or a higher grade
        - The cost of sending a child to an overnight camp
        - The cost of transportation not provided by a care provider

Child and Dependent Care Credit

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

4. Joint return test:
   - Generally, married couples who wish to take the child and dependent care credit must file a joint return.
   - However, taxpayers can be considered unmarried if they file a separate return and:
     - Are legally separated under a divorce or separate maintenance decree on the last day of the tax year or
     - Lived apart from their spouse for the last 6 months of the year and paid more than half of the cost of providing a home that was also the main home of the qualifying person for more than half the year.
   - There is a checkbox required on Form 2441 for Married filing Separately taxpayers that meet the requirements to claim the credit.

Child and Dependent Care Credit

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

5. Provider identification test:
    - The provider identification test requires that taxpayers provide the name, address and Taxpayer Identification Number (TIN) of the person or organization who provided the care for their child or dependent.
    - If the care provider is an individual, the TIN is the same as the provider's Social Security number.
    - If the provider is an organization, then it is the Employer Identification Number (EIN). Certain tax-exempt organizations are not required to have an EIN.

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.

Retirement Savings Contributions Credit

Retirement Savings Contributions Credit

- The retirement savings contributions credit is a nonrefundable credit eligible taxpayers may claim if they made a qualifying contribution to a retirement plan.
- If the contribution is tax deductible (such as a traditional IRA), the taxpayer receives the benefit of the tax deduction and a tax credit.
- The credit is calculated on Form 8880, Credit for Qualified Retirement Savings Contributions.

Who is eligible?

- Generally, an individual who made a voluntary contribution to a retirement account, is at least 18 years of age, not a dependent, and not a full a full-time student may be eligible to claim this credit if their income is not too high.

Retirement Savings Contributions Credit

What are eligible contributions?

- To be eligible for the credit, taxpayers' contributions must be elective or voluntary.
- For purposes of this credit, an employee contribution will be voluntary as long as it is not required as a condition of employment, participation in the employer's retirement plan, or in order to get benefits under the plan.
- Eligible contributions include:
  - Traditional or Roth IRA contributions (other than rollover contributions)
  - Elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions), a governmental 457 plan, SEP, or SIMPLE plan
  - Voluntary employee contributions to a qualified retirement plan as defined in section 4974(c) (including the federal Thrift Savings Plan), or
  - Contributions to a 501(c)(18)(D) plan

Retirement Savings Contributions Credit

- In most cases, eligible contributions will be listed on the taxpayer's Form W-2, Box 12 and preceded by one of the following codes: D, E, F, G, H, S, AA, BB, and EE.
    - These are the codes most frequently seen.
- If Form W-2 is entered into the software correctly and completely, the program will carry the appropriate information to Form 8880.
- The tax credit worth up to $ 1,000 ($2,000 if married filing jointly)
- If either spouse has received a distribution during the testing period, both spouses must reduce their eligible contribution by that amount.

Retirement Savings Contributions Credit

- Be sure to look at the taxpayer's Form(s) W-2. An entry in box 12 or an "X" in the Retirement box is an indicator that the taxpayer may be eligible for this credit.
- An entry in box 14 on the Form W-2 may also indicate a contribution to a state retirement system. In TaxSlayer, if the contribution qualifies, from the drop down menu in Box 14 of Form W-2, select **"Retirement (Not in Box 12) Carry to Form 8880."** If these are treated as employer contributions they aren't eligible for the credit.

Credit for Elderly and Disabled

Credit for Elderly and Disabled

- The credit for the elderly or the disabled is calculated on Schedule R.
- Individuals who qualify for the elderly or the disabled credit are:
  - Age 65 or older or
  - Under age 65, retired on permanent and total disability, receiving taxable disability income, and under the mandatory retirement age their company has set.
- Few taxpayers qualify for this credit because the credit calculation includes the taxpayers' nontaxable Social Security, veterans' benefits, or other excludable pension, annuity, or disability benefits. Most taxpayers' Social Security benefits alone exceed the limit.

Energy Efficient Home Improvement Credit

Energy Efficient Home Improvement Credit

- **Two types** of Residential Energy Credits available for taxpayers who purchase qualified energy efficient improvements for their home:
  - **Residential Clean Energy Credit**
    - Prior to tax year 2022, this was previously named the residential energy efficient property credit
    - Claimed on Form 5695, Residential Energy Credits, Part I, *which is out of scope for VITA*
  - **Energy Efficient Home Improvement Credit**
    - Prior to tax year 2022, this was previously named the nonbusiness energy property credit
    - Claimed on Form 5695, Residential Energy Credits, Part II

Energy Efficient Home Improvement Credit

Who can claim this credit?

- Homeowners who improve their primary residence will find the most opportunities to claim a credit for qualifying expenses
- Renters may also be able to claim credits, as well as owners of second homes used as residences (more information later in the presentation)
- The credits are never available for improvements made to homes that aren’t used as a residence.

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 2023, 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

Energy Efficient Home Improvement Credit

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

- Building envelope components satisfying the energy efficiency requirements below under the Energy Efficiency Requirements section:
    - exterior doors (30% of costs up to $250 per door, up to a total of $500);
    - exterior windows and skylights (30% of costs up to $600); and
    - insulation materials or systems and air sealing materials or systems (30% of costs).
- Home energy audits (30% of costs up to $150).

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

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

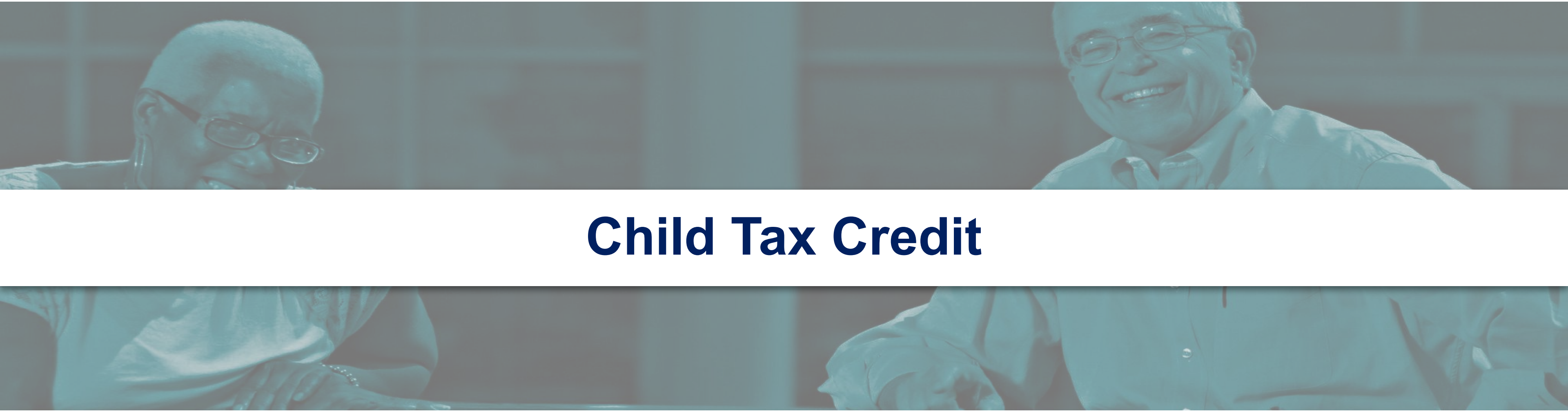
- Heat pumps and biomass stoves and biomass boilers (30% of costs, including labor) satisfying the energy efficiency requirements under the Energy Efficiency Requirements section:
    - electric or natural gas heat pump water heaters;
    - electric or natural gas heat pumps; and
    - biomass stoves and biomass boilers.

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

- The energy efficient home improvement credit is subject to the following limitations:
  - The total combined credit limit for all tax years after 2005 is $500, and the combined credit limit for windows is $200.
  - The maximum credit for residential energy property costs is $50 for any advanced main air circulating fan; $150 for any qualified natural gas, propane, or oil furnace, or hot water boiler; and $300 for any item of energy efficient building property.
- It is important to note that:
  - The credit is only available for existing homes that are the taxpayer's main home – new construction and rentals do not qualify. The taxpayer must own the home to qualify.
  - Amounts provided by subsidized federal, state, or local energy financing do not qualify for the credit.
  - The adjusted basis of the home is reduced by the residential credit received.



Child Tax Credit

Child Tax Credit

- The child tax credit (CTC) is a nonrefundable credit that allows taxpayers to claim a tax credit of up to $2,000 per qualifying child, which reduces their tax liability.
- To be eligible to claim the child tax credit, the taxpayer must have at least one qualifying child.
  - To be a qualifying child for the child tax credit, the child must be the taxpayer's dependent.
- Requirement for qualifying child:
  - Under age 17 on December 31 of the tax year
  - Lived with the taxpayer for more than six months of the year (remember the special rule for divorced or separated parents or parents who live apart)
  - Did not provide over half of his or her own support
  - Meets the relationship criteria
  - Is a U.S. citizen, U.S. national, or resident of the United States
  - Has a valid Social Security number

Child Tax Credit

- Taxpayers claiming the child tax credit must have a valid identification number (SSN or ITIN) by the due date of the tax return, including extensions.
- In addition, the dependent claimed must have a valid SSN by the due date of the return, including extensions.
- The credit is figured on Schedule 8812. The tax software makes all these calculations based on your entries.
- Taxpayers who are not able to claim the full amount of the child tax credit may be able to take the refundable additional child tax credit (covered later in the presentation).
- If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years.

TOPICS

Credit for Other Dependents

Credit for Other Dependents

- There is a $500 credit for other dependents who do not qualify for the $2,000 child tax credit, such as:
  - Children who are age 17 and above,
  - Dependents with other relationships (such as elderly parents),
  - Children who do not have a valid SSN.
- The dependent must be a U.S citizen, U.S. national, or resident of the U.S.
- The dependent must have a valid identification number (ATIN, ITIN, or SSN).
- Taxpayers cannot claim the credit for themselves (or a spouse if Married Filing Jointly).