



Tax Credit Alliance

O F N E B R A S K A

Child and Dependent Care Credit



**CENTER ON CHILDREN,
FAMILIES, AND THE LAW**

Child and Dependent Care Credit

- Credit ranges from 20% to 35% of taxpayers expenses
- The percentage is based in Earned Income and Adjusted Gross Income
- It is a nonrefundable credit, the amount can't be more than the tax liability
- To determine eligibility need to do the
 - Qualifying person test
 - Earned Income test
 - Work-related expense test
 - Joint return test
 - Provider identification test

Who is a Qualifying Person

1. A qualifying child who was under the age of 13 when the expenses incurred and can be claimed as a dependent
2. Any person who was incapable of self care* whom the taxpayer can claim as a dependent or could have been claimed as a dependent except that the person had gross income of more than \$4,300 or filed a joint or that the taxpayer or spouse, if MFJ, could be claimed as a dependent on someone else's 2022 return.
3. A spouse who was physically or mentally incapable of self-care*.
4. The qualifying person must live with the taxpayer more than ½ the year

*Incapable of self-care: persons who cannot dress, clean or feed themselves. In addition persons who must have constant attention to prevent them from hurting themselves or others.

Earned Income Test

- The taxpayer (and spouse, if married) must both have earned income during the year.
- Earned income includes:
 - Wages
 - Salaries
 - Tips
 - Other taxable employee compensation
 - Net earnings from self-employment
 - Strike benefits
 - Disability pay reported as wages

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) 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.

Qualified Work-Related Expenses

- Expenses must be paid for the care of the qualifying person to allow the taxpayer and spouse, if married, to work or look for work.
- The care includes the costs of services for the qualifying person's well-being and protection.
- The costs are limited to \$3,000 for on qualifying child and \$6,000 for two or more qualifying children.
- Expenses to attend kindergarten or a higher grade are not an expense for care.
- Expenses for summer day camp are qualifying, but those for overnight camp are not.
- Payments to a relative could qualify if it is not a person on the tax return, taxpayer's child, taxpayer's spouse or the other parent of the child

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.

Provider Information Test

- 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. See Publication 503 for more details.
- Taxpayers who cannot provide all of the provider's information or who have incorrect information may still be able to take the credit if they can show that they used due diligence in trying to obtain the correct information.
 - Returns that do not include the provider information cannot be filed electronically.

Credit for Child & Dependent Care Expenses – Screening Sheet

Pub 4012, G-13

Step	Probe/Ask the taxpayer:	Action
1	Was the care for one or more qualifying persons? See prior page for definition.	YES – Go to Step 2 NO – You CAN'T claim the child and dependent care credit ²
2	Did you (and your spouse if applicable) have earned income ¹ during the year? Refer to the Earned Income Table in Tab I, Earned Income Credit.	YES – Go to Step 3 NO – You CAN'T claim the child and dependent care credit ²
3	Did you pay the expenses to allow you to work or look for work? See prior page for qualifying expenses.	YES – Go to Step 4 NO – You CAN'T claim the child and dependent care credit ²
4	Were your payments made to someone you or your spouse could claim as a dependent?	YES – You CAN'T claim the child and dependent care credit ² NO – Go to Step 5
5	Were your payments made to your spouse or to the parent of your child who is your qualifying person? Answer NO if your qualifying child is a disabled person over age 13.	YES – You CAN'T claim the child and dependent care credit ² NO – Go to Step 6
6	Were your payments made to your child who was under the age of 19 at the end of the year?	YES – You CAN'T claim the child and dependent care credit ² NO – Go to Step 7
7	Are you single?	YES – Go to Step 10 NO – Go to Step 8
8	Are you filing a joint return?	YES – Go to Step 10 NO – Go to Step 9
9	Do you meet the requirements to be considered unmarried? ⁴	YES – Go to Step 10 NO – You CAN'T claim the child and dependent care credit ²
10	Do you know the care provider's name, address, and identifying number? Or did you make a reasonable effort to get this information? (See Due Diligence in Publication 503.)	YES – Go to Step 11 NO – You CAN'T claim the child and dependent care credit ²
11	Did you have only one qualifying person and exclude or deduct at least \$3,000 of dependent care benefits? ³	YES – You CAN'T claim the child and dependent care credit ² NO – You CAN claim the child and dependent care credit. Fill out Form 2441

Child and Dependent Care Credit

- Child and Dependent Care Credit is calculated on Form 2441
- There are 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
 - Even if they are not eligible for a child and dependent care credit.

Employer-Provided Dependent Care Benefits

- Some employers provide dependent care benefits, which they pay directly to the provider
- This amount is report on the W-2 in box 10
- This amount will reduce the amount of the Child and Dependent Care Credit
- Part III of Form 2441 needs to be filled out if W-2 box 10 is filled out

Examples from Pub 4491



Jim paid someone to care for his wife, Janet, so he could work. Janet is physically unable to care for herself. Jim also paid to have someone prepare meals for their 12-year-old daughter, Jill. Both Janet and Jill are qualifying persons for the credit.



Krista takes her 3-year-old child to a nursery school that provides lunch and educational activities as part of its preschool childcare service. She can count the total cost when she figures the credit.



Roger takes his 10-year-old child to a private school. In addition to paying for the cost of the education, Roger also pays an extra fee so that his child can attend a before- and after-school program while he is at work. Roger can count the cost of the before- and after-school program when figuring the credit, but not the cost of the education.



Paula has one dependent child, Jenny, who is 6 years old. She paid \$2,900 in qualified expenses. Paula's Form W-2, Box 10, shows she received \$1,400 during the year from her employer's dependent care assistance program. Because she received dependent care benefits, Form 2441, Part III, must be completed before completing Part II.



Mary has three qualifying children. She received \$4,800 in dependent care benefits through her employer. When Mary figures her credit, her work-related expenses will be limited to \$1,200 (\$6,000 – \$4,800).

Examples from Pub 4491

Question 1: Audrey is a stay-at-home mom. Her husband works and had earned income for the tax year. They have a young son with autism who must be supervised at all times. Audrey volunteers at a local autism information hotline 12 hours a week. She and her husband pay a caregiver to stay with their son during those hours.

Do they qualify for the child and dependent care credit?

- a. Yes
- b. No

Question 2: Why don't Audrey and her husband qualify for the credit? (Select all answers that apply.)

- a. The caregiver expense is not work-related
- b. Their son is not a qualifying person
- c. The caregiver's duties qualify as work-related
- d. They do not pass the earned income test

Resources

- Link and Learn Lesson
 - https://apps.irs.gov/app/vita/content/22s/22_01_005.jsp?level=basic
- Pub 4491-Training Guide
 - <https://www.irs.gov/pub/irs-pdf/p4491.pdf>
- Pub 503-Child and Dependent Care Expenses
 - <https://www.irs.gov/pub/irs-dft/p503--dft.pdf>
- Form 2441-Child and Dependent Care Expenses
 - <https://www.irs.gov/pub/irs-dft/f2441--dft.pdf>
- Instructions for Form 2441
 - <https://www.irs.gov/pub/irs-dft/i2441--dft.pdf>



Questions