



MODULE 6: NONREFUNDABLE CREDITS

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By the end of this module you will...

- Understand how nonrefundable tax credits impact a taxpayer's return
- Learn about the eligibility and required forms for these nonrefundable tax credits:
 - Child Tax Credit
 - Credit for Other Dependents
 - Credit for Child and Dependent Care Expenses
 - Retirement Savers Credit
 - Credit for the Elderly and Disabled



Nonrefundable tax credits

About Nonrefundable Tax 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.
- Taxpayers with no income tax will not benefit from claiming nonrefundable credits.
- Generally, nonrefundable credits are applied against federal income tax in the order they are listed on Form 1040 and Schedule 3.

Nonrefundable Tax Credit Example

- Chris has federal income tax of \$470.
- Chris meets all the eligibility requirements to claim a \$500 Credit for Other Dependents and a \$100 Retirement Savings Credit.
- The total amount of nonrefundable credits Chris qualifies for (\$600) is higher than Chris's income tax (\$470).
- Chris will claim \$470 for the Credit for Other Dependents and his tax will be reduced to \$0.
- The \$130 of unused nonrefundable credit does not have an impact on Chris's return and it is not paid to him as a refund.



Child Tax Credit

Child Tax Credit

- The Child Tax Credit is a nonrefundable credit.
- The maximum credit is \$2,000 per qualifying child.
- Taxpayers who cannot use the maximum nonrefundable credit, may be able to claim the Additional Child Tax Credit, which is covered in Module 7 Refundable Credits.
- To claim the credit, use Form 8812. This form collects information about income, tax liability, and the number of eligible children to figure the amount of the credit.

Qualifying Child for the Child Tax Credit

- In order to be considered a qualifying child for the CTC, a dependent must meet the following requirements:
 - Under age 17 at the end of the tax year
 - A U.S. citizen, U.S. national, or resident alien of the United States
 - Meets the relationship test (see next slide)
 - Claimed as a dependent by the taxpayer (see exception below)
 - Did not provide over half of their own support
 - Lived with the taxpayer for more than six months of the year (see exception below)
 - Have a valid Social Security number

EXCEPTION: Special rules can be applied for divorced or separated spouses.

It is possible for a custodial parent (a parent who has been given physical or legal custody of a child by court order) to allow a noncustodial parent to claim the CTC by signing the form 8332.

Relationship Test for Child Tax Credit

- A qualifying child must be related to the taxpayer in one of these ways to be a qualifying child for the Child Tax Credit:
 - Son or daughter
 - Adopted child
 - Stepchild
 - Eligible foster child
 - Brother or sister
 - Half brother or sister
 - Step brother or sister
 - A descendent of any of the relations listed above (for example, a grandchild, niece, or nephew).

Comparison from Tax Year 2021 to 2022

The Child Tax Credit changed greatly between Tax Year 2021 and 2022. When preparing returns for tax year 2021, use tax resources specific to that year for the Child Tax Credit to ensure correct eligibility and credit amounts are used.

Child Tax Credit	2021	2022
Maximum Credit Per Child (0-5 years old)	\$3,600	\$2,000
Maximum Credit Per Child (6-17 years old)	\$3,000	\$2,000 (under age 17)
Maximum Refundable Child Tax Credit	Fully Refundable	\$1,500 (via the Additional Child Tax Credit [covered in Module 7])
Earned Income Requirements	\$0	\$2,500
Advance credits	Up to half the credit paid to taxpayers in advance	No advance payments



Credit for Other Dependents

Credit for Other Dependents

- The credit is non-refundable.
- The maximum credit amount is \$500 per qualifying dependent.
- The credit cannot be claimed for any dependent that is a qualifying child for the Child Tax Credit.
- The dependent may be a qualifying child or a qualifying relative.
- The dependent can have either an SSN or an ITIN.
- The dependent must be a U.S. citizen, national, or resident of the United States.

Knowledge Check

Francine, age 43, is divorced and earned \$43,000 in 2022. She supports her widowed mother-in-law, Connie, whose only income is social security. Francine's sons, Henry (age 16) and Neal (age 12), and Connie all lived with her in Chicago all year. Her sons do not provide any of their own support.

Everyone in the family has a social security number except Francine and Henry, who have ITINs.

Who can Francine claim for the credit for other dependents?

- ✓ **Connie - Yes.** She is Francine's dependent under the rules for qualifying relative. She is not a qualifying child for the child tax credit because she doesn't pass the relationship or age test.

- ✓ **Henry – Yes.** He qualifies as her dependent under the rules for a qualifying child but she cannot claim him for the child tax credit because he doesn't have an SSN.

- ✗ **Neal – No.** Since he is only 12 and has an SSN, he is Francine's qualifying child for the child tax credit.



Credit for Child and Dependent Care Expenses

Credit for Child and Dependent Care Credit

- This nonrefundable credit allows taxpayers to reduce income tax by a percentage of their total child and dependent care expenses.
- The credit is based on a percentage of expenses. The percentage is determined based on the taxpayer's AGI.
 - The maximum expenses a taxpayer can claim are \$3,000 for one qualifying person or \$6,000 for two or more qualifying people.
 - Expenses do not need to be allocated equally across qualifying people.
- The credit is based on amounts paid for the care of a qualifying person.
 - Child under age 13
 - Spouse who is unable to provide self-care
 - Dependent who is unable to provide self-care
- To claim the credit, use Form 2441. This form collects care expense amounts and figures the amount of the credit.

Taxpayer Eligibility

- There are five tests to determine a taxpayer's eligibility to claim the Child & Dependent Care Credit:
 1. **Qualifying Person Test**
(Must have a qualifying person)
 2. **Earned Income Test**
(Must have earned income)
 3. **Work-Related Expense Test**
(Care must be to enable the taxpayer to work or look for work)
 4. **Joint Return Test**
(Married taxpayers must file a joint return)
 5. **Provider Identification Test**
(The taxpayer must provide the name, address, and tax identification number of the care provider.)



(Note: All five tests must be satisfied by the taxpayer to claim the credit)

Knowledge Check

- Chanteal is single. She works full-time as a data entry clerk.
- Chanteal has two children, Alex and Ashley. Alex is three years old and attends daycare while Chanteal works. Ashley is seven years old and stays in after school care until Chanteal finishes working.
- For the tax year, Chanteal paid \$7,200 to Bright Beginnings Daycare for Alex's care, and \$1,800 to Smith Jones elementary school for Ashley to attend after school care.

What is the maximum amount of expenses that Chanteal can claim for the Child and Dependent Care Credit?

- A. \$3,000
- B. \$4,800
- C. \$6,000
- D. \$9,000

Answer: \$6,000

- The maximum amount of qualified expenses that is allowed for a taxpayer with two or more children is \$6,000. It does not matter that expenses for one of those children--Ashley—was only \$1,800. She had enough expenses for Alex's care to justify the \$6,000 amount.



CREDIT FOR THE ELDERLY OR THE DISABLED

About the Credit for the Elderly and Disabled

- The Credit for the Elderly and the Disabled is a nonrefundable tax credit that reduces the tax burden on individuals who are over age 65 or on total and permanent disability.
- If the taxpayer is not over age 65, but is on permanent and total disability, they will need to obtain a Physician's Statement.
 - The IRS does not need a copy of this statement, but it should be kept in the records of the taxpayer as it will be required by the IRS in the event of an audit.
- To claim the credit, use Schedule R. This form will determine the taxpayer's eligibility, certify that they filled out the Physician's Statement (if necessary), and calculate the credit amount.

Who qualifies for the Credit for the Elderly or the Disabled?

1. The taxpayer must be a U.S. citizen or resident alien and either of the following:
 - Age 65 or older at the end of the tax year; or
 - Under age 65 at the end of the tax year, and all three of the following statements are true:
 1. Retired on permanent and total disability (explained later);
 2. Received taxable disability income for the tax year;
 3. On January 1st, had not reached mandatory retirement age.
2. The taxpayer must have income below certain AGI and nontaxable guidelines.
 - For example, the limits for single filers are AGI below \$17,500 with nontaxable income below \$5,000.
 - Guidelines for other filing statuses are outlined in Publication 4012.
3. The taxpayer cannot be married and filing a separate return from their spouse who lived with them.



RETIREMENT SAVERS CREDIT

About the Retirement Savings Credit

- The Retirement Savings Credit is a nonrefundable credit to encourage workers to voluntarily contribute to their retirement accounts.
- Credit is also known as the “Saver’s Credit”.
- Taxpayers have up until the due date of their tax return to make contributions to a qualified retirement account and qualify for the credit for that tax year.
- To claim the credit, use Form 8880. This form collects retirement account contribution amounts, retirement account distribution amounts, and figures the amount of the credit.

Who qualifies for the Retirement Savers Credit?

- Older than 18
- Not a full-time student
- Not claimed as a dependent on another person's tax return
- Income below certain AGI limits (see limits in Publication 4012)



Retirement Savers Credit Calculations

- Qualified retirement account contributions of up to \$2,000 may qualify the taxpayer for a credit of up to \$1,000 (contributions of up to \$4,000 if married filing jointly can qualify taxpayers for a credit of up to \$2,000.)
- The credit is based on a percentage of contributions. The percentage is determined based on the taxpayer's AGI.
- Distributions from a retirement account during the past three years reduce the amount of qualified contributions used to compute the credit.

Credit Rate	Married filing jointly	Head of household	All other Filers (single, married filing separately, or qualifying surviving spouse)
50% of your Contribution	AGI not more than \$41,000	AGI not more than \$30,750	AGI not more than \$20,500
20% of your Contribution	AGI between \$41,001 - \$44,000	AGI between \$30,751 - \$33,000	AGI between \$20,501 - \$22,000
10% of your Contribution	AGI between \$44,001 - \$68,000	AGI between \$33,001 - \$51,000	AGI between \$22,001 - \$34,000
0% of your Contribution	AGI more than \$68,000	AGI more than \$51,000	AGI more than \$34,000

Eligible Retirement Accounts

- Traditional IRA
- Roth IRA
- 401(k)
- SIMPLE IRA
- SARSEP
- 403(b)
- 501(c)(18)
- Governmental 457(b) plan
- After-tax employee contributions to your qualified retirement and 403(b) plans

Contributions to an employer-sponsored retirement plan will be listed in box 12 of Form W2. Other taxpayer records are needed for contributions to non-work plans.

a Employee's social security number		This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction may be imposed on you if this income is taxable and you fail to report it.				
		OMB No. 1545-0008				
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld			
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld			
		5 Medicare wages and tips	6 Medicare tax withheld			
		7 Social security tips	8 Allocated tips			
d Control number		9 Verification code	10 Dependent care benefits			
e Employee's first name and initial Last name Suff.		11 Nonqualified plans		12a See instructions for box 12		
		13 Statutory employee <input type="checkbox"/>	Retirement plan <input type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b	
		14 Other		12c		
				12d		
f Employee's address and ZIP code						
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Knowledge Check

- Example 1:
 - Single Filer
 - \$20,000 AGI
 - \$1,000 contribution
 - $\$1,000 \times 50\% = \500 Credit
- Example 2:
 - Single Filer
 - \$21,000 AGI
 - \$2,500 contribution
 - $\$2,000 \times 20\% = \400 (Credit is based on a maximum contribution of \$2,000)
- Example 3:
 - MFJ
 - \$58,000 AGI
 - \$2,000 contribution
 - $\$2,000 \times 10\% = \200 Credit

