



# Module 7: REFUNDABLE CREDITS

# By the end of this module you will...

- Understand the Earned Income Tax Credit (EITC)
- Understand how a Taxpayer Qualifies for EITC
- Know what Rules Apply
- Know what Qualifies as Earned Income
- Know what Income does not qualify for the EITC

# In this module...

## Earned Income Tax Credit

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- [How a Taxpayer Qualifies for the EITC](#)
- [What Rules Apply](#)
- [What Qualifies as Earned Income](#)
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# What is the Earned Income Tax Credit (EITC)


# What is the Earned Income Tax Credit (EITC)

- The Earned Income Tax Credit is a tax benefit that can serve as a financial supplement for taxpayers with low to moderate working incomes, particularly those individuals with children. Millions of workers qualify for the EITC.
- The EITC is a completely refundable tax credit, which would indicate that the taxpayer may get money back, even if no taxes are owed to the Internal Revenue Service (IRS).
- The two main factors when calculating the amount of the EITC depend on the recipient's income and number of qualifying children.

18	Add lines 16 and 17		18
19	Nonrefundable child tax credit or credit for other dependents from Schedule 8812		19
20	Amount from Schedule 3, line 8		20
21	Add lines 19 and 20		21
22	Subtract line 21 from line 18. If zero or less, enter -0-		22
23	Other taxes, including self-employment tax, from Schedule 2, line 21		23
24	Add lines 22 and 23. This is your <b>total tax</b>		24
25	Federal income tax withheld from:		
a	Form(s) W-2	25a	
b	Form(s) 1099	25b	
c	Other forms (see instructions)	25c	
d	Add lines 25a through 25c		25d
26	2021 estimated tax payments and amount applied from 2020 return		26
27a	Earned income credit (EIC) Check here if you were born after January 1, 1998, and before January 2, 2004, and you satisfy all the other requirements for taxpayers who are at least age 18, to claim the EIC. See instructions <input type="checkbox"/>	27a	
b	Nontaxable combat pay election	27b	
c	Prior year (2019) earned income	27c	
28	Refundable child tax credit or additional child tax credit from Schedule 8812	28	

# What is the Earned Income Tax Credit (EITC)

- The Schedule EIC – Earned Income Credit – must be completed and accompany the tax return.
  - Qualifying child name, social security number, year of birth, the number of months live with the taxpayer, designate if the qualified child is a full-time student or if permanently and totally disabled for the tax year.
- If the EIC was denied or reduced for any reason other than a math or clerical error, taxpayer must attach a Form 8862.

<b>SCHEDULE EIC</b> (Form 1040)	<b>Earned Income Credit</b> Qualifying Child Information		OMB No. 1545-0074
Department of the Treasury Internal Revenue Service (99)	<b>▶ Complete and attach to Form 1040 or 1040-SR only if you have a qualifying child.</b> <b>▶ Go to <a href="http://www.irs.gov/ScheduleEIC">www.irs.gov/ScheduleEIC</a> for the latest information.</b>		<b>2021</b> Attachment Sequence No. <b>43</b>
Name(s) shown on return	Your social security number		
If you are separated from your spouse, filing a separate return and meet the requirements to claim the EIC (see instructions), check here <input type="checkbox"/>			

# What is the EITC?

- The **maximum** amount of credit for the 2021 Tax Year is:
  - \$1,502 with no qualifying children
  - \$3,618 with one qualifying child
  - \$5,980 with two qualifying children
  - \$6,728 with three or more qualifying children



# How a Taxpayer Qualifies for the EITC



# How a Taxpayer Qualifies for the EITC

In order to qualify for the Earned Income Tax Credit, an individual must meet all the following criteria:

- Have earned income in the tax year
- Been a citizen of the U.S. or a resident alien for the entire duration of the tax year
- Have a valid social security number for yourself, your spouse, and any qualifying child by the due date of your 2021 return (including extensions).
- Investment income cannot exceed \$10,000.
- The taxpayer cannot use the MFS filing status
- The taxpayer cannot file Form 2555 – related to foreign income
- If no qualifying children:
  - 24, if a student at least 5 months
  - 18, if in foster care after turning 14 or homeless in any taxable year
  - 19, for all other non-student taxpayers
  - No upper age limit
  - Can't be a dependent of another person
  - Can't be a qualifying child of another person
  - Must have lived in the United States more than half of the year



# What Rules Apply

# What Rules Apply To The Taxpayer

In addition to the Requirements on slide 8, there are income thresholds that must be met.

For the 2021 tax year, the Earned Income and Adjusted Gross Income must not exceed the following thresholds.

- \$21,430 if you are not claiming a child, (\$27,380 if you are filing jointly)
- \$42,158 if you are claiming one qualifying child, (\$48,108 if you are filing jointly)
- \$47,915 if you are claiming two qualifying children, (\$53,865 if you are filing jointly)
- \$51,464 if you are claiming three or more qualifying children, (\$57,414 if you are filing jointly)

# Qualifying Child Rules

According to the IRS, your child must have a Social Security Number (therefore, ITINs are not applicable) and must pass all the following tests:

## Relationship

- The following will satisfy the relationship requirement.
  - Your son, daughter, adopted child, stepchild, foster child or a descendant of any of the previously stated relationships (e.g., your grandchild).
  - Your brother, sister, half brother, half sister, step brother, step sister or a descendant of any of them (e.g., a niece or nephew).

## Age

- At the end of the filing year, your child was younger than you and younger than 19.
- At the end of the filing year, your child was younger than you, younger than 24 and a full-time student.
- At the end of the filing year, your child was any age and permanently and totally disabled.

## Residency

- Your child must have lived with you for more than half of the year.

## Joint Return

- The child can't file a joint return for the year

# Income Qualifications

# What Qualifies as Earned Income

Earned Income can be classified as income that you have had to work for.

Income that is generated from interest, rental income, investment dividends, unemployment, worker's compensation and pensions will **not** count as earned income.

The IRS explicitly defines the following as earned income:

- Income earned as an employee (Form W-2)
- Net Earnings from operating a business (Form 1099-MISC, 1099-K, and cash)
- Some Union strike benefits qualify



# What Doesn't Qualify?

As mentioned earlier in this module, the IRS has explicit classifications for unearned income.

This type of income does not involve direct forms of active work or a business venture/activity to receive that income. Some examples of these income sources are:

- Alimony or Child Support
- Unemployment or Worker's Compensation
- Any income that has been received while incarcerated
- Inheritances
- Gifts, gambling winnings, and awards
- Investment Income, Dividends, Interests
- Pension or annuity from deferred compensation plans





# Re-Cap



# Re-Cap

- The Earned Income Tax Credit is a tax benefit for taxpayers with low to moderate working incomes, particularly those with children.
- The EITC is a refundable tax credit, which would indicate that the taxpayer may get money back, even if no taxes are owed to the IRS.
- Earned Income can be classified as income that you have had to work for. Income that is generated from interest, rental income, investment dividends, unemployment, worker's compensation and pensions will not count as earned income.
- Qualifications must be met by the taxpayer(s).
  - Note: Reference slide 10 for the Qualifying Child Rules.
- The **maximum** amount of credit for the 2021 Tax Year is:
  - \$1,502 with no qualifying children
  - \$3,618 with one qualifying child
  - \$5,980 with two qualifying children
  - \$6,728 with three or more qualifying children



# Knowledge Check - Scenario

# Knowledge Check - Scenario

- Let's say Mr. and Mrs. Smith are a married couple with two small children. Their income last tax year was a combined \$50,000 of wages. With their combined income, and the two qualifying children, their maximum EITC will be \$5,980 which will be a refundable tax credit.
- The actual amount of EITC decreases with higher income. For tax year 2021, the Smith's EITC would be \$890. If their income had been only \$40,000, their EITC would have been \$2,915.
- See this chart to figure out the maximum credit amounts.
  - \$1,502 with no qualifying children
  - \$3,618 with one qualifying child
  - **\$5,980 with two qualifying children**
  - \$6,728 with three or more qualifying children

# Knowledge Check

Additional Resources:

- [Qualifying for the Earned Income Tax Credit](#)
- [2021 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates](#)
- [Volunteer Resource Guide, Publication 4012](#)

# Credit for Child and Dependent Care Expenses

# Credit for Child and Dependent Care Expenses

- This credit allows taxpayers to reduce income tax by a percentage of their total child and dependent care expenses.
- This credit is typically nonrefundable; however, The Child and Dependent Care Credit is fully refundable – a direct dollar-for-dollar reduction of taxpayer’s liability in which one still receives a tax refund even if one’s liability drops below zero – for TY2021!
- For 2021, up to 50% of the expenses are refundable.
- The credit is based on amounts paid for the care of a qualifying person.

A qualifying person can be any one of the following:

- Child under 13
- Spouse who is unable to provide self-care
- Dependent who is unable to provide self-care



# Taxpayer Eligibility

# 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)
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)*

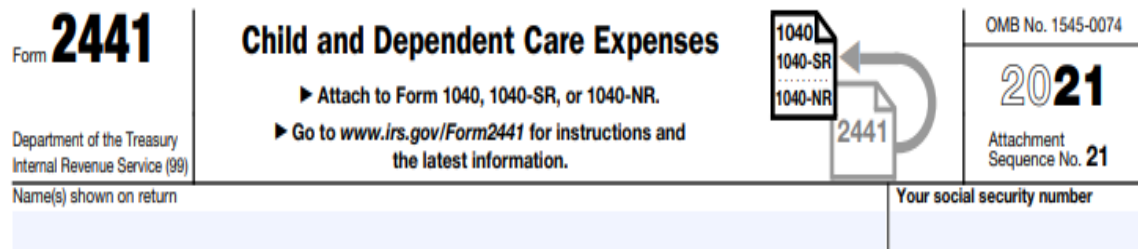




# Determining the amount of the credit

# How is the amount of the credit determined?

- [Form 2441](#) must accompany any returns claiming the Credit for Child and Dependent Care Expenses
- Taxpayers must provide eligible expenses for child and dependent care
- The credit is claimed on Schedule 3, Additional Credits and Payments and accompanied by Form 2441.
- The resulting credit amount is transferred to Form 1040 or Form 1040-SR, line 31 (if residency requirement is met).



Form **2441** | **Child and Dependent Care Expenses**

Department of the Treasury  
Internal Revenue Service (99)

▶ Attach to Form 1040, 1040-SR, or 1040-NR.  
▶ Go to [www.irs.gov/Form2441](http://www.irs.gov/Form2441) for instructions and the latest information.

OMB No. 1545-0074  
**2021**  
Attachment Sequence No. **21**

Name(s) shown on return | Your social security number

1040  
1040-SR  
1040-NR  
2441

**NOTE:** The software will calculate the amount of the credit for you.



# Re-Cap

# Re-Cap

- The credit for child and dependent care expenses allows taxpayers to reduce income tax by a percentage of the total paid during the year for child and dependent care.
- For Tax Year 2021 this credit is a refundable credit if the 6-month residency requirement is met. Otherwise, the credit is nonrefundable that reduces a taxpayer's income tax liability by a percentage of the total paid for child and dependent care.
- There are five qualifying tests that must be met to be eligible to claim the credit:
  1. Qualifying Person Test
  2. Earned Income Test
  3. Work-Related Expense Test
  4. Joint Return Test
  5. Provider Identification Test
- Form 2441, Credit for Child and Dependent Care Expenses is used to claim the credit
- The resulting credit amount is claimed on Schedule 3, line 2 (nonrefundable) and line 13g (refundable) and transferred to Form 1040 or Form 1040-SR, line 20 if credit is nonrefundable or line 31 if the credit is refundable.

# Knowledge Check

## Additional Resources:

- [IRS Publication 4012 \(G10-14\)](#)
- [IRS Publication 4491 \(22-1\)](#)



# Child Tax Credit & Credit For Other Dependents

# By the end of this module you will...

- Understand the difference between the Child Tax Credit, Additional Child Tax Credit, and Credit for Other Dependents
- Determine the taxpayer's eligibility for the Child Tax Credit(s)
- Calculate the amount of the credit(s)
- Identify what documentation is needed for filing



# Child Tax Credit (CTC)



# Child Tax Credit

The **Child Tax Credit (CTC)** is a **now-refundable tax credit** (for TY2021) that allows taxpayers to claim a **maximum of \$3,600 per child** to reduce their overall tax liability.

Up to \$1,800 of the credit is available as an advance credit that was paid from July – December 2021. This advanced credit will need to be reported on tax returns on TY 2021!

# Child Tax Credit Payments

Child Tax Credit	2021	2020
Maximum Credit Per Child (0-5 years old)	<b>\$3,600</b>	\$2,000
Maximum Credit Per Child (6-17 years old)	<b>\$3,000</b>	\$2,000 (up to 16 years old)
Maximum Refundable Child Tax Credit	<b>Fully Refundable</b>	\$1,400
Nonrefundable Credit for Other Dependents	\$500	\$500



# Taxpayer Qualifications & Eligibility Requirements

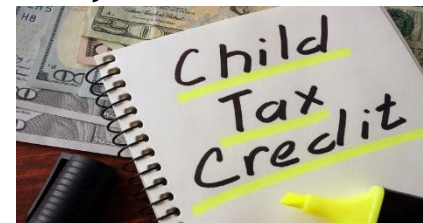
# Q. Who can claim child tax credits (CTC)?

A. Any taxpayer with a “Qualifying child” can claim the credits

*In order to be considered a qualifying child for the CTC, a dependent must be:*

- Under age 18 on December 31 of the tax year, who
- Lived with the taxpayer for more than six months of the year,
- 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, and
- **Has a valid Social Security number**

This is a BIG change from previous years



*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.*



# Credit for Other Dependents

# Credit for Other Dependents

Beginning with tax year 2018, taxpayers may claim the **Credit for Other Dependents** when they have someone who qualifies as a dependent who is not a qualifying child for the child tax credit.

- 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.

# Credit for Other Dependents Example

Francine, age 43, is divorced and earned \$43,000 in 2021. 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.



# Re-Cap



# Re-Cap

- The **Child Tax Credit** is a refundable tax credit that allows taxpayers to claim a maximum credit of **\$3,600** per child.
- Half of the credit was paid to many household as a monthly payment in 2021.
- The **Credit for Other Dependents** is a **nonrefundable tax credit (maximum \$500)** for dependents who do not otherwise qualify for the CTC

Child Tax Credit	2021	2020
Maximum Credit Per Child (0-5 years old)	<b>\$3,600</b>	\$2,000
Maximum Credit Per Child (6-17 years old)	<b>\$3,000</b>	\$2,000 (up to 16 years old)
Maximum Refundable Child Tax Credit	<b>Fully Refundable</b>	\$1,400
Nonrefundable Credit for Other Dependents	\$500	\$500

# Knowledge Check - Scenario

- Jon Smith has three children ages 10, 15 and 16.
- The Child Tax Credit for 2021 can equate to up to \$3,000 per child on Mr. Smith's tax return.
- With Mr. Smith's oldest child being under the age of 18 at the end of the calendar year this child is included in the calculation of the applied Child Tax Credit.

## Calculation:

With three children all under the age of 18, Mr. Smith can expect to reduce his income tax bill by up to \$9,000.

# Knowledge Check

## Additional Resources:

- [Five Things You Should Know about the Child Tax Credit](#)
- [Is My Child a Qualifying Child for the Child Tax Credit?](#)
- [IRS Publication 4491 \(25-1\)](#)

Up Next...

**Module 8: Education Benefits Overview**