



# Module 6

## NONREFUNDABLE CREDIT

*Special thanks to: Cara Cardotti and Rebecca Thompson for their contributions to this module.*



## Objectives

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

- Understand how nonrefundable tax credits impact a taxpayer's return
- Learn about the eligibility requirements and forms for these nonrefundable tax credits:
  - Child Tax Credit (CTC)
  - Credit for Other Dependents (OCD)
  - Credit for Child and Dependent Care Expenses
  - Retirement Saver's Credit
  - Credit for the Elderly and Disabled
  - Other Common Nonrefundable Credits

## Overview

# Topics in this Module

- Overview of Nonrefundable Credits
- Child Tax Credit
- Credit for Other Dependents
- Credit for Child and Dependent Care Expenses
- Credit for the Elderly or the Disabled
- Retirement Savers Credit

*Note: Educational Credits, a portion of which are nonrefundable, are covered in Module 8.*

# Nonrefundable Tax Credits

# About Nonrefundable Tax Credits

- A nonrefundable credit...
  - is a dollar-for-dollar reduction of the tax liability
  - 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 obligation of \$400.
- Chris meets all the eligibility requirements to claim a \$500 Credit for Other Dependents (OCD).
- The total amount of nonrefundable credits Chris qualifies for (\$500) is higher than Chris's income tax (\$400).
- Chris will claim \$400 for the Credit for Other Dependents and his tax will be reduced to \$0.
- The \$100 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 (CTC)

## ELIGIBILITY:

- SSN (Parents and children) if MFJ, at least one spouse must have an SSN
- Must be a qualifying child under the age of 17 at the end of the year
- Must meet the relationship test

## MAXIMUM CREDIT:

- \$2,200 per qualifying child

## FORM USED:

- 8812

## NOTES:

Taxpayers with a tax liability less than the maximum CTC, may be able to claim the **Additional Child Tax Credit (ACTC), which is covered in Module 7 Refundable Credits.**



# 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. Non-custodial parents must include the signed form each year the custodial parent provides the release.*

# Relationship Test for the 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 Half sister
  - Stepbrother or Stepsister
  - A descendent of any of the relations listed above (for example, a grandchild, niece, or nephew).

## Comparison from Tax Year 2023 through 2025

Child Tax Credit	2023	2024	2025
<b>Maximum Credit Per Child (0-17 years old)</b>	\$2,000 (under age 17)	\$2,000 (under age 17)	\$2,200 (under age 17)
<b>Maximum Refundable Child Tax Credit</b>	\$1,600 via the Additional Child Tax Credit (covered in Module 7)	\$1,700 via the Additional Child Tax Credit (covered in Module 7)	\$1,700 via the Additional Child Tax Credit (covered in Module 7)
<b>Earned Income Requirements</b>	\$2,500	\$2,500	\$2,500
<b>Advance credits</b>	No advance payments	No advance payments	No advance payments

# Credit for Other Dependents

# Credit for Other Dependents

## **ELIGIBILITY:**

- 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.

## **MAXIMUM CREDIT:**

- \$500 per qualifying dependent.

## **FORM USED:**

- 8812

## **NOTES:**

- 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.

## Knowledge Check

# Credit for Other Dependents

Francine, age 43, is divorced and earned \$43,000 in 2025. 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 - Yes.** Since Francine doesn't have an SSN, she cannot claim the child tax credit for Neal, but she can claim the credit for other dependents for him.

## Additional Resources

- [What is the Child Tax Credit](#)
- [Is My Child a Qualifying Child for the Child Tax Credit?](#)
- [IRS Publication 4491](#)

# Credit for Child and Dependent Care Expenses



# Credit for Child and Dependent Care Expenses

## **ELIGIBILITY:**

- 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

## **MAXIMUM CREDIT:**

- The credit is based on a percentage of expenses 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.

## **FORM USED:** 2441

## **NOTES:**

- Expenses do not need to be allocated equally across qualifying people.
- Cannot include any amounts paid to a person claimed as a dependent or a child who was under age 19, even if the taxpayer can't claim them as a dependent.

# 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. Taxpayer (and spouse if filing jointly) 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

# Child and Dependent Care Credit

- 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: C. \$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.*

## Additional Resources

- [IRS Publication 4012](#)
- [IRS Publication 4491](#)

# Credit for the Elderly or Disabled

# Credit for the Elderly or Disabled

## ELIGIBILITY:

- 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:
    - Retired on permanent and total disability
    - Received taxable disability income for the tax year
    - Had not reached mandatory retirement age on January 1
- The taxpayer must have income below certain AGI and nontaxable limits (see Publication 4012)

## FORM USED:

- Schedule R

## NOTES:

- The taxpayer cannot be married and filing a separate return from their spouse who lived with them.
- If the taxpayer is not age 65 or older, 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.

# Credit for the Elderly or Disabled Income Limits

IF you are...	THEN you generally can't take the credit if...	
	Your adjusted gross income (AGI) is equal to or more than...	OR the total of your nontaxable Social Security and other nontaxable pension annuities or disability income is equal to or more than...
single, head of household, or qualifying surviving spouse with dependent child	\$17,500	\$5,000
married filing a joint return and both spouses qualify in Figure A	\$25,000	\$7,500
married filing a joint return and only one spouse qualifies in Figure A	\$20,000	\$5,000
married filing a separate return and you lived apart from your spouse for all of 2025	\$12,500	\$3,750

## Additional Resources

- [IRS Instructions for Schedule R](#)
- [IRS Publication 4012](#)
- [IRS Publication 17](#)
- [IRS Publication 554](#)



# Retirement Savings Contributions Credit (Saver's Credit)

# Retirement Savings Contributions Credit (Saver's Credit)

*Encourages workers to voluntarily contribute to their retirement accounts.*

## **ELIGIBILITY:**

- 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)

## **MAXIMUM CREDIT:**

- 50% of contribution (based on calculations - see next slide)

## **FORM:**

- 8880 (This form collects retirement account contribution amounts, retirement account distribution amounts, and figures the amount of the credit.)

## **NOTES:**

- 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.

# Retirement Savings 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.

<b>Credit Rate (as % of your contribution)</b>	<b>AGI Married Filing Jointly</b>	<b>AGI for Head of Household</b>	<b>AGI for Single, Married Filing Separately, or Qualifying Surviving Spouse</b>
50%	not more than \$47,500	not more than \$35,625	not more than \$23,750
20%	\$47,501–\$51,000	\$35,626–\$38,250	\$23,751–\$25,500
10%	\$51,001–\$79,000	\$38,251–\$59,250	\$25,501–\$39,500
0%	more than \$79,000	more than \$59,250	more than \$39,500

# 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
- ABLE accounts for which you are the designated beneficiary

*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		OMB No. 1545-0008		This information is being furnished to the Internal Revenue Service. Taxpayers are required to file a tax return, a negligence penalty may be imposed on you if this income is taxable and	
b Employer identification number (EIN)				1 Wages, tips, other compensation		2 Federal income tax	
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security taxes	
				5 Medicare wages and tips		6 Medicare taxes	
				7 Social security tips		8 Allocated tips	
d Control number				9 Verification code		10 Dependent care	
e Employee's first name and initial Last name				11 Nonqualified plans		12a See instructions	
				13 Statutory employee Retirement plan Third-party sick pay		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	

## Knowledge Check

# Retirement Savings

- Example 1:
  - Single Filer
  - \$20,000 AGI
  - \$1,000 contribution
  - $\$1,000 \times 50\% = \$500$  Credit
  
- Example 2:
  - Single Filer
  - \$24,000 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

## Additional Resources

- [IRS Publication 590](#)
- [IRS Form 8880](#)
- [What the IRS has to offer and say about the Saver's Credit](#)

# Thank you for completing the training!

End of Module

