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CHILD AND DEPENDENT CARE CREDIT

By Victor Sy, CPA, MBA

Child care credit is deducted from your tax on a dollar for dollar basis, unlike an expense deduction that could yield a mere 15 to 40 cents to a dollar. A contribution of \$100 could reduce your income tax by \$15 to \$40. Credit card interest for personal purchases yields nothing. On the other hand, a \$500 child care credit reduces your tax by a full \$500. This is what is meant by the term "dollar for dollar."

Here are 20 child care tips for you

1. You may get a tax credit for costs of **pre-school, nursery and kindergarten schooling**. The costs of schooling in the first grade or higher are not eligible, but the costs of attending to your children before or after classes are still deductible.
2. New law increased qualified childcare expenses from \$2,400 to **\$3,000** for one qualifying dependent and from \$4,800 to **\$6,000** for two or more dependents.
3. The applicable percentages were also increased from 20 – 30% to **20 – 35%**.
4. These increases in both dollar amounts and percentages result in expanded amounts of \$1,050 for one and \$2,100 for two or more qualifying individuals (child, grandparent).
5. A **self-employed taxpayer** with less than \$400 of earned income may elect the optional method of figuring self-employment tax and claim \$1,600 of earned income for this purpose.
6. Both you and your spouse must be employed because the credit is based on the lesser-earned income. If one earns \$20,000 but the other spouse earns nothing, the qualifying expense is based on the lesser income of nothing resulting in a credit of zero.
7. You can get around this disadvantage if you (or your spouse) are a **full-time student**. You may claim an imputed (assumed) income of **\$250** per month for one or **\$500** for two or more qualifying individuals.
8. You must furnish **more than half the cost of maintaining a house** that is the principal residence of yourself and your qualifying individual.
9. Your dependent must be **under 13 years old** as of December 31.
10. The costs of **household service** (maid or cook) are considered employment expenses to the extent that they are attributable to a dependent. All expenses for household service become work-related even if only part is used for your dependent. This is a goodie.
11. Generally, all expenses for the care of a qualifying individual are allowed provided they are incurred for the well being of the qualifying person.

12. Employment taxes such as FICA, SUI, FUTA paid for your household employee are qualified expenses.
13. Day camps are generally OK but an overnight summer camp does not qualify anymore because it is educational in nature.
14. Tutoring programs do not qualify because it is also educational in nature.
15. Expenses outside your home for your physically **handicapped** dependent qualify regardless of age.
16. **Day-care centers** must be certified if they care for six or more individuals.
17. Baby-sitting expenses **paid to a dependent or your child** under age 19 does not qualify. For example, payments to your 16-year old daughter cannot qualify (but payments to your father who is not your dependent qualify).
18. Use **Form 2441** to compute your child care credit.
19. Use Schedule H for reporting payroll taxes (Nanny tax) of household employees when cash remuneration exceed \$1,400. Attach this schedule to your individual income tax 1040.
20. Married taxpayers must file **jointly**. Married taxpayers filing separately are not entitled to child care credit.

Development: In the case of a married taxpayer student, the cost of child care while studying **on line at home** is not a qualified expense for the deemed income rule. The statute requires that students attend a place where educational activities are regularly carried on.