

Child Tax Credit





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What is the child tax credit?

The child tax credit is a tax break for parents. The credit is \$1,000 for each qualifying child.

Tip: A tax credit represents a dollar-for-dollar reduction of your income tax liability. A deduction, in contrast, only reduces your taxable income.

Who is a qualifying child for the purposes of the child tax credit?

A uniform definition of a qualifying child applies to all child-related tax benefits, including the child tax credit. Under the uniform definition, a qualifying child for the purposes of the child tax credit must meet all of the following tests:

- The child has the same principal abode as the taxpayer for more than half the year (temporary absences due to special circumstances are not treated as absences)
- The child must be the taxpayer's son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, or a descendent of such individuals. A child who is legally adopted by, or lawfully placed for adoption with the taxpayer is a qualifying child. A foster child who is placed with the taxpayer by an authorized agency, judgment, decree, or other such order is also a qualifying child.
- The child must be under age 17

If a child would be a qualifying child with respect to more than one individual (e.g., a child lives with his or her mother and grandmother in the same residence) and more than one person claims a benefit for the child, then the following tie-breaking rules apply:

- If only one of the individuals claiming the child as a qualifying child is the child's parent, the child is deemed the qualifying child of the parent
- If both parents claim the child and the parents do not file a joint return, then the child is deemed a qualifying child of: (1) the parent with whom the child resides for the longest period of time, or (2) if the child resides with both parents for the same amount of time, of the parent with the highest adjusted gross income
- If the child's parents do not claim the child, then the child is deemed a qualifying child with respect to the claimant with the highest adjusted gross income

Your ability to claim the credit depends on your income level

The credit is limited if your modified adjusted gross income is above a certain amount. The thresholds vary, depending on your filing status. The credit begins to phase out by \$50 for each \$1,000 above the following thresholds:

- \$110,000 for joint filers
- \$75,000 for single and head of household filers
- \$55,000 for those married filing separately

The level at which the credit is completely phased out is based on the number of children you have. For instance, a married couple with one child and an adjusted gross income (AGI) of \$130,000 isn't entitled to a credit. Their AGI is \$20,000 more than the \$110,000 phaseout threshold for joint filers ($\$130,000 - \$110,000 = \$20,000$ excess AGI). While they would ordinarily be entitled to a \$1,000 credit for one child, their excess AGI means they face a phaseout of the same amount (\$50 for every \$1,000 over the \$110,000 threshold, or $\$50 \times 20$). As a result, they are entitled to



\$0 credit.

For more information, see IRS Publication 972.

Calculating the credit

A set of questions in the Form 1040 instructions determines whether your child tax credit should be calculated using the Child Tax Credit Worksheet, or calculated using Publication 972. (Generally, taxpayers who are subject to the income phaseout rules must use Publication 972.)

Refundable portion of child tax credit ("additional child tax credit")

In the past, the child tax credit was generally nonrefundable. Essentially, this meant it was allowed only to the extent that it reduced your regular tax liability plus your alternative minimum tax liability. As a result, many lower-income parents--who couldn't claim the full credit--didn't derive much benefit from it. Beginning in 2001, a portion of the credit became refundable for certain taxpayers who had at least one qualifying child. Such taxpayers may now obtain a refund if the credit exceeds their regular tax or AMT liability.

Currently, the credit can result in a refund for as much as 15 percent of your earned income in excess of \$3,000, up to the \$1,000 per-child credit amount. For instance, if you earn income of \$14,000 in 2013, \$1,650 of your credit may be refundable ($(\$14,000 - \$3,000) \times 15\%$). You must use Form 8812 to claim the additional child tax credit.

Special rules may apply if you have three or more qualifying children and are eligible for the earned income credit (EIC). The child tax credit will be refundable under the prior law rules or the new law rules, whichever produces the greater credit. More specifically, parents with three or more children will be allowed a refundable credit for the amount by which their Social Security taxes exceed their EIC (as under prior law) if that amount is greater than the refundable credit based on their earned income over \$3,000.

Tip: For 2009 to 2017, the Recovery and Reinvestment Act of 2009, the Tax Relief, Unemployment Insurance Reauthorization, and Job Act of 2010, and the American Taxpayer Relief Act of 2012 increased the refundable portion of the child tax credit to 15 percent of earned income in excess of \$3,000. Prior to the Acts, the refundable portion for 2009 was limited to 15 percent of earned income in excess of \$12,550.

Limits on the child tax credit

The nonrefundable portion of the child tax credit is limited to total tax (regular tax plus alternative minimum tax) reduced by any other nonrefundable personal credits claimed (other than the adoption tax credit and the tax credit for IRAs and retirement plans) and the foreign tax credit. The nonrefundable portion of the child tax credit is also reduced by the refundable portion of the child tax credit (the "additional child tax credit").

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