The Earned Income Credit (EIC) and Child Tax Credit (CTC) Can Help Workers Who Are Foster Parents

What do we know about foster parents and foster children in the U.S.?

Approximately 700,000 children were in the foster care system at some point during 2009. Almost a quarter of foster children (24%) were in relative homes (also known as kinship care), nearly half (48%) were in non-relative foster family homes, and the remaining 28% received care in other settings, such as group homes, pre-adoptive homes and supervised independent living.

Claiming these tax credits could be especially beneficial for eligible foster parents:

- Households with foster children are more likely than other households with children to receive cash public assistance (i.e., TANF and SSI), and about equally likely to receive food stamps.
- 80% of households with foster children include at least one person who worked either full time (56%) or part time (24%).
- A larger share (27%) of households with foster children earn less than $30,000 compared to other households with children (24%).
- About 15% of households with foster children include a householder or spouse with a disability compared to 7% of all households with children.

**Data from the U.S. Children's Bureau FY 2009Adoption and Foster Care Analysis and Reporting System (AFCARS), 2009 American Community Survey (ACS), and the March 2010 Current Population Survey (CPS).*

What is foster care?

Foster care is defined as "24 hour substitute care for children outside their own homes." Relative and nonrelative foster parents are usually licensed by the county or state, indicating that their homes have been assessed for basic health and safety standards, and that the caregivers have participated in at least minimal training to provide care and supervision for a child. Non-relative foster parents as well as relatives must go through a foster care agency to legally become a foster family and to receive foster care payment reimbursements. Although foster families are increasingly comprised of extended family members, relatives have no legal obligation to become a child's caregiver.

What do foster parents need to know about the rules for claiming the EIC and CTC?

To claim the EITC and CTC, the foster child must live with the foster parent for more than half the year. The foster parent must have earned income during the year. A foster child must be placed with a foster family by an authorized government or private placement agency, such as a licensed foster care agency, state agency or court. In addition, a foster child must meet the same age requirements that apply to other qualifying children. The foster child does not have to be in the foster parent's home at the end of the year to be claimed.

Can foster parents claim foster youth who transition out of the foster care system?

In 2009, almost 30,000 young people transitioned out of foster care at the age of 18. Unless the child is otherwise related to the foster parent (i.e., grandchild, niece, nephew, or sibling), the child can no longer be claimed for the EIC or CTC. If the transitioning youth qualifies for a state's "foster to 21" program, he or she could still be claimed for the EIC.

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820 First Street, NE, Suite 510 • Washington, DC 20002 • 202.408.1080 • Fax 202.408.1056 • center@cbpp.org • www.cbpp.org

Must a foster parent have legal guardianship to claim a foster child for these tax credits?

No! Legal guardianship of a foster child is not a requirement to claim the EIC or CTC. As long as a foster parent is within the income guidelines for the EIC or CTC, he or she can claim these tax credits. For additional information please refer to the National Foster Parent Association's publication, *Federal Tax Benefits Tax Year 2009* at www.nfpainc.org.

Do foster payments count as income when determining eligibility for the tax benefits?

Foster care payments generally do not count as income when determining eligibility for the EIC or the CTC. Instead, foster care payments are considered "reimbursement" to a foster parent for volunteering to care for a foster child. For the CTC, the child's foster care payments or other income cannot provide more than half of the child's support.

What is the difference between an *adopted child* and a *foster child* for the EIC and the CTC?

Adopted child. The term "adopted child" includes a child who is lawfully placed with a guardian for legal adoption. An adopted child, or a child in the process of being adopted living with the worker, is eligible to be claimed for these tax credits if the child satisfies all of the eligibility requirements of a qualifying child. (For the EIC, such a child must have a Social Security number; a child with a temporary Adoption Taxpayer Identification Number – ATIN – can't be claimed for the EIC.) An adopted child is treated the same as a son or daughter for purposes of tax credit eligibility.

Foster Child. A foster child is a child who is placed with a foster parent by an authorized government or private placement agency, or court. A foster child is eligible to be claimed for these tax credits if he or she satisfies all of the eligibility requirements of a qualifying child.

Are there other tax credits that adoptive or foster parents can claim?

In 2009, 54 percent of adopted children were adopted by their foster parents. The **Adoption Tax Credit** is a refundable tax credit intended to offset some of the costs incurred during the adoption process. In 2010, the credit was worth a maximum of $13,170. Allowable costs that count for the credit include adoption fees, court costs, attorney fees, medical expenses and travel expenses. The child must be under age 18 or any age if the child has a mental or physical disability. Adopting a child with special needs allows an adoptive parent to claim the full credit amount even if the parent did not spend that amount. *For more information on the Adoption Tax Credit, see IRS Form 8839*.

The **Child and Dependent Care Credit** helps families pay for child care for children under age 13 so they can work or look for work. Dependents who have a disability and are incapable of self-care can be any age. The child care credit can reduce the amount of federal income tax a family pays, but can't be claimed by those who earned too little to owe income tax. This non-refundable credit is worth a percentage of expenses paid up to $3,000 for one child or up to $6,000 for two or more children. The EIC and CTC do not affect a family's eligibility for the child care credit and all three credits can be claimed together by some families. *For more information on the child care credit, see IRS Publication 503*.