



Child Tax Credit



Introduction

The child tax credit is unique because if a taxpayer cannot benefit from the nonrefundable credit, the taxpayer may be able to qualify for the refundable additional child tax credit on Schedule 8812. In this chapter, we will learn about both credits and their relationship to each other. Some taxpayers may not be aware of these credits. Your time, effort, and understanding of this credit may result in a lower tax for the taxpayer.

The child tax credit is entered in the Nonrefundable Credits section of the tax return; the additional child tax credit is entered in the Payments section. Form 1040EZ filers cannot take the credit.

The intake and interview sheet, along with the interview tips in the Volunteer Resource Guide, Nonrefundable Credits tab are critical tools needed to determine eligibility for the credit.



Don't confuse these credits with the child and dependent care credit!

Objectives

At the end of this lesson, using your resource materials, you will be able to:

- Determine the taxpayer's eligibility for the credit(s)
- Determine which taxpayer can claim the additional credits

What is the child tax credit?

The child tax credit is a nonrefundable credit that allows taxpayers to claim a tax credit of up to \$1,000 per qualifying child, which reduces their tax liability.

What do I need?

- ☐ Intake and Interview Sheet
- ☐ Publication 4012, Volunteer Resource Guide
- ☐ Publication 17
- ☐ Publication 972
- ☐ Publication 4491-W
- ☐ Schedule 8812
- ☐ **Optional:** Form 1040 Instructions

What is the additional child tax credit?

Taxpayers who are not able to claim the full amount of the child tax credit may be able to take the refundable additional child tax credit. Completing Schedule 8812, Child Tax Credit, may result in a refund even if the taxpayer doesn't owe any tax.

Who can claim the child tax credit?

To be eligible to claim the child tax credit, the taxpayer must have at least one qualifying child. Refer to the Volunteer Resource Guide, Nonrefundable Credits tab for the definition of a qualifying child for purposes of claiming the child tax credit.

example

Ed's son, Jeff, turned 17 on December 30, and has a valid SSN. He is a citizen of the United States. According to the Child Tax Credit rules, he is not a qualifying child for the child tax credit because he was not under the age of 17 at the end of the tax year.

Does the child have to be the taxpayer's dependent?

To be a qualifying child for the child tax credit, the child must be claimed as the taxpayer's dependent.

Are there special rules for children of divorced or separated parents or parents who live apart?

There are special rules for children of divorced or separated parents, as well as for children of parents who live apart. The custodial parent is the parent with whom the child lived for the greater number of nights during the year. The other parent is the noncustodial parent. In most cases the custodial parent may claim the dependency exemption for the qualifying child. The noncustodial parent, however, may be entitled to claim the dependency exemption for a child and thus the child tax credit and additional child tax credit. Review the Child Tax Credit Interview Tips in the Volunteer Resource Guide, Nonrefundable Credits tab for additional information.

Remember, a custodial parent's release of the dependency exemption will also release the child tax credit and the additional child tax credit, if either applies, to the noncustodial parent. Noncustodial parents must attach Form 8332 or a similar statement to their return each year the exemption is claimed.



Taxpayers with divorce decrees or divorce agreements executed after 2008 must use Form 8332 or similar statement whose only purpose is to release the custodial parent's claim to the exemption; they cannot simply substitute pages from the divorce decree.

example

Mary and Ralph got a divorce in 2002. They have one child together, Amy, who lives with Mary. All are U.S. citizens and have SSNs. Mary and Ralph provide more than half of Amy's support. Mary's AGI is \$31,000, and Ralph's AGI is \$39,000. Amy is 12. The divorce decree does not state who can claim the child.

Ralph, the noncustodial parent, can claim the dependency exemption and child tax credit only if Mary signs Form 8332. Mary can still claim the earned income credit, Head of Household, and child and dependent care credit for Amy assuming she qualifies for them.

What is the amount of the credit?

The maximum amount taxpayers can claim for the child tax credit is \$1,000 for each qualifying child. The amount actually claimed on Form 1040 depends on the taxpayer's tax liability, modified adjusted gross income (MAGI), and filing status. The amount of the credit may be reduced if the taxpayer's:

- Tax liability less the majority of the nonrefundable credits is less than the maximum child tax credit, or
- MAGI is above the limit for the taxpayer's filing status; review Publication 17, Child Tax Credit chapter for the limits on the credit or the Volunteer Resource Guide, Nonrefundable Credits tab.

Review the Child Tax Credit Interview Tips, steps 6 and 7, in the Volunteer Resource Guide, Nonrefundable Credits tab to determine which worksheet must be used to figure the credit. If the taxpayer answers yes to steps 6 and 7, then the worksheet in Publication 972 must be used to figure the credit.



Tax Software Hint: To review information related to the software, go to the Volunteer Resource Guide, Exemptions/Dependency tab.

example

Stan files as Head of Household and has three children who qualify for purposes of the child tax credit. Stan's MAGI is \$54,000 and his tax liability is \$4,680. Stan is eligible to take the full \$1,000 per child (\$3,000) because his MAGI is less than the ceiling limit and his tax liability is greater than \$3,000.

example

May and Bob file as Married Filing Jointly and have two children who qualify for the child tax credit. Their MAGI is \$86,000 and their tax liability is \$954. Even though their AGI is less than the threshold limit, they can only claim \$954, reducing their tax to zero. As they could not claim the maximum child tax credit, May and Bob may also be eligible for the additional child tax credit.

What is MAGI?

Typically, the taxpayers' MAGI (Modified Adjusted Gross Income) is the same as their AGI from Form 1040, page 2. For more information on MAGI as it applies to the child tax credit, refer to Publication 17.



If the taxpayers' tax liability is zero, they cannot take the credit because there is no tax to reduce. However, the taxpayers may be able to take the additional child tax credit, discussed later in this lesson.



EXERCISES

Use the Child Tax Credit interview tips from the Volunteer Resource Guide, Nonrefundable Credits tab and Publication 17 to complete the exercises. Answers are at the end of the lesson summary.

Question 1: Paul and Marie are married with two dependent children. They will file a joint Form 1040 for the year. The children are qualifying children for purposes of the child tax credit. Paul and Marie's MAGI is above the threshold limit, and their tax liability is \$6,200. Based on this information, Paul and Marie:

- A. Are not eligible for the maximum credit and can use the Child Tax Credit Worksheet in the Form 1040 Instructions to figure their child tax credit
- B. Will have to use Publication 972 to figure their child tax credit
- C. Are eligible to claim a full child tax credit
- D. Are not eligible to claim any amount for the child tax credit

Question 2: Laura's adopted son Jack is 12. He is a citizen of the United States and lived with Laura for the entire tax year, during which time Laura provided full financial support. Is Jack a qualifying child for the child tax credit? ☐ Yes ☐ No

Question 3: Which one of the following individuals (all of whom have two qualifying children for the purposes of the child tax credit) are eligible to claim the maximum \$1,000 per child for the child tax credit on their tax return?

- A. Fiona, who is Married Filing Separately with a MAGI of \$78,000
- B. Ken, a Qualifying Widower with a MAGI of \$30,000 and tax liability of \$490
- C. Nick, who is Single with a MAGI of \$70,000 and a tax liability of \$5,000
- D. Julie, who is Married Filing Jointly with a MAGI of \$122,000

How do I determine taxpayer eligibility for the credit?

To determine whether a child meets the criteria of qualifying child for the child tax credit or additional child tax credit, use the interview techniques and tools discussed in earlier lessons. Begin by reviewing the Marital Status and Household Information section of the taxpayer's intake and interview sheet. Verify that the child:

- Is under 17 on December 31 of the tax year
- Lived with the taxpayer for more than six months of the year (remember the special rules for divorced or separated parents or parents who live apart)
- 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

If the Marital Status and Household Information section is incomplete or the taxpayer is unsure of how to respond, you may want to use the Child Tax Credit Interview Tips in the Volunteer Resource Guide, Nonrefundable Credits tab. It provides helpful probing questions to ask the taxpayer.



Tax Software Hint: The entries for each qualifying child on the Main Information Sheet will help the software determine if the child is eligible for the child tax credit. To review information related to the software, go to the Volunteer Resource Guide, Exemptions/Dependency tab.

How do I calculate the child tax credit?

To calculate the credit, you must first determine which worksheet to use. Review the Child Tax Credit interview tips in the Volunteer Resource Guide, Nonrefundable Credits tab to determine which worksheet the taxpayer must use.



Tax Software Hint: If you are using tax software, the system will automatically calculate the credit, provided you have correctly completed the:

- Dependent section of the Main Information Sheet
- Taxpayer's return through the retirement savings contribution credit line
- Part I of Form 5695, and Schedule R

If you have a question about the amount that appears as the child tax credit, the taxpayer's completed Child Tax Credit Worksheet may help you understand the determination.

What is the additional child tax credit?

This credit is for certain individuals who get less than the full amount of the child tax credit. The additional child tax credit may give taxpayers a refund even if they do not owe any tax.

What is the amount of the credit?

Like the child tax credit, the additional child tax credit allows eligible taxpayers to claim up to \$1,000 for each qualifying child after subtracting the allowable amount of child tax credit. For taxpayers with earned income over \$3,000, the credit is based on the lesser of:

- 15% of the taxpayer's taxable earned income that is over \$3,000 or
- The amount of unused child tax credit (caused when tax liability is less than allowed credit)

Who can take the additional child tax credit?

Taxpayers who do not get the full \$1,000 of the child tax credit may qualify for the additional child tax credit. Review the Additional Child Tax Credit Tip in the Volunteer Resource Guide, Nonrefundable Credits tab to see the requirements to claim the credit.

example

Remember May and Bob who have two qualifying children, a MAGI of \$86,000, and a tax liability of \$954? Because their tax liability is less than the full amount of the credit (in their case \$2,000), they may be able to take the additional child tax credit of up to \$1,046 (\$2,000 – \$954).

There is another method to compute the additional child tax credit for taxpayers with three or more qualifying children. These taxpayers may benefit if they:

- Had Social Security or Medicare taxes withheld from their pay
- Were self-employed and paid self-employment tax
- Paid tax on tips not reported to their employer
- Did not receive the maximum available child tax credit



The child tax credit is not refundable for taxpayers electing to exclude foreign earned income from tax.

The amount of the taxpayer's earned income credit is a factor in this calculation on Schedule 8812.

How do I calculate the additional child tax credit?

Schedule 8812, Child Tax Credit, is used to calculate the credit, which is entered on the additional child tax credit line of the Payment section of Form 1040.



Tax Software Hint: If you are using the tax software, the system will automatically calculate the credit and place that entry on the appropriate line of the payment section.



Taxpayers must use Part I to document each child for whom an IRS Individual Taxpayer Identification Number (ITIN) was entered on the return.



EXERCISES (continued)

Question 4: Jose and Yolanda Alameda are Married Filing Jointly and have five dependent children under the age of 17. Jose and Yolanda both have valid SSNs. Their children have Individual Taxpayer Identification Numbers (ITINs). The children are qualifying children for purposes of the child tax credit but not the earned income credit. Jose and Yolanda's earned income is \$8,850, and their tax liability is \$0. Are they eligible to take the additional child tax credit? ☐ Yes ☐ No

How do I avoid common errors?

When considering the child tax credit, it is critical to interview the taxpayer thoroughly to correctly identify eligible children.



Tax Software Hint: Once the birth date and dependency information is entered on the Main Information Sheet for dependents, the CTC box will check automatically, and the software will compute the amount of the credit.

Summary

The child tax credit is a nonrefundable credit that allows qualifying taxpayers to reduce their tax liability to the lesser of the amount of the credit or their adjusted tax liability.

If a taxpayer is not able to benefit from the maximum \$1,000 per qualifying child, the taxpayer may be eligible for the additional child tax credit, which is a refundable tax credit.



TAX LAW APPLICATION USING THE WORKBOOK

To gain a better understanding of the tax law, complete the comprehensive problem or practice exercise(s) for your course of study in Publication 4491-W.

For practice using the tax preparation software, complete the scenarios using the Practice Lab on L<.



EXERCISE ANSWERS

Answer 1: A. Paul and Marie's MAGI is over the threshold limit for their filing status. They are not eligible to claim a full child tax credit. They can use the Child Tax Credit Worksheet in the Form 1040 Instructions to calculate the credit.

Answer 2: Yes. Jack is a qualifying child for the child tax credit because he was under the age of 17 at the end of the current tax year; he meets the relationship requirement, lived with Laura for at least six months of the year; and he did not provide more than half of his support.

Answer 3: C. Nick may be able to take the full \$1,000 credit for each of his qualifying children because his MAGI is not affected by the threshold limit for his single filing status. In addition, his tax liability of \$5,000 is more than the amount of \$1,000 per child for the credit.

Answer 4: Yes. Jose and Yolanda qualified for the initial child tax credit. However, they could not benefit from it because their tax liability (0) was less than their allowable child tax credit (\$5,000). Since their earned income is more than \$3,000, they are eligible for the additional child tax credit.