Paying for Child Care? The Child and Dependent Care Credit Could Help

What is the Child and Dependent Care Credit?

The Child and Dependent Care Credit is a tax benefit that helps families pay for child care they need in order to work or to look for work. The credit also is available to families that must pay for the care of an incapacitated spouse or an adult dependent. The Child and Dependent Care Credit can reduce the amount of federal income tax a family pays in two ways. For families that pay income taxes but do not owe taxes at the end of the year because they have fully paid their taxes for the year through payroll withholding, this credit can give them back some or all of the federal taxes that were taken out of the parents' paychecks during the year. For families that end up owing taxes at the end of the year, the credit can lower the amount they must pay to the IRS. For the year 2011, parents can claim as much as $3,000 in dependent care expenses per child (up to $6,000 for two or more children). Please note, however, that families earning too little to pay federal income tax cannot use this credit. In this way, the Child and Dependent Care Credit differs from the EIC. The EIC can be claimed by families earning too little to pay income tax.

Can families that claim other credits get the Child and Dependent Care Credit?

Yes! The EIC and CTC do not affect a family's eligibility for this credit. Claiming all three credits, when possible, may mean even more money back from the IRS.

28 States Have Child and Dependent Care Tax Benefits!

These 13 states provide a refundable credit: Arkansas, California, Colorado, Hawaii, Iowa, Louisiana, Maine, Minnesota, Nebraska, New Mexico, New York, Oregon and Vermont. In these states, low-income families that don't owe income tax can still receive a refund in the amount of the state's Child and Dependent Care Tax Credit. For more information, contact your state department of revenue.

Who is eligible for the Child and Dependent Care Credit?

Families can claim this credit if:

• They paid for care in 2011 for a qualifying child under age 13 claimed as a dependent, or a spouse or dependent not able to care for himself or herself, who lived with the family for more than half of the year, **AND**

• They needed the child or dependent care to work or look for work (in a two-parent family, both spouses must have needed the child or dependent care to work or to look for work unless one spouse was a full-time student or unable to care for himself or herself), **AND**

• The amount they paid for dependent care in 2011 was less than their income for the year. If taxpayers are married and filing a joint tax return, they must have paid less for care than the income of the spouse with the lowest earnings. There are special rules for calculating the income of a spouse who was a full-time student or disabled.

NOTE: In general, the credit can only be claimed if a child is claimed as a tax dependent, but there are special rules for children of divorced or separated parents. *For information about these rules, call the IRS at 1-800- 829-1040 or the National Women's Law Center at (202) 588-5180.*

What type of care qualifies for the credit?

Any kind of child or dependent care can qualify, including care at a center, a family day care home or a church, or care provided by a neighbor or a relative (except if provided by a spouse, a dependent, or a child of the tax filer under 19).

If a family receives free child care, such as from a state-subsidized program, that care cannot be used to qualify for the credit. But if only part of a family's child care is subsidized and the family pays for the rest, the amount the family pays can be counted toward the credit.

How does a family benefit from this credit?

The size of the Child and Dependent Care Credit depends on the number of children or dependents in care, a family's income, and the amount the family paid for care during the year. It can be as much as $1,050 for families with one child or dependent in care and up to $2,100 for families with more than one child or dependent in care.

Families can claim only a limited amount of their child care expenses. Families with one child or dependent can claim up to $3,000 in these expenses and families with more than one child or dependent can claim up to $6,000. Eligible families will receive a credit worth between 20 percent and 35 percent of these expenses, depending on their income.

Example: Ms. Lewis has one child and earned $25,000 in 2011. During the year, she had $910 in federal income tax withheld from her pay. But Ms. Lewis spent $3,000 during the year on child care and she is eligible for a Child and Dependent Care Credit up to 30 percent of what she spent on care, or up to $900. Her Child and Dependent Care Credit eliminates $900 of the $910 in taxes Ms. Lewis paid, leaving $10. (She also qualifies for other tax benefits: her CTC pays her back the remaining $10 of her withheld taxes. She also qualifies for an additional CTC refund worth $990 and her EIC is worth $1,766.)

How do families claim the Child and Dependent Care credit?

Families must file a federal income tax return — either Form 1040 or 1040A — and attach a separate "schedule" or form with their return. With Form 1040, families must attach Form 2441.With Form 1040A, families use Schedule 2. *Free copies of these forms can be obtained at: www.irs.gov/formspubs or by calling the IRS at 1-800-TAX-FORM.*

Where can families get more information about this credit?

The National Women's Law Center (NWLC) has materials on the Child and Dependent Care Credit as well as state-level child and dependent care tax provisions. Call NWLC at (202) 588-5180, or visit its website at: *www.nwlc.org. Families also can get free information about the Child and Dependent Care Credit and other tax matters by calling the IRS at 1-800-829-1040. Hearing impaired people can call 1-800-829-4059. Or visit the IRS Website at www.irs.gov.*