



Child Tax Credit & Credit for Other Dependents



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, Credits for Qualifying Children and Other Dependents. 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 American Rescue Plan Act (ARPA) of 2021 expands the Child Tax Credit, (CTC), for the tax year 2021 only. See the Temporary Provisions lesson earlier in this book for complete details.

The child tax credit, credit for other dependents, and the additional child tax credit are entered on Form 1040. The intake and interview sheet, along with the Volunteer Resource Guide, Tab G, Nonrefundable Credits 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 credits

What do I need?

- Form 13614-C
- Publication 4012
- Publication 17
- Schedule 8812

Optional:

- Form 1040 Instructions
- Schedule 8812 Instructions

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 \$2,000 per qualifying child, which reduces their tax liability.



The American Rescue Plan Act increased the amount per qualifying child, and is fully refundable for tax year 2021 only for qualifying taxpayers. See the Temporary Provisions lesson earlier for the updates.

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 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. If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years. Refer to the Volunteer Resource Guide, Tab G, Nonrefundable Credits for additional information.

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

To be a qualifying child for the child tax credit, the child must be 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 qualifying child is considered the dependent of the custodial parent. However, the noncustodial parent may be entitled to claim the child tax credit and additional child tax credit for the qualifying child if the custodial parent provides them with Form 8332, Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent, or a similar statement. All noncustodial parents must attach Form 8332 or a similar statement to their return each year the custodial parent provides the release. Review the Child Tax Credit charts in the Volunteer Resource Guide, Tab G, Nonrefundable Credits for additional information.



CAUTION Taxpayers with divorce decrees or divorce agreements executed after 2008 must use Form 8332 or a similar statement whose only purpose is to release the custodial parent's claim to the child tax credit. They cannot simply substitute pages from the divorce decree.

example

Mary and Ralph got a divorce in 2015. 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 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.

Remember, a custodial parent's release of the dependent child will also release the child tax credit and the additional child tax credit, if either applies, to the noncustodial parent.

How do I determine taxpayer eligibility for the child tax credit?

To determine whether a child meets the criteria of a 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 and completing the Marital Status and Household Information section of the taxpayer's intake and interview sheet. Verify that the child:

- Is under age 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
- Has a valid Social Security number



CAUTION The American Rescue Plan Act will include a qualifying child that turns age 17 in tax year 2021. For the credit to be fully refundable, the taxpayer must have a principal place of abode in the United States for more than one half of the taxable year or be a bona fide resident of Puerto Rico for the taxable year. See the Temporary Provisions lesson earlier for details.

If the Marital Status and Household Information section is incomplete or the taxpayer is unsure of how to respond, you may want to use Table 1: Does Your Qualifying Child Qualify You for the Child Tax Credit or Credit for Other Dependents? in the Volunteer Resource Guide, Tab G, Nonrefundable Credits. It provides helpful probing questions to ask the taxpayer.



Tax Software Hint: The entries for each qualifying child in the Basic Information section will help the software determine if the child is eligible for the child tax credit.



CAUTION Taxpayers claiming the child tax credit must have a valid identification number (SSN or ITIN) by the due date of the tax return, including extensions. In addition, the dependent claimed must have a valid SSN by the due date of the return, including extensions. Taxpayers cannot subsequently file amended returns to claim the credit for a year that they did not originally have a valid identification number by the return due date.

example

Ed's son, Jeff, turned 18 on December 30, and has a valid Social Security number (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 18 at the end of the tax year.



EXERCISES

Question 1: 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). Are their children qualifying children for the purpose of the child tax credit? Yes No

What is the amount of the credit?

The maximum amount taxpayers can claim for the child tax credit is \$2,000 for each qualifying child. The amount claimed on Form 1040 depends on the taxpayer's filing status, modified adjusted gross income (MAGI) and tax liability. The amount of the credit may be reduced if the taxpayer's:

- MAGI is above the limit for the taxpayer's filing status; the Volunteer Resource Guide, Tab G, Nonrefundable Credits, for the limits on the credit, or
- Tax liability less the majority of the nonrefundable credits is less than the maximum child tax credit



CAUTION The American Rescue Plan Act increased the amount per qualifying child, and is fully refundable for tax year 2021 only for qualifying taxpayers. See the Temporary Provisions lesson earlier for the updates.

The credit is figured on Schedule 8812. The tax software makes all these calculations based on your entries.

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 a child tax credit of up to \$4,680 to offset his tax liability. Stan cannot claim the full \$6,000 child tax credit because it is limited to his tax liability of \$4,680. Stan may also be eligible for the additional child tax credit.

example

May and Bob file as Married Filing Jointly and have two children who qualify for the child tax credit. Their MAGI is \$56,000 and their tax liability is \$954. 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 is the same as their AGI from Form 1040. For more information on MAGI as it applies to the child tax credit, refer to the Instructions for Schedule 8812.



The ARPA allows the credit to be fully refundable if taxpayers have a principal place of abode in the United States for more than one half of the taxable year or are bona fide residents of Puerto Rico for the taxable year. See the Temporary Provisions lesson earlier for the updates.



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 Table 1: Child Tax Credit from the Volunteer Resource Guide, Tab G, Nonrefundable Credits, and Publication 17 to complete the exercises. Answers are at the end of the lesson summary.

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 \$2,000 per child for the child tax credit on their tax return?

- A. Fiona, who is Married Filing Separately with a MAGI of \$202,000
- 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 \$422,000

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.

Taxpayers who do not get the full \$2,000 of the child tax credit may qualify for the additional child tax credit. Review the Additional Child Tax Credit – General Eligibility chart in the Volunteer Resource Guide, Tab G, Nonrefundable Credits to see the requirements to claim the credit.



Under the ARPA, taxpayers who do not meet the residency requirements for the fully refundable CTC may claim the additional child tax credit. See the Temporary Provisions lesson for additional information.

What is the amount of the credit?

The additional child tax credit allows eligible taxpayers to claim up to \$1,400 for each qualifying child. The refundable portion is indexed for inflation. For taxpayers with earned income over \$2,500, the credit is based on the lesser of:

- 15% of the taxpayer's taxable earned income that is over \$2,500 or
- The amount of unused child tax credit (caused when tax liability is less than allowed credit)



The refund for taxpayers claiming the child tax credit will not be issued prior to February 15.

example

Remember May and Bob who have two qualifying children, a MAGI of \$56,000, and a tax liability of \$954? Because their tax liability is less than the full amount of the credit (in their case \$4,000), they may be able to take the additional child tax credit of \$2,800 (\$4,000 - \$954, but limited to \$1,400 per child).

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



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

How do I calculate the additional child tax credit?

Schedule 8812 is used to calculate the credit, which is entered on the additional child tax credit line 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 refundable credits.

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 credit for other dependents?

There is a \$500 credit for other dependents who do not qualify for the \$2,000 child tax credit. The dependent must be a U.S. citizen, U.S. national, or resident of the U.S. The dependent must have a valid identification number (ATIN, ITIN, or SSN).

The \$500 non-refundable credit covers dependents who don't qualify for the child tax credit. Taxpayers cannot claim the credit for themselves (or a spouse if Married Filing Jointly).



Individuals who qualify as dependents because they are residents of Canada or Mexico do not qualify for either the child tax credit or the credit for other dependents.

example

Robert and Susan file a joint return and they both have SSNs. Their tax liability is \$2,000. They have three qualifying dependents. Tom is their 18-year-old son, has an SSN, and meets the qualifying child dependent test. Jill is their 16-year-old adopted child, has an ATIN, and meets the qualifying child dependent test. Robert's mother, Esther, is 65 years old, has an ITIN, and meets the qualifying relative test. They are all U.S. residents. Tom, Jill, and Esther are all qualifying dependents for the credit for other dependents.

How do I avoid common errors?

When considering the child tax credit or credit for other dependents, it is critical to interview the taxpayer thoroughly and complete the dependent section of the intake and interview sheet to correctly identify eligible children.

What if credits were disallowed in a prior year?

The intake and interview sheet asks if the taxpayer was previously disallowed child tax credit or credit for other dependents in a prior year. If the taxpayer answers “yes” to this question, refer to the Volunteer Resource Guide, Tab I, Earned Income Credit, Disallowance of Certain Credits.

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 \$2,000 credit per qualifying child, the taxpayer may be eligible for the additional child tax credit, which is a refundable tax credit up to \$1,400 (subject to indexing).



The American Rescue Plan Act increased the amount per qualifying child, and is fully refundable for tax year 2021 only. See the Temporary Provisions lesson earlier for the updates.

When dependents are not eligible for the child tax credit, they may be eligible for the nonrefundable \$500 credit for other dependents.

Taxpayers claiming the child tax credit or the credit for other dependents must have a valid identification number (SSN or ITIN) by the due date of the return, including extensions. The qualifying child must have a valid SSN by the due date of the return including extensions. To claim the credit for other dependents, the dependent must have a valid identification number (ATIN, ITIN, or SSN) by the due date of the return including extensions.

If taxpayers claim the child tax credit or additional child tax credit but are not eligible for the credit, they can be banned from claiming the credit for either two or ten years.



TAX LAW APPLICATION

To gain a better understanding of the tax law, complete the practice return(s), or supplements for your course of study using the Practice Lab on L<.



EXERCISE ANSWERS

Answer 1: No. The children do not qualify for the child tax credit because they do not have valid SSNs.

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 \$2,000 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 \$2,000 per child for the credit.