

 Fact Sheet

Media Relations Office

Washington, D.C.

Media Contact: 202.622.4000

[www.irs.gov/newsroom](http://www.irs.gov/newsroom)

Public Contact: 800.829.1040

## Don't Overlook These Valuable Tax Credits

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Tax credits can help you pay part of the cost of raising a family, going to college, saving for retirement, making energy-saving improvements to your home and getting daycare so you can work or go to school. Each year, many taxpayers overlook them, even though they often qualify for one or more of these credits.

Though both tax deductions and credits can save you money, they do it in different ways. A deduction lowers the income on which tax is figured, while a credit lowers the tax itself. Take time now to review your records and see if you qualify for one of these popular but often overlooked tax credits.

### Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) helps low- and moderate-income workers and working families. Working families with incomes below \$39,783 and childless workers with incomes under \$14,590 often qualify. Ordinarily, you must have earned income as an employee, independent contractor, farmer or business owner. Some disability retirees are also eligible. Use the [EITC Assistant](#), which will be available in mid-January, to see if you qualify.

### Child Tax Credit

If you have a dependent child under age 17 you probably qualify for the child tax credit. This credit, which can be as much as \$1,000 per eligible child, is in addition to the regular \$3,400 exemption you can claim for each dependent. Don't confuse the child tax credit with the child care credit. For details on figuring and claiming the child tax credit, see [IRS Publication 972](#).

### Credit for Child and Dependent Care Expenses

If you pay someone to care for your child so you can work or look for work, you probably qualify for this credit. Normally, your child must be your dependent and under age 13. Though often referred to as the child care credit, this credit is also available if you pay someone to care for a spouse or dependent, regardless of age, who is unable to care for himself or herself. In most cases, you need to obtain the care provider's social security number or taxpayer identification number and enter it on your return.

Form 1040 filers claim the credit for child and dependent care expenses on [Form 2441](#). Form 1040A filers claim it on [Schedule 2](#).

## **Education Credits**

The Hope credit and the lifetime learning credit help parents and students pay for post-secondary education. Normally, you can claim tuition and required enrollment fees paid for your own, as well as your dependents' college education. The Hope credit targets the first two years of post-secondary education, and an eligible student must be enrolled at least half time. You can take the lifetime learning credit, even if you're only taking one course.

In some cases, you may do better by claiming the tuition and fees deduction, instead. You cannot take both an education credit and the tuition and fees deduction for the same student in the same year. Special rules, including income limits, apply to each of these tax breaks.

Education credits are claimed on [Form 8863](#). For details on these and other education-related tax breaks, see [Publication 970](#).

## **Saver's Credit**

The saver's credit helps low-and moderate-income workers save for retirement. You probably qualify if your income is below certain limits and you contribute to an IRA or workplace retirement plan, such as a 401(k). Income limits for 2007 are \$26,000 for singles and married filing separately, \$39,000 for heads of household and \$52,000 for joint filers.

Also known as the retirement savings contributions credit, the saver's credit is available in addition to any other tax savings that apply. You still have time to put money in an IRA and get the saver's credit on your 2007 return. 2007 IRA contributions can be made until April 15, 2008. Use [Form 8880](#) to claim the saver's credit.

## **Energy-Saving Tax Credits**

You can take a credit based on what you spend on various energy-saving improvements made to your main home. New energy-efficient improvements qualify, including insulation, exterior windows, exterior doors, water heaters, heat pumps, central air conditioners, furnaces and hot water boilers. The overall credit is limited to \$500 and further dollar limits apply to specific components — for example, \$200 for windows. If you took the full \$500 credit in 2006, you cannot claim the credit in 2007, even if you made qualifying energy-saving improvements.

Separately, there is a 30 percent credit for the cost of photovoltaic property, solar water heating property and fuel cell property.

These credits are claimed on [Form 5695](#).

## **Tax Credits Can Save You Money**

These credits can increase your refund or reduce the tax you owe. Usually, credits can only lower your tax to zero. But some credits, such as the EITC and the child tax credit, can actually exceed your tax. Though some credits are available to people at all income levels, others have income restrictions. These include the EITC, saver's credit, education credits and child tax credit.

If you qualify, you can claim any credit, regardless of whether you itemize your deductions. Any credit can be claimed on Form 1040, sometimes referred to as the long form. Alternatively, except for the energy credits, all the credits outlined in this fact sheet can be claimed on the 1040A short form. The EITC can even be claimed on Form 1040EZ. The [instruction booklet](#) for each of these forms has more information about these and other tax credits.

**Related Information:**

- [EITC Assistant](#)
- [Publication 972](#), Child Tax Credit; [Pub. 962 PDF Version](#)
- [Form 2441](#), Child and Dependent Care Expenses; [Form 1040A, Schedule 2](#), Child and Dependent Care Expenses for Form 1040A Filers ([Instructions](#))
- [Form 8863](#), Education Credits (Hope and Lifetime Learning Credits)
- [Publication 970](#), Tax Benefits for Education ([Pub. 970 PDF Version](#))
- [Form 8880](#), Credit for Qualified Retirement Savings Contributions
- [Form 5695](#), Residential Energy Credits
- [IRS Forms and Publications](#) — Download or order by telephone
- [1040 Central](#)