

▶ Attach to Form 1040.

Name(s) as shown on Form 1040 _____ Your social security number _____

1 Name and relationship of each qualifying individual for whom expenses were paid and period (months and days) each lived in your household as a qualifying individual during this taxable year (see instructions for line 1).

(a) Name	(b) Relationship	(c) Period lived in your household	
		Months	Days
_____	_____	_____	_____
_____	_____	_____	_____

2 List the individual(s) or organization(s) to whom employment-related expenses were incurred during this taxable year.

(a) Name and address (If more space is needed, attach schedule)	(b) Social security number (see instructions for line 2)	(c) Relationship	(d) Period incurred in 1977		(e) Amount
			From Month—Day	To Month—Day	
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

Computation of Credit

3 Total of column (e)	3	
4 Enter the lesser of amount on line 3 or \$2,000 (\$4,000 if two or more qualifying individuals) (see instructions for line 4)	4	
5 Earned income limitation (an entry MUST be made on this line):	5	
(a) If unmarried at end of 1977, enter amount of earned income	}	▶
(b) If married at end of 1977, enter the lesser of your earned income or your spouse's earned income. Note: If you or your spouse was a student or incapable of self-care, see instructions for line 5		
6 Enter the lesser of line 4 or line 5	6	
7 Total amounts listed on line 6 paid during 1977	7	
8 Child and dependent care expenses incurred in 1976 not paid until 1977 (Attach schedule showing computation of limitations—see instructions for line 8)	8	
9 Total of lines 7 and 8	9	
10 Credit for child and dependent care expenses. Multiply the amount on line 9 by 20%. Enter result here and on Form 1040, line 40	10	

11 If payments listed on line 2 were made to an individual, complete the following:

	Yes	No
(a) If payment of \$50 or more in a calendar quarter was made to an individual, were the services performed in your home?	<input type="checkbox"/>	<input type="checkbox"/>
(b) If "Yes," have appropriate wage tax returns on wages for services in your home been filed (see instructions for line 11)?	<input type="checkbox"/>	<input type="checkbox"/>
(c) If answer to (b) is "Yes," enter your employer identification number ▶	<input type="text"/>	

Instructions

Who May Claim the Credit.—If you maintain a household that includes as a member one or more qualifying individuals, you may be allowed a credit against your income tax. The credit is limited to 20 percent of employment-related expenses (up to certain limitations) paid during the taxable year in order to enable you to work either full or part time for an employer or as a self-employed individual.

You will be treated as maintaining a household for any period only if you furnish over half the cost of maintaining the household for that period. If you are married during such period, you and your spouse must provide over half the maintenance cost for that period.

The expenses of maintaining a household include property taxes, mortgage interest, rent, utility charges, upkeep and repairs, property insurance, and food consumed on the premises. They do not in-

clude the cost of clothing, education, medical treatment, vacations, life insurance, and transportation.

Employment-related Expenses.—"Employment-related expenses" are those paid for the following, but only if paid to enable you to be gainfully employed:

(1) **Expenses for Household Services.**—Expenses will be considered for household services in your home if they are for the ordinary and usual services necessary for the operation of the home, and bear some relationship to the qualifying individual. Thus, payment for services of a domestic maid or cook will ordinarily be considered expenses for household services if performed at least partially for the benefit of the qualifying individual.

(2) **Expenses for the Care of a Qualifying Individual.**—Expenses will be considered for the care of one or more qualifying individuals if their main purpose was to assure that individual's well-being and

protection. Payments for food, clothing, or education are not such expenses. However, if the care provided includes expenses that cannot be separated, the full amount paid will be considered for the qualifying individual's care. Thus, the full amount paid to a nursery school will be considered for the care of a child even though the school also furnishes lunch. Educational expenses for a child in the first or higher-grade level are not expenses for the child's care.

Do not include services outside your household as employment-related expenses for your spouse or a dependent age 15 or older. However, services outside your household are employment-related expenses for a dependent who has not reached his or her 15th birthday.

Special Rules.—

(1) **Married Couples Must File Joint Returns.**—If you are married at the end of

(Continued on back)

the taxable year, the credit for employment-related expenses is allowable only if you and your spouse file a joint return for the taxable year.

(2) **Marital Status.**—If you are legally separated from your spouse under a decree of divorce or of separate maintenance, you are not considered as married.

(3) **Certain Married Individuals Living Apart and Filing Separate Returns.**—If during the last 6 months of the taxable year your spouse was not a member of your household and you (i) maintained a household that was for more than one-half of the taxable year the principal place of abode of a qualifying individual, and (ii) furnished over half of the cost of maintaining such household during the taxable year, then you are not considered married for purposes of the credit.

(4) **Special Dependency Test in Case of Divorced Parents.**—A child (son, stepson, daughter, stepdaughter) whose parents are divorced, legally separated under a decree of divorce or separate maintenance, or separated under a written separation agreement, shall be treated as a qualifying individual for the parent having custody of the child for the longer period during the taxable year, provided that all of the following three conditions are met:

(a) The child must be under the age of 15 or physically or mentally incapable of self-care.

(b) The child must receive over half of his or her support during the taxable year from the parents.

(c) The child must be in the custody of one or both of the parents for more than one-half of the taxable year.

(5) **Payments to a Related Individual.**—In computing your credit, you may not include payments made to a relative of yours or of your spouse or to a dependent household member. For this exclusion, a relative of yours or of your spouse includes: son or daughter and their descendants; stepson or stepdaughter; brother, sister, stepbrother, stepsister; father or mother and their ancestors; stepfather, stepmother; nephew, niece, uncle, aunt; son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, sister-in-law.

Exception: Payments made to a relative listed above may also be included in computing your credit if that relative is not your dependent and the relative's services are considered employment for social security purposes.

For social security purposes, the following services are considered employment:

(a) Services performed by your son or daughter age 21 or over, but not your spouse.

(b) Domestic service by your mother or father if (i) you have in your home a son or daughter who is under age 18 or who has a physical or mental condition requiring the personal care of an adult for at least four continuous weeks in the quarter, and (ii) you are a widow (widower) or are divorced, or you have a spouse in your home who, because of a physical or mental condition, is incapable of caring for your son or daughter for at least four continuous weeks in the quarter.

(c) Services of all other relatives who are not self-employed.

Employment-related Expense vs. Medical Expense Deduction.—If an expense qualifies as both employment-related and medical, you may treat it either way, as long as you do not use it twice. If you treat the expense as employment-related, any part of it that you cannot use because of the maximum \$2,000 (\$4,000) yearly limitation can be treated as part of your medical expenses.

If you treat the expense as medical, the part of it that is not deductible because of the 3 percent medical deduction limita-

tion cannot be used as part of your employment-related expenses.

Use of Credit in Determining Your Withholding Allowances.—The credit for child and dependent care expenses may be used in determining your withholding allowances. By claiming your proper number of withholding allowances, you can fit the amount of tax withheld from your wages to your tax liability. For further information, obtain a Form W-4, Employee's Withholding Allowance Certificate from your employer or an Internal Revenue Service office.

Figuring the Credit

Line 1.—Enter in the appropriate column the name(s), and relationship of each qualifying individual for whom expenses were paid and period (months and days) each lived in your household as a qualifying individual during your taxable year. Determine on a daily basis whether an individual is a qualifying individual. A qualifying individual is:

(a) A dependent under age 15 whom you can claim as an exemption or a child meeting the special dependency test of divorced parents (see Special Rule (4)).

(b) A person who is physically or mentally incapable of self-care who you either:

(1) are entitled to claim as an exemption; or

(2) would be entitled to claim as an exemption except that the person had gross income of \$750 or more.

(c) Your spouse, if physically or mentally incapable of self-care.

Line 2.—Enter in: column (a) the name and address of the individual(s) or organization(s) to whom employment-related expenses were incurred, column (b) the employee's social security number, column (c) the relationship of the individual to you (if none, write none), column (d) the period for which the expense was incurred in 1977, and column (e) the amount of expense incurred (include your share of social security taxes on employee's wages).

Enter in column (b) only the social security number of an individual who is your employee. No entry should be made for a self-employed individual, partnership, or corporation.

"Incurred" means owed for payment, whether or not paid. However, to be allowed in computing the credit, expenses must be paid during the taxable year the credit is claimed and must be within the limitations.

If the employment-related household expenses benefited a qualifying individual, do not allocate any part of the expenses to nonqualifying individuals.

Line 4.—Enter lesser of line 3 or \$2,000 if you listed the name of one qualifying individual or \$4,000 if you listed the names of two or more qualifying individuals. These amounts are the dollar limits for employment-related expenses incurred during any taxable year that may be taken into account in computing the credit.

Line 5.—Enter the amount of your earned income if you are unmarried. If you are married, enter the earnings of the spouse having the lesser amount of earned income. If your spouse is a full-time student at an educational organization or incapable of self-care, use the greater of your spouse's monthly earned income or \$166 (\$333 if two or more qualifying individuals) to determine his or her total yearly income. Use this amount to decide which spouse has the lesser amount of earned income to be entered on line 5. The \$166 (\$333) rule applies to only one spouse for any one month. Therefore, if both you and your spouse are students or incapable of self-

care the same month, no amounts paid that month are considered employment-related expenses for purposes of the credit because neither of you was employed on a full-time or part-time basis.

"Earned income" means wages, salaries, professional fees, etc., received for personal services rendered and net earnings from self-employment. It does not include compensation for your services that was a distribution of earnings and profits other than a reasonable allowance for your work for a corporation, nor does it include pensions, annuities, or amounts that are received under accident and health plans that are excludable from gross income.

"Student" is one who was enrolled as a full-time student at an educational organization during any of 5 months during the taxable year.

"Educational organization" means a school that has a regular teaching staff, course of study, and body of students in attendance. It includes elementary schools, junior and senior high schools, colleges, universities, technical and mechanical schools. It also includes a night school in which the student is enrolled for the number of hours or classes that is considered full-time attendance at a similar day school. It does not include on-the-job training courses, correspondence schools, etc.

Lines 6 and 7.—Complete these lines as instructed on the form.

Line 8.—Child and dependent care expenses incurred in 1976 may be eligible for the credit in 1977. If you paid for expenses in 1977 that you incurred in 1976, a credit may be computed on the expenses in 1977 if you did not exceed the limitations in 1976. The credit is in addition to the child and dependent care credit you may claim on expenses incurred and paid in 1977.

Example: In 1976, you incurred child care expenses of \$2,100 for your 14-year old daughter. Of the \$2,100 in child care expenses, \$1,800 were paid in 1976 and \$300 were paid in 1977. Your spouse's earned income of \$5,000 was less than your earned income. You would be allowed to compute a credit on \$200 in 1977, computed as follows:

1 Child care expenses incurred in 1976 . . .	\$2,100
2 Qualifying individual limitation . . .	<u>\$2,000</u>
3 Income limitation	<u>\$5,000</u>
4 Lesser of line 1, 2, or 3	\$2,000
5 Less expenses on which credit was computed in 1976	<u>1,800</u>
6 Expenses allowable for credit in 1977 . . .	\$ 200

Line 11.—On line 11(a), check yes or no box if you paid cash wages for a household employee who performed services of a household nature in your home. In general, if you paid cash wages of \$50 or more in a calendar quarter for household services to a person such as a cook, housekeeper, governess, maid, cleaning person, babysitter, etc., you are required to file an employment tax return. If you are not sure whether you should file an employment tax return, ask the Internal Revenue Service or obtain Form 942, Employer's Quarterly Tax Return for Household Employees.

On line 11(b), check yes or no box depending on whether or not you have filed Form 942, Employer's Quarterly Tax Return for Household Employees, for services performed in your home.

On line 11(c), enter your employer identification number. If you do not have a number, and are liable, file Form 942, and enter "none" in the space for "Employer identification no."

For more information, obtain **Publication 503, Child Care and Disabled Dependent Care.**