

1996



Department of the Treasury
Internal Revenue Service

Instructions for Form 2441

Child and Dependent Care Expenses

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Internal Revenue Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 40 min.; **Learning about the law or the form**, 25 min.; **Preparing the form**, 58 min.; and **Copying, assembling, and sending the form to the IRS**, 28 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write or call the IRS. See the Instructions for Form 1040.

Purpose of Form

If you paid someone to care for your child or other qualifying person so you (and your spouse if filing a joint return) could work or look for work in 1996, you may be able to take the credit for child and dependent care expenses. But you must have had earned income to do so. If you can take the credit, fill in Parts I and II of Form 2441 and attach it to your return. Part II is used to figure the amount of your credit.

Caution: If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 50.

If you received **any dependent care benefits** for 1996, you **MUST** fill in Parts I and III of Form 2441 and attach it to your return. Part III is used to figure the amount, if any, of the benefits you may exclude from your income on Form 1040, line 7. You must complete Part III before you can figure the credit, if any, in Part II.

A Change To Note

If the qualifying person (defined below) is not your dependent, you must enter that person's first and last name and social security number (SSN) in the space to the left of line 3. If the person was born in December 1996 and does not have an SSN, enter "12/96" next to the person's name. If you do not enter the information, we may reduce or disallow your credit.

Important Terms

Qualifying Person(s)

A qualifying person is:

- Any child **under age 13** whom you can claim as a dependent (but see **Exception for Children of Divorced or Separated Parents** below). If the child turned 13 during the year, the child is a qualifying person for the part of the year he or she was under age 13.
- Your disabled spouse who is not able to care for himself or herself.
- Any disabled person not able to care for himself or herself whom you can claim as a dependent (or could claim as a dependent except that the person had gross income of \$2,550 or more). But if this person is your child, see **Exception for Children of Divorced or Separated Parents** below.

To find out who is a dependent, see the instructions for Form 1040, line 6c.

Caution: To be a qualifying person, the person **must** have shared the same home with you in 1996.

Exception for Children of Divorced or Separated Parents. If you were divorced, legally separated, or lived apart from your spouse during the last 6 months of 1996, you may be able to take the credit or the exclusion even if your child is not your dependent. If your child is not your dependent, he or she is a qualifying person only if **all five** of the following apply.

1. You had custody of the child for a longer time in 1996 than the other parent. See **Pub. 501**, Exemptions, Standard Deduction, and Filing Information, for the definition of custody.
2. One or both of the parents provided over half of the child's support in 1996.
3. One or both of the parents had custody of the child for more than half of 1996.

4. The child was under age 13 or was disabled and could not care for himself or herself.

5. The other parent claims the child as a dependent because—

- As the custodial parent, you signed **Form 8332** or a similar statement agreeing not to claim the child's exemption for 1996, or
- Your divorce decree or written agreement went into effect before 1985 and it states that the other parent can claim the child as a dependent, and the other parent gave at least \$600 for the child's support in 1996. But this rule does not apply if your decree or agreement was changed after 1984 to say that the other parent cannot claim the child as a dependent.

If you can take the credit or the exclusion because of this exception, see **A Change To Note** on this page. The other parent cannot treat this child as a qualifying person even though the other parent claims this child as a dependent.

Dependent Care Benefits

These include amounts your employer paid directly to either you or your care provider for the care of your qualifying person(s) while you worked. These benefits also include the fair market value of care in a day-care facility provided or sponsored by your employer. Your salary may have been reduced to pay for these benefits. If you received dependent care benefits, they should be shown in box 10 of your 1996 W-2 form(s).

Qualified Expenses

These include amounts paid for household services and care of the qualifying person while you worked or looked for work. Child support payments are **not** qualified expenses. Also, expenses reimbursed by a state social service agency are **not** qualified expenses unless you included the reimbursement in your income.

Household Services. These are services needed to care for the qualifying person as well as to run the home. They include, for example, the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person. Do not include services of a chauffeur or gardener.

You may also include your share of the employment taxes paid on wages for qualifying child and dependent care services.

Care of the Qualifying Person. Care includes the cost of services for the qualifying person's well-being and protection. It does not include the cost of clothing or entertainment.

You may include the cost of care provided outside your home for your dependent under age 13 or any other qualifying person who regularly spends at least 8 hours a day in your home. If the care was provided by a dependent care center, the center must meet all applicable state and local regulations. A dependent care center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment, or grant for providing services for any of those persons, even if the center is not run for profit.

You may include amounts paid for food and schooling **only** if these items are part of the total care and cannot be separated from the total cost. But **do not** include the cost of schooling for a child in the first grade or above. Also, **do not** include any expenses for sending your child to an overnight camp.

Medical Expenses. Some disabled spouse and dependent care expenses may qualify as medical expenses if you itemize deductions on **Schedule A** (Form 1040). See **Pub. 503**, Child and Dependent Care Expenses, and **Pub. 502**, Medical and Dental Expenses, for details.

Earned Income

Generally, this is your wages, salaries, tips, and other employee compensation. This is usually the amount shown on Form 1040, line 7. But earned income does not include a scholarship or fellowship grant if you did not get a W-2 form for it. For purposes of Part III of Form 2441, earned income does not include any dependent care benefits shown on line 11 of Form 2441.

Earned income also includes certain nontaxable earned income such as meals and lodging provided for the convenience of your employer. See **Pub. 503** for details. However, including nontaxable earned income will only give you a larger credit if your other earned income (and your spouse's other earned income if filing a joint return) is less than the qualified expenses entered on line 4. For purposes of Part III of Form 2441, including nontaxable earned income will only give you a larger exclusion if your other earned income (and your spouse's other earned income) is less than the amount entered on line 15.

If you were a statutory employee and are filing **Schedule C** or **C-EZ** to report income and expenses as a statutory

employee, earned income also includes the amount from line 1 of that Schedule C or C-EZ.

If you were self-employed, earned income also includes the amount shown on **Schedule SE**, line 3, minus any deduction you claim on Form 1040, line 25. If you use either optional method to figure self-employment tax, subtract any deduction you claim on Form 1040, line 25, from the total of the amounts on Schedule SE, Section B, lines 3 and 4b, to figure earned income.

Note: You must reduce your earned income by any loss from self-employment.

If you are **filing a joint return**, disregard community property laws. If your spouse died in 1996 and had no earned income, see **Pub. 503**. If your spouse was a student or disabled in 1996, see the line 6 instructions.

Additional Information

For more details, see **Pub. 503**.

Who May Take the Credit or Exclude Dependent Care Benefits?

You may take the credit or the exclusion if **all six** of the following apply.

1. Your filing status is Single, Head of household, Qualifying widow(er) with dependent child, or Married filing jointly. But see **Special Rule for Married Persons Filing Separate Returns** below.

2. The care was provided so you (and your spouse if you were married) could work or look for work. However, if you did not find a job and have no earned income for the year, you cannot take the credit or the exclusion. But if your spouse was a student or disabled, see the line 6 instructions.

3. You (and your spouse if you were married) paid over half the cost of keeping up your home. The cost includes rent, mortgage interest, real estate taxes, utilities, home repairs, and food eaten at home.

4. You and the qualifying person(s) lived in the same home.

5. The person who provided the care was not your spouse or a person whom you can claim as a dependent. If your child provided the care, he or she must have been age 19 or older by the end of 1996.

6. You report the required information about the care provider on line 1.

Special Rule for Married Persons Filing Separate Returns. If your filing status is married filing separately and **all** of the following apply, you are considered unmarried for purposes of

figuring the credit and the exclusion on Form 2441.

- You lived apart from your spouse during the last 6 months of 1996, and
- The qualifying person lived in your home more than half of 1996, and
- You provided over half the cost of keeping up your home.

If you meet **all** the requirements to be treated as unmarried and meet items **2** through **6** listed earlier, you may take the credit or the exclusion. If you do not meet all the requirements to be treated as unmarried, you **cannot** take the credit. However, you may take the exclusion if you meet items **2** through **6**.

Line Instructions

Line 1

Complete columns **(a)** through **(d)** for each person or organization that provided the care. You can use **Form W-10**, Dependent Care Provider's Identification and Certification, or any other source listed in its instructions to get the information from the care provider. If you do not give correct or complete information, your credit (and exclusion, if applicable) may be disallowed unless you can show you used due diligence in trying to get the required information.

Due Diligence. You can show a serious and earnest effort (due diligence) to get the information by keeping in your records a Form W-10 completed by the care provider. Or you may keep one of the other sources of information listed in the instructions for Form W-10. If the provider does not give you the information, complete the entries you can on line 1 of Form 2441. For example, enter the provider's name and address. Write "See Page 2" in the columns for which you do not have the information. Then, on the bottom of page 2, explain that the provider did not give you the information you requested.

Columns (a) and (b). Enter the care provider's name and address. If you were covered by your employer's dependent care plan and your employer furnished the care (either at your workplace or by hiring a care provider), enter your employer's name in column **(a)**. Next, write "See W-2" in column **(b)**. Then, leave columns **(c)** and **(d)** blank. But if your employer paid a third party (not hired by your employer) on your behalf to provide the care, you must give information on the third party in columns **(a)** through **(d)**.

Column (c). If the care provider is an individual, enter his or her social security number (SSN). Otherwise, enter the provider's employer identification number (EIN). If the provider is a tax-exempt organization, write "Tax-Exempt" in column **(c)**.

Column (d). Enter the total amount you **actually paid** in 1996 to the care provider. Also, include amounts your employer paid to a third party on your behalf. It does not matter when the expenses were incurred. **Do not** reduce this amount by any reimbursement you received.

Line 4

Do not include the following expenses on line 4:

- Qualified expenses you incurred in 1996 but did not pay until 1997. You may be able to use these expenses to increase your 1997 credit.
- Qualified expenses you incurred in 1995 but did not pay until 1996. Instead, see **Prior Year's Expenses** below.

Line 6

Spouse Who Was a Student or Disabled. Your spouse was a **student** if he or she was enrolled as a full-time student at a school during any 5 months of 1996. Your spouse was **disabled** if he or she was not capable of self-care.

Figure your spouse's earned income on a monthly basis.

For each month or part of a month your spouse was a student or was disabled, he or she is considered to have worked and earned income. His or her earned income for each month is considered to be at least \$200 (\$400 if more than one qualifying person was cared for in 1996). If your spouse also worked during that month, use the higher of \$200 (or \$400) or his or her actual earned income for that month. If, in the same month, both you and your spouse were either students or disabled, this rule applies to only one of you for that month.

For any month that your spouse was not a student or disabled, use your spouse's actual earned income if he or she worked during the month.

Line 10

If you had qualified expenses for 1995 that you did not pay until 1996, see **Prior Year's Expenses** next. Otherwise, see **Credit Limit** on this page.

Prior Year's Expenses. If you had qualified expenses for 1995 that you did not pay until 1996, you may be able to increase the amount of credit you can take in 1996. For details, see **Amount of Credit** in Pub. 503. If you can take a credit for your 1995 expenses, write "PYE" and the amount of the credit on the dotted line next to line 10. Add the credit to the amount on line 10 and replace the amount on line 10 with that total. Also, attach a statement showing how you figured the credit. See **Credit Limit** next.

Credit Limit. The amount of your credit may be limited. Some people need to complete **Form 6251**, Alternative

Minimum Tax—Individuals, because the amount from line 24 of that form is used to figure the limit. Use the worksheet on this page to see if you need to complete Form 6251 and to figure the amount of credit you may claim.

Line 12

If you had a flexible spending account, any amount included on line 11 that you did not receive because you did not incur the expense is considered forfeited. Enter the forfeited amount on line 12. **Do not** include amounts you expect to receive at a future date.

Example. Under your employer's dependent care plan, you chose to have your employer set aside \$5,000 to cover your 1996 dependent care expenses. The \$5,000 is shown in box 10 of your W-2 form. In 1996, you incurred and were reimbursed for \$4,950 of qualified expenses. You would enter \$5,000 on line 11 and \$50, the amount forfeited, on line 12.

Line 14

Enter the total of all qualified expenses incurred in 1996 for the care of your qualifying person(s). It does not matter when the expenses were paid.

Example. You received \$2,000 in cash under your employer's dependent care plan for 1996. The \$2,000 is shown in box 10 of your W-2 form. Only \$900 of qualified expenses were incurred in 1996 for the care of your 5-year-old dependent child. You would enter \$2,000 on line 11 and \$900 on line 14.

Line 17

If your filing status is married filing separately, see **Special Rule for Married Persons Filing Separate Returns** on the previous page. If you are considered unmarried under that rule, enter your earned income (from line 16) on line 17. On line 19, enter the smaller of the amount from line 18 or \$5,000. If you are **not** considered unmarried under that rule, enter your spouse's earned income on line 17. If your spouse was a student or disabled in 1996, see the line 6 instructions. On line 19, enter the smaller of the amount from line 18 or \$2,500.

Credit Limit Worksheet—Line 10 (keep for your records)

1. Enter the amount from Form 2441, line 10
2. Enter the amount from Form 1040, line 22, plus any net operating loss deduction and tax-exempt interest from private activity bonds issued after August 7, 1986
- Next:** If line 2 is over \$150,000 (\$112,500 if single or head of household; \$75,000 if married filing separately) **OR** you file Schedule C, C-EZ, D, E, or F, complete Form 6251 through line 24. Then, complete only lines 5 and 8-10 below. Otherwise, go to line 3.
3. Enter \$45,000 (\$33,750 if single or head of household; \$22,500 if married filing separately)
4. Subtract line 3 from line 2. If zero or less, **stop here**; enter on Form 1040, line 39, the amount from line 1 above. Otherwise, go to line 5
5. Enter the amount from Form 1040, line 38
6. Multiply line 4 by 26% (.26)
7. Subtract line 6 from line 5 (if zero or less, enter -0-)
Is line 7 equal to or more than line 1?
Yes. **Stop here**; enter the amount from line 1 above on Form 1040, line 39.
No. Complete Form 6251 through line 24 and lines 8-10 below.
8. Enter the amount from Form 6251, line 24
9. Subtract line 8 from line 5 (if zero or less, enter -0-)
10. Enter the **smaller** of line 1 or line 9 here and on Form 1040, line 39. If line 9 is the smaller amount, write "AMT" in the left margin next to line 39 and replace the amount on Form 2441, line 10, with that amount

