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2013

Getting the Most out of Child Related Tax Benefits





Let's Talk Child-Related Tax Benefits

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- Extension of Certain Child-related Tax Benefits
- What are the Child-related Tax Benefits?
- Who is a Qualifying Child?
- Overview of the American Opportunity Tax Credit
- Interview Best Practices
- Additional Resources





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American Taxpayer Relief Act of 2012

- This Act extended the current law for the following child related benefits through December 31, 2017:
 - Child Tax Credit/Additional Child Tax Credit
 - American Opportunity Tax Credit
 - The Earned Income Tax Credit





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What are Child Related Tax Benefits?

- Available with a qualifying child who meets basic eligibility requirements
- Child related tax benefits:
 - Dependency Exemption
 - Head of Household filing status
 - Child Tax Credit
 - Credit for Child and Dependent Care Expenses
 - Earned Income Tax Credit
 - American Opportunity Tax Credit





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Uniform Definition of a Qualifying Child

- Uniform definition is not “one size fits all”
- Specific criteria apply to each benefit
- Criteria generally include:
 - Age
 - Relationship
 - Residency
 - Support
 - Joint Return





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Age of Qualifying Child Matters

- Child must be younger than your client
- Must not file a joint return except to claim refund
- Depending on the tax benefit, must be under the following age:
 - Dependency Exemption (Under Age 19)*
 - Head Of Household (Under Age 19)*
 - Earned Income Tax Credit (Under Age 19)*
 - Child Tax Credit (Under Age 17)
 - Child and Dependent Care (Under Age 13)

* Special rules apply for full-time students under age 24 at the end of the year and permanently and totally disabled children.



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Relationship

- A son or daughter (including an adopted child or child placed for adoption)
- Stepchild
- Foster child placed by an authorized placement agency or court
- Brother, sister, half brother, half sister, stepbrother, stepsister
- A descendant of any of the above





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Residency

- Child must have lived with you more than half the year
- Exceptions for all include: temporary absences, birth or death of a child and kidnapped child
- Exceptions:
 - The child must have lived in the U.S. with the exception of military for EITC
 - Divorced or separated parents have an exception for the Dependency Exemption, Child Tax Credit and Child and Dependent Care Expenses





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Support

- Uniform definition of a child support test is the child must not provide more than half of own support
- Head of household and maintaining home
- Support tests for dependency exemption
 - Rules for divorced or separated parents





Special Rules for a Qualifying Child

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- Claim the child as a dependent
- A child without an SSN
- Citizenship or residency status
 - EITC –must have SSN valid for employment and must have lived in United States with your client for more than half the year (except military)
 - Child Tax Credit—must be U.S. Citizen, U.S. National or U.S. Resident
 - Dependency Exemption, Head of Household and Child and Dependent Care Credit—must be a U.S. Citizen, U.S. National , U.S. Resident or a resident of Canada or Mexico





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Qualifying Child of Parents Who are Divorced, Separated or Live Apart

- If custodial parent waives right, an eligible non-custodial could claim:
 - Dependent's personal exemption
 - Child Tax Credit and Additional Child Tax Credit
 - American Opportunity Tax Credit
- Eligible custodial parent could claim:
 - Head of Household filing status
 - Child and Dependent Care Expenses Credit
 - Earned Income Tax Credit





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American Opportunity Tax Credit General Qualifications

- Client paid or deemed to have paid qualified higher education expenses
- Education expenses paid for eligible student
- Eligible student is your client, client's spouse or dependent claimed on tax return
- Enrolled at least half time for at least one academic period during the tax year
- Attended the first four years of higher education at an eligible college, university or vocational school





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AOTC (continued ...)

- Not claimed for the American Opportunity Tax Credit or combination of the Hope Credit for more than four tax years
- Not convicted of a drug felony prior to the end of the tax year





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Additional Forms or Schedules Required

- EITC
 - Schedule EIC
 - Form 8867
 - Form 8862 if previously disallowed
- Child Tax Credit
 - Schedule 8812
- Child and Dependent Care Expenses Credit
 - Form 2441
- AOTC
 - Form 8863





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Interview Best Practices

- Avoid common mistakes, verify:
 - Client's marital status
 - Child's marital status
 - Age, relationship and residency
 - If the child is a full-time student at an eligible school
 - Support test when appropriate
 - If anyone else can claim the child
 - If there are special circumstances that allow or disallow the credit





What Child Related Benefits Do the Grady Group Qualify?

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Grady Group Recap

- John and Susan
 - Filing Status: Married Filing Jointly
 - Income: \$26,050 (John) and \$7,200 (Susan)
 - Relationship: Custodial parents of Felix, Brady, Charles, and Amy
 - Residency: U.S citizens lived in U.S. all year
 - John, Susan and all children have valid SSNs for employment





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Grady Group Recap (continued ...)

- Felix
 - Age: 20
 - Relationship: Son of John
 - Residency: Lived with John and Susan for full year under temporary absence
 - Full-time college student
- Charlie
 - Age: 17
 - Relationship: Son of John
 - Residency: Lived with John and Susan for full year
 - Other: High-school student





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Grady Group Recap (continued ...)

- Brady
 - Age: 11
 - Relationship: Son of Susan
 - Residency: Lived with John and Susan for more than half the year
 - Other: Susan signed Form 8332 so ex-husband can claim dependency exemption, incurred child care expenses
- Amy
 - Age: 3
 - Relationship: Daughter of John and Susan
 - Residency: Lived with parents, John and Susan, for full year
 - Other: child care expenses incurred





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Grady Group Recap (continued ...)

- Additional Information
 - No one else lives in the home
 - All children are single
 - Children's ages were calculated based on the end of the tax year





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Dependency Exemption Recap

| | <i>Felix</i> | <i>Brady</i> ¹ | <i>Charlie</i> | <i>Amy</i> |
|--------------|--------------|---------------------------|----------------|------------|
| Relationship | Pass | Pass | Pass | Pass |
| Residency | Pass | Pass | Pass | Pass |
| Age | Pass | Pass | Pass | Pass |
| Support | Pass | Pass | Pass | Pass |

1. Remember, Susan gave the **Dependency Exemption** to her ex-husband so cannot claim Brady





Child Tax Credit Recap

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| | <i>Felix</i> | <i>Brady</i> | <i>Charlie</i> | <i>Amy</i> |
|--------------|--------------|-------------------|----------------|------------|
| Relationship | Pass | Pass | Pass | Pass |
| Residency | Pass | Pass ¹ | Pass | Pass |
| Age | Fail | Pass | Fail | Pass |
| Support | Pass | Pass ¹ | Pass | Pass |

1. Remember, Susan gave the **Dependency Exemption** to her ex-husband so they cannot claim the **Child Tax Credit**.





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Earned Income Tax Credit Recap

| | <i>Felix</i> | <i>Brady</i> ¹ | <i>Charlie</i> | <i>Amy</i> |
|--------------|--------------|---------------------------|----------------|------------|
| Relationship | Pass | Pass | Pass | Pass |
| Residency | Pass | Pass | Pass | Pass |
| Age | Pass | Pass | Pass | Pass |
| Support | NA | NA | NA | NA |

1. *Susan could claim Brady for the EITC because the benefit stays with the custodial parent even though she gave her ex-husband the Dependency Exemption*



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Child and Dependent Care Expenses Credit Recap

| | <i>Felix</i> | <i>Brady</i> | <i>Charlie</i> | <i>Amy</i> |
|--------------|--------------|--------------|----------------|------------|
| Relationship | Pass | Pass | Pass | Pass |
| Residency | Pass | Pass | Pass | Pass |
| Age | Fail | Pass | Fail | Pass |
| Support | Pass | Pass | Pass | Pass |





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American Opportunity Tax Credit Recap

| | <i>Felix</i> | <i>Brady</i> | <i>Charlie</i> | <i>Amy</i> |
|--|--------------|--------------|----------------|------------|
| Dependency Exemption | Pass | Pass | Pass | Pass |
| Degreed Program or Other Educational Credentials | Pass | Fail | Fail | Fail |
| Enrollment Status (i.e., At Least Half-Time Student) | Pass | Fail | Fail | Fail |
| Paid (Out of Pocket) Qualified Expenses | Pass | Fail | Fail | Fail |





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Recap & Review

- Child related tax benefits are available to taxpayers with a qualifying child.
- The rules for a “Qualifying Child” for each benefit are similar, yet distinct.
- Ask appropriate interview questions for each client’s child so you can:
 - Maximize the credits your client qualifies for,
 - Reduce the likelihood of an audit, and
 - Avoid penalties that may apply to you and your client if you file inaccurate tax returns
- Request documentation.





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Tax Year 2013 Child-Related Tax Benefits Comparison

Our handy chart shows some of the basic eligibility requirements for tax benefits available to taxpayers with a qualifying child in 2013.

| Criteria | Benefit | | | | |
|---|--|--|---|--|---|
| | Earned Income Tax Credit | Dependency Exemption | Child Tax Credit | Head of Household | Child and Dependent Care Credit |
| Age | Child must be: <ul style="list-style-type: none"> Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2013. Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2013 if a full-time student. Any age if permanently and totally disabled. | Child must be: <ul style="list-style-type: none"> Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2013. Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2013 if a full-time student. Any age if permanently and totally disabled. | Child must be younger than you (or your spouse if filing a joint return) and under age 17 at the end of 2013.  | Child must be: <ul style="list-style-type: none"> Younger than you (or your spouse if filing a joint return) and under age 19 at the end of 2013. Younger than you (or your spouse if filing a joint return) and under age 24 at the end of 2013 if a full-time student. Any age if permanently and totally disabled. | Child must be younger than you (or your spouse if filing a joint return) and under age 13 at the end of 2013.  |
| Child's Relationship | Child must be your: son, daughter, stepson, stepdaughter, adopted child*, foster child**, brother, sister, half brother, half sister, stepbrother, stepsister, or descendent of any of them. | | | | |
| Can You Claim Without Qualifying Child? | Yes, see rules for claiming without a qualifying child. | Yes, see rules for qualifying relative. | No | Yes, see rules for dependents who are not a qualifying child. | Yes, see rules for qualifying persons. |





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Additional Questions

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