

INCOME TAX INFORMATION TAX CREDITS AVAILABLE TO KINSHIP CAREGIVERS

The federal government offers tax credits to all families who are raising children. These credits usually apply to kinship families.

Credits are the most effective way of reducing income taxes, because the amount of the credit is subtracted from the tax due. Credits directly reduce the amount of taxes that you owe!

Most importantly, the **Earned Income Tax Credit (EITC)** is a *refundable* credit. If the credit is more than your taxes, the government will pay the balance to you! The Earned Income Tax Credit is a lawful way to get paid by the federal government!

In addition to the Earned Income Tax Credit, there is the **Child Tax Credit**, as well as the **Child and Dependent Care Credit**, and **Adoption Credits**. These credits are available to kinship families.

The Kinship Navigator Income Tax Information Fact Sheet offers some basic information about these three credits. In order to understand whether you can use these credits, you can start here, but you will need to get **more information**.

On the web, you can go to:

- www.irs.gov: information on tax forms, includes list of free file websites
- <http://turbotax.intuit.com/tax-tools/>: free tax calculators and guides
- <http://www.taxcreditsources.org/>: Answers common tax questions

For information on New York State Tax Credits, please visit:

- List of New York State Income Tax credits:
http://www.tax.ny.gov/pit/credits/income_tax_credits.htm
- Child and Dependent Care Credit:
http://www.tax.ny.gov/pit/credits/child_and_dependent_care_credit.htm
- Empire State Child Credit:
http://www.tax.ny.gov/pit/credits/empire_state_child_credit.htm
- New York EIC: http://www.tax.ny.gov/pit/credits/earned_income_credit.htm

You can also ask for assistance from a local income tax help line:

Help lines:

1. IRS National Taxpayer Advocates helpline: 1-877-777-4778
2. IRS Internal revenue service: 1-800-829-1040
3. NYS Personal Income Tax Information Center: 518-457-5181

FEDERAL EARNED INCOME TAX CREDIT

Income Requirements

- Special tax benefit for working people who earn low to moderate incomes.
- Credit is available whether or not you have children; it is based on income.
- Credit of up to \$5,666 for qualifying tax payers.
- Income requirements:
 - Gross income is less than \$13,460 with no child
 - Gross income is less than \$35,535 with one child
 - Gross income is less than \$40,363 with two children
 - Gross income is less than \$43,352 with three or more qualifying children
- If filing jointly, add \$5,010 to the gross income.
 - Gross income jointly filed is less than \$18,470 with no child
 - Gross income jointly filed is less than \$40,545 with one child
 - Gross income jointly filed is less than \$45,373 with two children
 - Gross income jointly filed is less than \$48,362 with three or more qualifying children
- The maximum investment income you can possess is \$3,100 for the year.
- If you are married and filing separately, you cannot claim EITC.

Qualifying Children

- Qualifying child is UNDER 19, or UNDER 24 and a full-time student or ANY AGE and permanently and totally disabled.
 - Who has lived with you for more than half of 2010
 - Who is a son, daughter, grandchild, stepchild, eligible foster child, niece, nephew, sister, brother, or half-sibling
 - Is the child a qualifying child of more than 1 person?: See Qualifying Child Rules, <http://www.irs.gov/individuals/article/0,,id=218779,00.html>

Tax Year 2010 Maximum Credit

- No children: up to \$457
- One Child: up to \$3,050
- Two children: up to \$5,036
- Three children or more: up to \$5,666

Requirements

- Must file Schedule EIC if you are claiming children.
- Must file federal Income Tax return 1040 or 1040A (NOT 1040EZ).
 - Exception: You MAY file a 1040EZ if you are NOT raising a child.
- Public Benefits: does not count as income when applying for benefits (IT IS NOT EARNED INCOME).
- How do financial assistance programs treat earned income dollars?
 - Public Assistance does not count this credit as income
 - SSI income counts credit as income after 9 months
 - Food Stamps counts credit as income after 12 months
- Also see: 2010 Earned Income Tax Credit: Can I Claim It?:
 - <http://apps.irs.gov/app/eitc2010/SetLanguage.do?lang=en>
 - En Espanol: <http://apps.irs.gov/app/eitc2010/SetLanguage.do?lang=es>

STATE INCOME TAX CREDITS

New York is one of the states that has a state-level Earned Income Tax Credit Program.

Qualifying residents of New York State may claim up to an additional 30% of the Federal Earned Income Tax Credit program, for 2009. To qualify, you only need to be qualified for the Federal-level program and be a resident of New York State.

Income Requirements

- Federal tax credit for low and moderate income working families
- May reduce taxes by up to \$1,000 for each qualifying child
- Must earn more than \$11,750 DOUBLE CHECK)
- No limit on investment income

Amount of Credit

- Qualifying Children:
 - Under 17 in 2010
 - Child, grandchild, foster child, sibling, niece/nephew, step-sibling
 - Provided less than half of their support in 2010
 - Lived with you for more than half of 2010

Requirements

- Must file Form 8812 “Additional Child Tax Credit”
- Must file federal Income Tax return 1040 or 1040A (NOT 1040EZ)
- Public Benefits: refund has little or no effect
- SSI: counts credit as income after 9 months

CHILD TAX CREDIT

Income Requirements

- Federal tax credit for low and moderate income working families.
- May reduce taxes by up to \$1,000 for each qualifying child.
- If you have one or more qualifying children and more than \$3,000 of earned income (wages & other job-related compensation) in 2010, you may be entitled to a refund of up to 15 percent of your earned income (including tax-free combat pay) that exceeds \$3,000. Or, if your earned income is less than \$3,000, you may be eligible for a refundable credit if you have three or more qualifying children and you paid Social Security taxes that exceeded your earned income credit.
- Income limits:
 - Married (joint return): \$110,000 adjusted gross income (AGI)
 - Single, qualifying widower, Head of Household: \$75,000 AGI
 - Married, filing separately: \$55,000 AGI
 - No limit on investment income.

Qualifying Children

- Qualifying children:
 - Under 17 at end of 2010.
 - Child, grandchild, foster child, sibling, niece/nephew, step-sibling.
 - Provided less than half of their own support in 2010.
 - Lived with you for more than half of 2010.
 - Is claimed as a dependent on your return.
 - Was a U.S. citizen, national or 1040NR resident alien.

Requirements

- Must file Form 8812 “Additional Child Tax Credit”.
- Must file federal Income Tax return 1040, 1040A or 1040NR (NOT 1040EZ).
- Public Benefits: refund has little or no effect.
 - SSI: counts credit as income after 9 months.
- Must provide name and Social Security Number on tax return for each qualifying child.
- For further information on the Child Tax Credit:
 - <http://turbotax.intuit.com/tax-tools/tax-tips/Family/Child-Tax-Credit/INF12004.html>

ADDITIONAL CHILD TAX CREDIT

For certain individuals who get less than the full amount of the Child Tax Credit, the Additional Child Tax Credit may give you a refund even if you do not owe any tax. The 2009 Stimulus Act has made it much easier to qualify for refundable Additional Child Tax Credits by lowering the earned income threshold for 2009 and 2010 from about \$12,500 to the current \$3,000. As a result, more people with modest incomes in 2010 will qualify for larger refunds. The maximum possible refundable credit was increased by about \$1,400.

For further Additional Child Tax Credit information, please visit:

- http://www.irs.gov/publications/p972/ar02.html#en_US_2010_publink100012090
- <http://www.irs.gov/pub/irs-pdf/p972.pdf>

CHILD AND DEPENDENT CARE TAX CREDIT

You may be able to claim the credit if you pay a caregiver (a “qualifying person”) to care for your child under age 13 so that you (and your spouse if you are filing jointly) can work or look for work.

- You are allowed to claim up to \$3,000 for the expense of one child, and up to \$6,000 for more than one dependent.
- Each dependent must have a social security number or Taxpayer ID number.
- Due to the fact that the credit is nonrefundable (will not pay you over the amount you owe), its use is limited to low-income families.
- You MUST pay taxes to qualify for this credit.
- Income is defined as working income (public assistance and food stamps do not count toward this amount).

How much credit can you get?

Credit is a percentage of your work-related expenses. Your expenses are subject to the earned income limit and the dollar limit amount. The percentage is based on your dependent care benefits to gross income. It ranges by percentage from 35% for zero to \$15,000 adjusted gross income, to 20% of adjusted gross income for incomes of \$43,000 or greater.

To qualify, you must:

- Have paid for care expenses in order to earn taxable income.
- Complete Form 2441.
- Married individuals must both work at least part-time (unless one is disabled or a student).
- Pay more than 50% of the household maintenance costs for a qualifying dependent.
- File your tax return jointly if married, unless the separation rules apply; otherwise file Single, Head of Household, or Qualifying Widower with Dependent Child.
- Hire someone *other than* your child (under age 19 at the end of the tax year), your spouse, or a person you can claim as a dependent;
- Have qualifying expenses over and above any tax-free reimbursements from your employer (ex. FSA benefits).
- Report on your tax return the name, address, and taxpayer identification number of the childcare provider. If the care provider is a tax exempt organization the taxpayer identification number is not required.

- **Employment related expenses include:**
 - Household services and expenses for care for the qualifying dependent.
 - Out of home care costs for a child under 13, including daytime summer camp, nursery school, baby sitter, or day care center.
 - Does NOT include overnight camp or elementary school.
 - Ordinary domestic services in the home such as cooking, cleaning and laundry that are partly for the care of the qualifying dependent.

- For further information on the Child and Dependent Care Tax Credit and filing instructions:
 - <http://www.irs.gov/pub/irs-pdf/i2441.pdf>

ADOPTION CREDITS AND EXCLUSIONS

If you adopt a child you can qualify for special tax breaks and income declaration exclusions.

What it is:

- **Credit:** Tax credit for *qualifying expenses* paid to adopt an eligible child (including a child with special needs). The adoption credit is an amount subtracted from your tax liability.

- **Exclusion:** If your employer has an adoption assistance program you may also exclude qualifying adoption expenses from your declared income.

When you can claim it

- For expenses paid prior to the year the adoption becomes final, the credit generally is allowed for the year following the year of payment.
- A taxpayer who paid qualifying expenses in the current year for an adoption which became final in the current year may be eligible to claim the credit for the expenses on the current year return, in addition to credit for expenses paid in a prior year.

Non Qualifying Expenses (Exclusions)

- The adoption credit is not available for any *reimbursed expense*.
- Certain amounts *paid by your employer* for qualifying adoption expenses may be excludable from your gross income.

Typical Qualifying Expenses

You can take these off your taxes:

1. Reasonable and necessary adoption fees
2. Court costs
3. Attorney fees
4. Traveling expenses (including amounts spent for meals and lodging while away from home),
5. Other expenses directly related to and for which the principal purpose is the legal adoption of an eligible child.

Child Requirements

Child must be:

1. Under 18 years old,

or

2. Be physically or mentally incapable of caring for himself or herself.

and

3. US Citizen or resident

4. ADOPTION IN PROCESS OR FINAL IN THE TAXABLE YEAR

Increased Adoption Credit or Exclusion in Special Circumstances:

1. Child with special needs
2. United States citizen or resident
3. *State determines that the child cannot or should not be returned to his or her parent's home, and*
4. *Probably will not be adopted unless assistance is provided.*

How to Apply

- *Married* Filing Status: **must file a joint return** to take the adoption credit or exclusion.
- *Married Filing Separately* Filing Status: only if you meet special requirements.

· *Adoption Taxpayer Identification Number (ATIN) for Child*

If you are in the process of adopting a child and are able to claim the child as your dependent or are able to claim a childcare credit, you may need an ATIN for your adoptive child.

- Issued by the Internal Revenue Service as a temporary taxpayer identification number for the child in a domestic adoption where the adopting taxpayers do not have and/or are unable to obtain the child's Social Security Number (SSN). It is used on their Federal Income Tax return to identify the child while final domestic adoption is pending.

- **ATIN *when adopting child from foreign country***: May obtain if:
 1. The child is legally placed in your home for adoption by an authorized placement agency.
 2. The adoption is a **domestic** adoption **OR** the adoption is a **foreign** adoption and the **child/children have a permanent resident alien card or certification of citizenship.**
 3. You cannot obtain the child's existing SSN even though you have made a reasonable attempt to obtain it from the birth parents, the placement agency, and other persons.
 4. You cannot obtain an SSN for the child from the SSA for any reason. (For example, the adoption is not final).
 5. You are eligible to claim the child as a dependent on your tax return.

To take the credit or exclusion, complete [Form 8839 \(PDF\)](#), *Qualified Adoption Expenses*, and attach the form to your Form 1040 (PDF) or Form 1040A (PDF).

Adjusted Gross Income Limits:

Income (\$) Limitation

- | | |
|-----------------------|-----------------------------------|
| • \$182,180-\$222,180 | • Phases out, Pro Rata Percentage |
| • \$222,180 or more | • Cannot claim |

Maximum Amount of Credits and Exclusions 2009

- Credit \$12,150
- Exclusion \$12,150

HIGHER EDUCATION CREDITS

Education tax credits can help offset the costs of education. The American Opportunity and the Lifetime Learning Credit are education credits that reduce your federal income tax dollar for dollar, unlike a deduction, which reduces your taxable income up to \$4,000. For more information see IRS Publication 970. You may be able to deduct qualified education expenses, such as tuition and fees but not for living expenses, paid during the year for yourself, your spouse, or your dependent(s). You cannot claim this deduction if your filing is married filing separately or if another person can claim an exemption for you as a dependent on his or her tax return. The qualified expenses must be for higher education