

Deductions vs Credits

deductions • reduce the income tax base (income subject to tax)

Credits reduce the income tax liability in a 33% income tax bracket, \$1 of

- credit is worth \$3 of deductions gives equal benefit regardless of
- marginal tax bracket
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Refundable credits vs nonrefundable credits

Refundable credits • paid even if the tax liability is less than the amount of credit

Nonrefundable credits can only be used to offset

- tax liability if credit exceeds tax liability
- excess is lost ◦ exception: some nonrefundable credit have carryover(back+ / or forward) provisions

Tax issues with nonrefundable credits

carryback/forward provisions foreign tax credit: 1 year

- back, 10 forward adoption expense credit: 5 years
- forward Residential energy Credit: 1 year forward
- general business credit: 1 year back, 20 forward
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Refundable credits

- Federal Income Tax Withheld from Forms W-2 and 1099
- Estimated Tax Payments
- Federal Income Tax Refunds Applied from Prior Years
- Excess Social Security Taxes Withheld
- Earned Income Credit
- Child Tax Credit (partially refundable)

- Credit for Tax on Undistributed Capital Gains from A Mutual Fund a Real Estate Investment Trust (REIT)
- Health Coverage Tax Credit
- Credit for Excise Taxes on Gasoline and Special Fuels
- American Opportunity Tax Credit (partially refundable)

Foreign Tax credit

if foreign tax is paid, can claim foreign tax credit itemized deduction

- method selected applies to all foreign taxes paid during the year
- limitations no credit for income excluded from US income no

credit for taxes imposed at higher than US rates

Carry back 1 year: forward 10 years

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• Child and Dependent Care credit

General Qualifications must have employment related care costs for a

- dependent under age 13 dependent or spouse physically or mentally
 - incapable of self care married taxpayers must file a joint return
 - **Credit Amount** eligible care costs x applicable
- percentage applicable percentage ranges from
- 20% to 35%

Covers costs for care of qualified individual within taxpayers home or outside home

- if outside home, dependent or spouse incapable of self care must spend at least 8 hours a day within taxpayers home.

amount of costs that qualify is the lesser of

- earned income actual costs
- 3,000 for one qualified individual and 6,000 for two or more qualified individuals
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CDCC Percentage

| If AGI is not over | Then the percentage is | If AGI is not over | Then the percentage is |
|------------------------------|------------------------|--------------------|------------------------|
| \$15,000 | 35% | \$43,000 | 21% |
| \$17,000 | 34% | | |
| Reduced 1% for every \$2,000 | | | |
| ... | | | |
| | | No Limit | 20% |

Credit for Elderly and Disabled

General qualifications age 65 or older under age 65 and

- permanently and totally disabled
- Credit amount calculated
 - on schedule R
 - amount reduce for taxpayers with social security benefits or AGI in excess of specified amount
- IRS will figure for taxpayer if necessary

Education Tax Credits

2 education credits

- American Opportunity Tax credit lifetime
- learning credit

Common Elements

- available for qualifying tuition and related expenses
- room and board costs are not eligible available for
- taxpayer, spouse and dependents
- course material (including books, supplies, and equipment need for a course of study) are considered qualified related expenses for the American Opportunity Tax Credit but are not for the the lifetime learning credit unless required by and paid to the education institution as a condition of enrollment or attendance

American Opportunity Tax credit

maximum per eligible student is \$2,500 per year for first 4 years of postsecondary education

- 100% of first 2,000 of qualifying expenses plus
- 25% of next 2,000 of qualifying expenses

Student must pursue and undergraduate degree or recognized

- credential take at least 1/2 of full time course load
- • have a tax ID number issued prior to the due date of the return on which the credit is claimed

Administrative issues

1. beginning with 2016 income tax returns, tax preparers must comply with due diligence requirements set forth by the IRS
2. taxpayers who fraudulently claim an AOTC on a tax return will be barred from claiming the AOTC for the two subsequent tax years

Lifetime Learning Credit

maximum per taxpayer is 20% of qualifying expenses (up to \$10,000 per year) • cannot be claimed in same year the American Opportunity tax credit is claimed for the same student

Student must take one or more courses drugs take away

your AOTC but not your lifetime credit

Education Credit Summary

| Feature | American Opportunity Tax Credit | Lifetime Learning Credit |
|-----------------------|--|---|
| Base and Rate | \$2,000 @ 100% plus \$2,000 @ 25% | \$10,000 @ 20% |
| Maximum Annual Credit | \$2,500 per eligible student | \$2,000 per tax return |
| General Availability | For the first four years of postsecondary education | For all years of postsecondary education and for courses to acquire or improve job skills |
| Years Available | Four years per student | Unlimited Number of Years |
| Degree Requirement | Student must pursue an undergraduate degree or other recognized education credential | Student does not need to pursue a degree or education credential |
| Half-time Requirement | Student must be enrolled at least half-time for one academic period during the year | Student must take one or more courses |
| Drug Conviction | No felony drug conviction on student's record | Felony drug conviction rule does not apply |
| Phaseout | \$80,000 - \$90,000 (Single) \$160,000 - \$180,000 (MFJ) | \$80,000 - \$90,000 (Single) \$160,000 - \$180,000 (MFJ) |

Retirement Savings Credit

Taxpayers with MAGI below certain thresholds receive a credit for retirement savings

- MAGI includes excluded foreign income and housing costs
 - income for residents of American Samoa and Puerto Rico

| Applicable Percentage | MFJ MAGI | | HoH MAGI | | All Other MAGI | |
|-----------------------|----------|----------|----------|----------|----------------|----------|
| | Over | Not over | Over | Not over | Over | Not over |
| 50% | \$0 | \$43,500 | \$0 | \$32,625 | \$0 | \$21,750 |
| 20% | \$43,500 | \$47,500 | \$32,625 | \$35,625 | \$21,750 | \$23,750 |
| 10% | \$47,500 | \$73,000 | \$35,625 | \$54,750 | \$23,750 | \$36,500 |
| 0% | \$73,000 | | \$54,750 | | \$36,500 | |

Qualifications 18 or older makes a qualified retirement

- savings contribution traditional or Roth IRA
- elective deferrals
 - **Amount of credit = contributions x Percentage**
 - **Maximum Credit**
- \$1,000 per person per year
- \$2,000 on a joint return

Child Tax credit

\$2,000 credit per qualifying child refundable up

to \$1,600 for 2023

Qualifications:

- married taxpayers must file jointly eligible children under
- age 17 (for only 2021 only it was under age 18)
 - U.S citizen, U.S national, or resident and Claimed as dependent on
 - taxpayer tax return have a tax ID number issued before the due
 - date of the return
 - Credit is phased out by \$50 for each \$1,00 of AGI above specified levels

- \$400,000 for joint
- \$200,00 for single, head of household or married filing separately

Other Dependent (family) credit

\$500 credit for one who was a qualified dependent but did not meet the child tax credit rules • not available for the taxpayers or spouse

Adoption Expense Credit

credit for qualified adoption expenses incurred in adoption of eligible child • examples of expenses: adoption fees, court costs, attorney fees, travel expenses

Maximum Credit is \$15,950 for 2023 • credit is phased out ratably modified AGI between \$239,230-\$279,230 for 2023

Eligible child is one that is less than 18

- years of age physically or mentally
- handicapped

Nonrefundable credit • excess may be carried forward for five years

Earned Income Tax credit

Qualification must have earned income (employee or self

- employed)
- AGI must not exceed phaseout amount
- Investment income \leq \$11,000 for 2023 if
- qualifying child, must meet relationship, age, and residency tests if no qualifying child age
- 25 and under age 65

Designed to return Social Security withholding to low income taxpayers

Earned Income Tax Credit (EITC) Table

| EITC Situation | No Children | With 1 Child | With 2 Children | With 3+ Children |
|--|-------------|--------------|-----------------|------------------|
| 1. Earned Income Amount (minimum income earned required to claim credit) | \$7,840 | \$11,750 | \$16,510 | \$16,510 |
| 2. Earned Income Credit Percentage | 7.65% | 34% | 40% | 45% |
| 3. Maximum Amount of Credit | \$600 | \$3,995 | \$6,604 | \$7,430 |
| 4. Phaseout Threshold Amount Begins (for Single, SS, or Head of Household) | \$9,800 | \$21,560 | \$21,560 | \$21,560 |
| 5. Phaseout Amount When Credit Ends (for Single, SS, or Head of Household) | \$17,640 | \$44,560 | \$52,918 | \$56,838 |
| 6. Phaseout Threshold Amount Begins (for Married Filing Jointly) | \$16,370 | \$28,120 | \$28,120 | \$28,120 |
| 7. Phaseout Amount When Credit Ends (for Married Filing Jointly) | \$24,210 | \$53,120 | \$59,478 | \$63,398 |

General Business Credit

Comprised of a number (about 30) of refundable business credits combined into one amount

- rehabilitation expenditure credit business energy
- credit work opportunity credit research activities
- credit low income housing credit disabled access
- credit small employer pension plan startup costs
- credit
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