



QUESTIONS AND ANSWERS ABOUT THE CHILD AND DEPENDENT CARE TAX CREDIT TAX YEAR 2007

The federal **Child and Dependent Care Credit** can help working families pay for child care and other expenses. The following questions and answers will help you feel more comfortable spreading the word about the federal **Child and Dependent Care Tax Credit**. But you should not try to answer specific questions about any individual's or family's taxes!

1. *What is the federal Child and Dependent Care Tax Credit?*

The federal **Child and Dependent Care Tax Credit** provides up to \$2,100 in tax assistance to families who pay for care for a qualifying child or dependent in order to work in paid employment.

The amount of the credit is based on the family's income, the number of the family's dependents in care, and the amount the family pays for the care. Families of all income levels are eligible. In general, the higher the child care expenses and the lower the family's income, the larger the family's credit.

Note: The **Child and Dependent Care Tax Credit** also covers employment-related care expenses for a spouse or other qualifying person (including a child of any age) who is incapable of caring for himself or herself. If a tax filer paid for care for such an individual, he or she should get more information about the circumstances under which such care is covered by reading Publication 503 on the Internal Revenue Service (IRS) website, at www.irs.gov.

2. *Who is eligible for the Child and Dependent Care Tax Credit?*

To be eligible for the **Child and Dependent Care Tax Credit**, a family must:

- Have paid for child care in 2007 for a qualifying child who was under age 13 when the care was provided; *and*
- Have needed the child care to enable the tax filer to work or look for work (if he or she is married, both he or she and his or her spouse must have needed the care to work or look for work, or one spouse must have been a full-time student, or unable to care for himself or herself); *and*
- Have paid less for care than the amount of the family's 2007 earned income. If the tax filer is married and filing a joint return, he or she must have paid less for care than the amount of his or her earned income or his or her spouse's earned income, whichever is smaller. (There are special rules for calculating the earned income of a spouse who was a full-time student or unable to care for himself or herself.)

In general, a family can only claim the credit for a child who can be claimed as a dependent on the family's tax return for 2007, but there are special rules for children of certain divorced or separated parents (see question 5).

3. *When is a child a qualifying child who can be claimed for the Child and Dependent Care Tax Credit?*

A qualifying child for the **Child and Dependent Care Tax Credit** is an individual who:

- Is the tax filer's child, stepchild, adopted child (or child lawfully placed with the tax filer for legal adoption), foster child (placed with the tax filer by an authorized placement agency or court action), sibling, half-sibling, step-sibling, or a descendant of any of these individuals (e.g., grandchild, niece); *and*
- Lived with the tax filer in his or her main home for more than half the year (there are special rules for children who were born or died during 2007, were temporarily absent, or were kidnapped); *and*
- Did not provide over half of his or her own support; *and*
- Is a U.S. citizen or resident alien, or a resident of Mexico or Canada (except for certain adopted children).

4. *What if a family's qualifying child is also the qualifying child of another person?*

If the other person is the tax filer's spouse with whom he or she is filing a joint return, the answer is simple: the tax filer and his or her spouse can claim the child together on their joint return. But there are other situations in which a child might be the qualifying child of more than one person.

If more than one person files a tax return for 2007 claiming the child as a qualifying child, the Internal Revenue Service will apply the following rules to decide who can claim the child:

If more than one tax filer claims the same child and...	Then the child will be treated as the qualifying child of the...
Only one is the child's parent,	parent.
Two are parents and they do not file a joint return,	parent who lived with the child for the longer period of time in 2007.
Two are parents, they do not file a joint return, and the child lived with each parent the same amount of time in 2007,	parent with the higher adjusted gross income in 2007.
None is the child's parent,	person with the highest adjusted gross income in 2007.

However, if more than one person could claim the child as a qualifying child, those people can decide together who will claim the child as a "qualifying child" for tax purposes in 2007. That person will be able to claim the Child and Dependent Care Tax Credit and other tax benefits for that "qualifying child" (including the **Earned Income Tax Credit, Child Tax Credit**, dependent exemption, and head of household filing status) if the other eligibility requirements for those tax benefits are met. Whoever the family members decide can claim the child as a "qualifying child" will be entitled to *all* of these tax benefits for that child; they cannot decide to split them up for that child, unless the special rules for divorced and separated parents apply (see question 5).

5. *The tax filer has custody of his or her child, but is releasing his or her claim to the dependency exemption for 2007 to the noncustodial parent. Can he or she still claim the Child and Dependent Care Tax Credit?*

Yes. If a tax filer had custody for the greater portion of 2007 (and meets the other requirements for the credit), he or she may claim the **Child and Dependent Care Tax Credit**, even though he or she signed Form 8332 or a similar statement agreeing not to claim the child as a dependent for 2007.

6. *What kind of child care expenses qualify?*

Expenses for any type of child care—in a center, a family day care home, a church, or by a neighbor, for example—qualify as long as the family paid the expenses, the primary purpose of the care was for the child's well-being and protection, and the care was necessary for the tax filer to work or look for work in paid employment. The care may be provided by a relative, except a spouse, dependent, or the tax filer's child who was under age 19 at the end of 2007. If the provider cares for more than six persons, the provider must comply with applicable state and local laws and regulations.

7. *How much is a family eligible to receive from the Child and Dependent Care Tax Credit?*

The **Child and Dependent Care Tax Credit** is calculated as a percentage of qualified child and dependent care expenses. The amount that a family is eligible to receive depends on the family's adjusted gross income (AGI), the number of children in care, and the amount of qualified expenses. Qualified expenses for 2007 may not exceed \$3,000 for one qualifying child or other qualifying person and \$6,000 for two or more qualifying children or other qualifying persons. Families with 2007 adjusted gross incomes of \$15,000 or less receive a credit equal to 35% of eligible expenses, for a maximum of \$2,100. The rate decreases as adjusted gross income increases above \$15,000 until it reaches 20% for families with adjusted gross incomes above \$43,000. **The maximum value of the credit for a family with an AGI of \$15,000 or less is \$2,100 for two or more dependents (\$1,050 for one dependent), and for a family with an AGI above \$43,000 is \$1,200 for two or more dependents (\$600 for one dependent).**

The table at the end of this document gives a general idea of the value of the credit by showing the amount of the credit available for families at different income levels with varying child care expenses. The amount a family will actually receive from the credit may be limited by its federal income tax liability since the credit is not refundable.

8. *If a family receives benefits through a Dependent Care Assistance Program, can it still claim the Child and Dependent Care Tax Credit?*

In some cases a family is allowed to claim both the **Child and Dependent Care Tax Credit** and receive benefits through a Dependent Care Assistance Program. For example, if a tax filer's family spent more for child and dependent care than the tax filer received in Dependent Care Assistance Program benefits, the family may be able to claim the **Child and Dependent Care Tax Credit** for the difference. If all of a family's child and dependent care expenses are covered by benefits received through a Dependent Care Assistance Program, the family cannot claim the **Child and Dependent Care Tax Credit**. The amount of any Dependent Care Assistance Program benefits received in 2007 should be shown in Box 10 of the tax filer's W-2 form.

9. *Can a family still claim the Child and Dependent Care Tax Credit if it owes no taxes?*

No. If a family owes no federal income taxes, it cannot claim the **Child and Dependent Care Tax Credit**. But even if a family only owes a small amount of taxes, claiming the **Child and Dependent Care Tax Credit** can increase the amount of any refund it may be eligible for from the **Earned Income Tax Credit** or the **Child Tax Credit**.

10. *If a child has a scholarship or the government pays for child care, can the child's family claim the Child and Dependent Care Tax Credit?*

The **Child and Dependent Care Tax Credit** is based on the amount of qualified care expenses *paid*. Therefore, if a family's child care is free, the family will not be eligible for the credit. However, if only part of the cost of child care is subsidized and the family pays for part of the care, the family can claim the credit based on the actual amount paid. For example, if a child care center charges \$2,000 a year and the child received a scholarship for \$1,500, and the family paid the rest (\$500), then the family may claim the credit based on \$500 in child care expenses.

11. *Can a family claim the Child and Dependent Care Tax Credit if it also claims the Child Tax Credit and the Earned Income Tax Credit?*

Yes. If a family is eligible for these credits, it can claim benefits under all three provisions and decrease its taxes or increase its refund.

12. *How does a family claim the Child and Dependent Care Tax Credit?*

To claim the Child and Dependent Care Tax Credit, a family must file either Form 1040 or 1040A (not 1040EZ) and a separate form or schedule with its tax return. With Form 1040, the family must file Form 2441. With Form 1040A, the family must file Schedule 2. Note that if the tax filer was married at the end of 2007, he or she generally must file a joint return in order to claim the credit, although special rules apply if he or she lived apart from his or her spouse.

The tax filer must provide a Social Security Number (SSN) or an Individual Taxpayer Identification Number (ITIN) for him or herself, his or her spouse if married, and any qualifying child or dependent. If a tax filer is applying for a child who was placed in his or her home for adoption for whom he or she cannot get an SSN, the tax filer must get an Adoption Taxpayer Identification Number (ATIN).

If a tax filer is eligible for an SSN, he or she should apply for it rather than an ITIN. The tax filer must get the SSN before filing the family's tax return. It can take some time to receive an SSN, so the tax filer should apply well in advance. To apply for an SSN, the tax filer must complete Form SS-5 from the Social Security Administration, available at www.ssa.gov/online/ss-5.html. If the tax filer is applying for an ITIN, he or she must file his or her application for an ITIN at the same time as he or she files the family's tax return. To apply for an ITIN, the tax filer must complete Form W-7 from the Internal Revenue Service, available at www.irs.gov/pub/irs-fill/fw7.pdf. To apply for an ATIN, the tax filer must file Form W-7A, available from the Internal Revenue Service at www.irs.gov/pub/irs-pdf/fw7a.pdf, several weeks before he or she plans to file a tax return.

Families should keep records, such as check stubs, receipts, or bills from providers, that show the amounts paid for care during the year.

A family must also provide basic information about the child's provider, including the provider's name, address, and, if the provider is not a tax-exempt organization, an identification number (the provider's SSN or Employer Identification Number). If a family has tried to get the provider's identification number but have not been successful, the tax filer can explain on his or her tax return that the provider was asked for the information but did not comply with the request.

For More Information

Information about other tax benefits available to families with children is available on the National Women's Law Center's website at www.nwlc.org/loweryourtaxes. Further information is also available from the Internal Revenue Service on its website, www.irs.gov, by calling 1-800-TAX-1040 toll free or by contacting your local Volunteer Income Tax Assistance (VITA) clinic for free assistance.

Sample Child and Dependent Care Tax Credit Amounts for Tax Year 2007

Adjusted Gross Income	Credit Value (One Qualifying Child or Person*)			Credit Value (Two or More Qualifying Children or Persons)		
	<i>\$1,000 in care expenses</i>	<i>\$2,000 in care expenses</i>	<i>\$3,000 in care expenses</i>	<i>\$4,000 in care expenses</i>	<i>\$5,000 in care expenses</i>	<i>\$6,000+ in care expenses</i>
\$0-\$15,000	\$350	\$700	\$1,050	\$1,400	\$1,750	\$2,100
\$15,001-\$17,000	\$340	\$680	\$1,020	\$1,360	\$1,700	\$2,040
\$17,001-\$19,000	\$330	\$660	\$990	\$1,320	\$1,650	\$1,980
\$19,001-\$21,000	\$320	\$640	\$960	\$1,280	\$1,600	\$1,920
\$21,001-\$23,000	\$310	\$620	\$930	\$1,240	\$1,550	\$1,860
\$23,001-\$25,000	\$300	\$600	\$900	\$1,200	\$1,500	\$1,800
\$25,001-\$27,000	\$290	\$580	\$870	\$1,160	\$1,450	\$1,740
\$27,001-\$29,000	\$280	\$560	\$840	\$1,120	\$1,400	\$1,680
\$29,001-\$31,000	\$270	\$540	\$810	\$1,080	\$1,350	\$1,620
\$31,001-\$33,000	\$260	\$520	\$780	\$1,040	\$1,300	\$1,560
\$33,001-\$35,000	\$250	\$500	\$750	\$1,000	\$1,250	\$1,500
\$35,001-\$37,000	\$240	\$480	\$720	\$960	\$1,200	\$1,440
\$37,001-\$39,000	\$230	\$460	\$690	\$920	\$1,150	\$1,380
\$39,001-\$41,000	\$220	\$440	\$660	\$880	\$1,100	\$1,320
\$41,001-\$43,000	\$210	\$420	\$630	\$840	\$1,050	\$1,260
\$43,001+	\$200	\$400	\$600	\$800	\$1,000	\$1,200

*Individuals or couples with only one qualifying child or person may claim no more than \$3,000 in qualifying expenses.

Note that the amount a family actually receives from this credit may be limited by its tax liability