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Understanding the child and dependent care credit

Juggling work and childcare can be challenging and expensive. However, the child and dependent care credit can help offset some of these costs. Whether paying for daycare, after-school programs, or even summer camps, understanding what qualifies for this credit can help reduce your tax burden.

Understanding the credit

Unlike a deduction, which reduces the amount of income subject to taxes, a credit directly reduces the amount of tax you owe. While this credit is nonrefundable - meaning it won't result in a refund if it's more than what you owe - it can still lower your taxes.

Eligibility requirements

To qualify for the credit, you must have earned income from working during the year. If you're married, both spouses must either be working or actively seeking employment. Your filing status also plays a role, as married couples must file jointly to claim the credit.

Your dependents must also meet specific criteria. Dependent children under the age of 13 qualify. Dependents who are physically or mentally incapable of self-care also qualify, regardless of their age. In either case, the dependent must live with the taxpayer for more than half the year.

Qualifying expenses

Only certain expenses qualify for the credit, but eligible costs are more wide-ranging than you'd think. The expenses need to be directly related to the care of your child or dependent and must be necessary for you to work or look for a job.

Here are some examples of qualifying expenses:

Daycares and in-home care

Payments to daycare centers, in-home care providers, and summer day camps qualify as long as the care allows you to work. For example, if you send your 9-year-old to a summer day camp while you work, those costs qualify for the credit even if the camp is centered around specific activities.

Transportation by care providers

If a care provider transports your child to or from care, those costs also qualify. However, transportation costs you incur to get your child to daycare do not count.

Household services

Ordinary household services necessary to run your home and also involve the care of your child, like those provided by a cook, maid, babysitter, or housekeeper, are eligible. For example, if you pay an individual who cares for your children and does household chores, the cost can be considered for the credit.

Excluded expenses

While many expenses count toward the credit, not all expenses make the cut. Tuition fees for regular schooling, tutoring, and overnight camps are generally excluded. Also, you cannot count payments made to your spouse or dependent. So, if you pay your 15-year-old to watch your 9-year-old, you can’t claim those costs.

Work-related expense criteria

To qualify for the credit, your expenses must be necessary to allow you to work or look for a job.

In two-parent households, both parents must be working or seeking employment to claim the credit. This applies whether you work for someone else or run your own business, whether you work full-time or part-time, and whether you work from home or outside the home.

The purpose of the expense must be to allow you to work. If you pay your regular caregiver extra so you and your spouse can have a night out, the extra cost is not work-related. However, paying for childcare while one parent works during the day and the other sleeps because they work nights is considered work-related.

If you only work or look for work for part of the year, you need to prorate your expenses. For instance, if you only work for two months of the year and pay $250 a month for care, your eligible work-related expenses would be $500.

However, you don't have to prorate expenses for short, temporary absences from work, such as vacations or minor illnesses, if you have to pay for care anyway. Absences up to 2 weeks are generally considered short and temporary. For example, if you take an 8-day vacation but still pay for daycare, the daycare expense would still qualify for the credit.

The rules get a little trickier if you work part-time year-round. Generally, you would need to figure out your work-related expenses for each day of care if you're paying a caregiver hourly or on an irregular basis. But if you pay a weekly or monthly flat fee for care, you can count the full amount even if it includes days you didn't work.

Any day you work at least one hour counts as a workday. For instance, if you work three days a week and pay $250 for five days of care because there's no 3-day option, you can count the entire $250 as work-related.

Calculating the credit

For a single tax year, you can get a maximum credit up to $3,000 for one qualifying individual and up to $6,000 for two or more qualifying individuals.

The actual credit is a percentage of your qualifying expenses and varies based on your adjusted gross income. Those with an AGI under $15,000 can claim 35% of their care expenses, while those with an AGI over $43,000 can claim 20% of eligible expenses. For AGIs between these thresholds, the percentage decreases from 35% as your AGI increases.

For example, let's say your AGI is $150,000, and you paid $13,000 in care expenses for your two children. You can claim 20% of $13,000, resulting in a credit of $2,600.

Notably, there is no upper-income limit for this credit, so even those earning high six figures can still claim 20% of eligible expenses.

Adjusted Gross Income (AGI)	Credit Percentage
Up to $15,000	35%
$15,001-$17,000	34%
$17,001-$19,000	33%
$19,001-$21,000	32%
$21,001-$23,000	31%
$23,001-$25,000	30%
$25,001-$27,000	29%
$27,001-$29,000	28%
$29,001-$31,000	27%
$31,001-$33,000	26%
$33,001-$35,000	25%
$35,001-$37,000	24%
$37,001-$39,000	23%
$39,001-$41,000	22%
$41,001-$43,000	21%
Over $43,000	20%

Claiming the credit

Claiming the child and dependent care credit is pretty simple, but there are a few important steps to keep in mind. First, you'll need to fill out Form 2441 and attach it to your tax return. This form asks for details about your care provider, like their name, address, and taxpayer identification number.

Make sure you complete the form accurately to avoid any hiccups. Mistakes or missing information can lead to processing delays or even denial of your credit. So, double-check everything and keep your records handy. By doing this, you'll ensure a smooth process and get the credit you deserve.

Our experts can help

This video provides an overview of the child and dependent care credit. But, as you can see from the examples, it's not always straightforward. Some expenses qualify while others don't, and the distinctions are not always intuitive.

That's why it's a good idea to consult with tax experts who can help you navigate these complexities. They can ensure you maximize the child and dependent care credit and help you identify other tax-saving opportunities to offset costs that may not qualify for this particular credit.

For personalized guidance, please contact our office to speak with one of our expert advisors.



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