

Dependent Tax Credit Guide

Get up to \$4,000 in tax credit
for the 2021 tax year



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A Primer on Tax Credits

What is a tax credit?

A tax credit is a dollar-for-dollar reduction of the income tax you owe. For example, if you owe \$4,000 in federal taxes but are eligible for a \$3,000 tax credit, your tax bill is \$1,000.

The purpose of tax credits

Tax credits are a way for the government to incentivize and compensate taxpayers for positive activities. A variety of tax credits covering a wide range of expenses and situations such as education, green energy, and caregiving.

Credits vs. Deductions

Tax credits generally save you more than deductions.

Deductions only reduce the amount of your income that is subject to tax, whereas, credits directly reduce your total tax.

Refundable vs. non-refundable

A **refundable** tax credit not only reduces the federal tax you owe but also could result in a refund if it more than you owe. A **nonrefundable** tax credit, on the other hand, means you get a refund only up to the amount you owe.

Let's say you are eligible for a \$1,000 tax credit, but only owe \$800 in taxes. The additional amount (\$200) is treated as a refund to which you are entitled if the credit is refundable. If the credit is non-refundable, you can only claim up to \$800.

Meet the Child and Dependent Care Tax Credit (CDCTC)

What is the CDCTC?

The CDCTC is a tax credit earned by caregivers for a percentage of care-related expenses. Eligible expenses must be for the care of a child or dependent in order to enable the taxpayer to work or look for work.

Simply put **CDCTC** = **eligible expenses** x **credit %**

Expanded CDCTC for 2021 Tax Year

Under the \$1.9T American Rescue Plan enacted in 2021, the CDCTC was expanded for the taxes you will file in 2022:

- The tax credit will be fully **refundable** (usually non-refundable)
- An increased amount of **eligible expenses** (up to \$8,000 from \$3,000)
- Higher **credit %** to calculate tax credit size (up to 50% from 35%)

How CDCTC is calculated

Eligible expenses x credit %

Your tax credit is the amount you spent on eligible expenses in 2021 multiplied by the credit % based on your income.

What is an "eligible expense"?

Qualifying expenses include expenses for the care of a child under 13 years old or other dependent who is not able to care for themselves (i.e., "a qualifying individual") that are incurred so the taxpayer (you) can work or look for work.

What is the "credit %" or "credit rate"?

The credit % is determined based on your 2021 income:

- Under \$125,000: 50%
- \$125,000-\$183,000: The credit rate gradually declines by one percentage point for each \$2,000 above \$125,000 of income until it reaches 20% at \$183,000 of income
- \$183,000-\$400,000: 20%
- \$400,000+ The credit rate gradually declines by one percentage point for each \$2,000 above \$400,000 of income until it equals 0% at \$438,000 of income

This means for 2021, you can get up to \$4,000 in tax credit (\$8,000 in eligible expenses x 50% credit rate)

See if you qualify

Take these steps to see how much you could get.

Ready to learn more?

Get the full guide

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