Figuring Your Taxes and Credits

This self-study course discusses how to figure your tax and how to figure the tax of certain children who have unearned income. They also discuss tax credits that, unlike deductions, are subtracted directly from your tax and reduce your tax, dollar for dollar. Though this basic tax course does not require any prerequisites, its recommended target audience is for existing Enrolled Agents, however anyone may take this course. This course provides 3 CE credits in the IRS Federal Tax Law category.

TABLE OF CONTENTS

Chapter 1: How To Figure Your Tax 4
I. Introduction 4
II. Figuring Your Tax 4
III. Alternative Minimum Tax 4
Chapter 2: Tax On Unearned Income Of Certain Children 6
I. Introduction 6
II. Parent's Election To Report Child's Interest And Dividends 6
III. Tax For Certain Children Who Have Unearned Income 7
Chapter 3: Child And Dependent Care Credit 10
I. What's New 10
II. Introduction 10
III. Tests To Claim The Credit 10
IV. How To Figure The Credit 17
V. How To Claim The Credit 20
VI. Employment Taxes For Household Employers 21
Chapter 4: Credit For The Elderly Or The Disabled 23
I. Introduction 23
II. Can You Take The Credit? 23
III. Figuring The Credit 26
Chapter 5: Child Tax Credit/Credit For Other Dependents 29
I. What's New 29
II. Introduction 29
III. Qualifying Child For The CTC 29
IV. Credit For Other Dependents (ODC) 30
V. Limits On The CTC And ODC 30
VI. Claiming The CTC And ODC 31
VII. Additional Child Tax Credit (ACTC) 31
Chapter 6: Education Credits 33
I. Introduction 33

II. Who Can Claim An Education Credit 34
III. Qualified Education Expenses 36
Chapter 7: Earned Income Credit (EIC) 40
I. Introduction 40
II. Do You Qualify For The Credit? 40
Chapter 8: Premium Tax Credit (PTC) 44
I. Reminder 44
II. Introduction 44
III. What Is The Premium Tax Credit (PTC)? 44
IV. Who Can Take The PTC? 45
V. How To Take The PTC? 45
Chapter 9: Other Credits 47
I. Important 47
II. Introduction 47
III. Nonrefundable Credits 47
IV. Refundable Credits 51
Final Exam 54

NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice

Chapter 1: How To Figure Your Tax

Chapter Objective
After completing this chapter, you should be able to:

- Recognize various alternative minimum tax adjustments and preference items.

I. Introduction

After you have figured your income and deductions as explained in Parts One through Five, your next step is to figure your tax. This chapter discusses:

- The general steps you take to figure your tax, and
- An additional tax you may have to pay called the alternative minimum tax (AMT).

II. Figuring Your Tax

Your income tax is based on your taxable income. After you figure your income tax and any alternative minimum tax, subtract your tax credits and add any other taxes you may owe. The result is your total tax. Compare your total tax with your total payments to determine whether you are entitled to a refund or must make a payment.
This section provides a general outline of how to figure your tax.
Tax. Most taxpayers use either the Tax Table or the Tax Computation Worksheet to figure their income tax. However, there are special methods if your income includes any of the following items.

- A net capital gain.
- Qualified dividends taxed at the same rates as a net capital gain.
- Lump-sum distributions.
- Farming and fishing income (see Schedule J (Form 1040).
- Tax for certain children who have unearned income.
- Parents' election to report child's interest and dividends.
- Foreign earned income exclusion or the housing exclusion.

Credits. After you figure your income tax and any alternative minimum tax (discussed later), determine if you are eligible for any tax credits.

III. Alternative Minimum Tax

This section briefly discusses an additional tax you may have to pay.
The tax law gives special treatment to some kinds of income and allows special deductions and credits for some kinds of expenses. Taxpayers who benefit from the law in these ways may have to pay at least a minimum amount of tax through an additional tax. This additional tax is called the alternative minimum tax (AMT).
In 2022, you may have to pay the alternative minimum tax if your taxable income for regular tax purposes, combined with certain adjustments and tax preference items, is more than:

- $118,100 if your filing status is married filing joint (or qualifying widow(er) with dependent child),
- $75,900 if your filing status is single or head of household, or
- $59,050 if your filing status is married filing separate.

These amounts will be indexed annually for inflation.
Adjustments and tax preference items. The more common adjustments and tax preference items include:

- Addition of *standard deduction* (if claimed),

- Addition of *itemized deductions* claimed for state and local taxes and certain interest,
- Subtraction of any *refund of state and local taxes* included in gross income,
- Changes to accelerated *depreciation* of certain property,
- Difference between *gain or loss* on the sale of property reported for regular tax purposes and AMT purposes,
- Addition of certain income from *incentive* stock options,
- Change in certain passive *activity* loss deductions,
- Addition of certain *depletion* that is more than the adjusted basis of the property,
- Addition of part of the deduction for certain *intangible drilling costs*, and
- Addition of *tax-exempt interest* on certain private activity bonds.

CHAPTER 1: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. You may have to calculate and pay the alternative minimum tax (AMT) if your taxable income for regular tax purposes, combined with certain adjustments and tax preference items, exceeds a specified amount. Which of the following is <u>not</u> a tax preference item or an adjustment:

A. changes to accelerated depreciation of certain property
B. deductions for intangible drilling costs
C. tax-exempt interest on certain private activity bonds
D. interest income from savings accounts

CHAPTER 1: SOLUTION AND SUGGESTED RESPONSES

Below is the solution and suggested responses for the question on the previous page. If you choose an incorrect answer, you should review the page(s) as indicated for the question to ensure comprehension of the material.

1.

A. Incorrect. Changes to accelerated depreciation of certain property is an example of an adjustment or tax preference item.
B. Incorrect. Deductions for intangible drilling costs is an example of an adjustment or tax preference item.
C. Incorrect. Tax-exempt interest on certain private activity bonds is an example of an adjustment or tax preference item.
D. **CORRECT**. Interest income on a standard savings account would be reported on Schedule B and not as a tax preference item.

Chapter 2: Tax On Unearned Income Of Certain Children

Chapter Objective
After completing this chapter, you should be able to:

- Recall the rules related to the tax on unearned income of certain children.

I. Introduction

This chapter discusses the following two rules that may affect the tax on unearned income of certain children.

1. If the child's interest and dividend income (including capital gain distributions) total less than $11,000, the child's parent may be able to choose to include that income on the parent's return rather than file a return for the child.
2. If the child's interest, dividends, and other unearned income total more than $2,300, the child's income is taxed at special tax rates.

For these rules, the term "child" includes a legally adopted child and a stepchild. These rules apply whether or not the child is a dependent. These rules do not apply if neither of the child's parents were living at the end of the year.

II. Parent's Election To Report Child's Interest And Dividends

You may be able to elect to include your child's interest and dividend income (including capital gain distributions) on your tax return. If you do, your child will not have to file a return.
You can make this election only if all the following conditions are met.

- Your child was under age 19 (or under age 24 if a full-time student) at the end of the year.
- Your child had income only from interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends).
- The child's gross income was less than $11,500.
- The child is required to file a return unless you make this election.
- The child does not file a joint return for the year.
- No estimated tax payment was made for the year, and no overpayment from the previous year (or from any amended return) was applied to this year under your child's name and SSN.
- No federal income tax was taken out of your child's income under the backup withholding rules.
- You are the parent whose return must be used when applying the special tax rules for children.

How to make the election. Make the election by attaching Form 8814 to your Form 1040, 1040-SR, or 1040-NR. Attach a separate Form 8814 for each child for whom you make the election. You can make the election for one or more children and not for others.

EFFECT OF MAKING THE ELECTION
The federal income tax on your child's income may be more if you make the Form 8814 election.
Rate may be higher. If your child received qualified dividends or capital gain distributions, you may pay up to $115 more tax if you make this election instead of filing a separate tax return for the child. This is because the tax rate on the child's income between $1,150 and $2,300 is 10% if you make this election. However, if you file a separate return for the child, the tax rate may be as low as 0% because of the preferential tax rates for qualified dividends and capital gain distributions.
Deductions you cannot take. By making the Form 8814 election, you cannot take any of the following deductions that the child would be entitled to on his or her return.

- The additional standard deduction if the child is blind.
- The deduction for a penalty on an early withdrawal of your child's savings.
- Itemized deductions (such as your child's investment interest expenses or charitable contributions).

Alternative minimum tax (AMT). If your child received tax-exempt interest (or exempt-interest dividends paid by a regulated investment company) from certain private activity bonds, you must determine if that interest is a tax preference item for AMT purposes. If it is, you must include it with your own tax preference items when figuring your AMT.

Net Investment Income Tax (NIIT). When figuring any NIIT on Form 8960, the amount on line 12 of Form 8814 (other than Alaska Permanent Fund dividends) will increase the amount of your net investment income reported on Form 8960.

Reduced deductions or credits. If you use Form 8814, your increased adjusted gross income may reduce certain deductions or credits on your return including the following.

- Deduction for contributions to a traditional individual retirement arrangement (IRA).
- Deduction for student loan interest.
- Itemized deductions for medical expenses and casualty and theft losses.
- Credit for child and dependent care expenses.
- Child tax credit.
- Education tax credits.
- Earned income credit.

Penalty for underpayment of estimated tax. If you make this election for 2022 and did not have enough tax withheld or pay enough estimated tax to cover the tax you owe, you may be subject to a penalty. If you plan to make this election for 2023, you may need to increase your federal income tax withholding or your estimated tax payments to avoid the penalty.

III. Tax For Certain Children Who Have Unearned Income

Special tax rates apply to certain dependent children with unearned income of $2,300 or more. If the child's income is $2,300, you may be able to file Form 8615 to figure the tax. If the parent does not or cannot choose to include the child's income on the parent's return, use Form 8615 to figure the child's tax. Attach the completed form to the child's Form 1040 or 1040-NR.

WHEN FORM 8615 MUST BE FILED

Form 8615 must be filed for a child if all of the following statements are true:

1. The child's unearned income was more than $2,300.
2. The child is required to file a return for 2022.
3. The child either:
    a) Was under age 18 at the end of the year,
    b) Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or
    c) Was a full-time student at least age 19 and under age 24 at the end of 2022 and did not have earned income that was more than half of his or her support.
4. At least one of the child's parents was alive at the end of 2022.
5. The child does not file a joint return for 2022.

EARNED INCOME

Earned income includes salaries, wages, tips, professional fees, and other compensation received for personal services performed. It also includes any amount received as a scholarship that you must include in income.

Unearned Income Defined. Unearned income is generally all income other than salaries, wages, and other amounts received as pay for work actually done. It includes taxable interest, dividends, capital gains, unemployment compensation, taxable scholarship and fellowship grants not reported on Form W-2, the taxable part of social security and pension payments, and certain distributions from trusts. Unearned income includes amounts produced by assets the child obtained with earned income (such as interest on a savings account into which the child deposited wages).

Nontaxable income. For this purpose, unearned income includes only amounts the child must include in total income. Nontaxable unearned income, such as tax-exempt interest and the nontaxable part of social security and pension payments, is not included.

Income from property received as a gift. A child's unearned income includes all income produced by property belonging to the child. This is true even if the property was transferred to the child, regardless of when the property was transferred or purchased or who transferred it.

A child's unearned income includes income produced by property given as a gift to the child. This includes gifts to the child from grandparents or any other person and gifts made under the Uniform Gift to Minors Act.

Trust Income. If a child is the beneficiary of a trust, distributions of taxable interest, dividends, capital gains, and other unearned income from the trust are unearned income to the child.

However, for purposes of completing Form 8615, a taxable distribution from a qualified disability trust is considered earned income, not unearned income.

SUPPORT

Your child's support includes all amounts spent to provide the child with food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities. To figure your child's support, count support provided by you, your child, and others. However, a scholarship received by your child is not considered support if your child is a full-time student.

ALTERNATIVE MINIMUM TAX

A child may be subject to alternative minimum tax (AMT) if he or she has certain items given preferential treatment under the tax law.

NET INVESTMENT INCOME TAX

A child whose tax is figured on Form 8615 may be subject to the Net Investment Income Tax (NIIT). NIIT is a 3.8% tax on the lesser of the net investment income or the excess of the child's modified adjusted gross income (MAGI) over the threshold amount.

CHAPTER 2: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. Which of the following is correct regarding tax on unearned income of certain children:

A. it cannot be subject to the alternative minimum tax (AMT)
B. it cannot be subject to the net investment income tax (NIIT)

C. tax-exempt interest is not included in the child's total income
D. all of the above

CHAPTER 2: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. A child may be subject to AMT if he or she has certain items given preferential treatment under the tax law.
B. Incorrect. A child whose tax is figured on Form 8615 may be subject to the NIIT.
C. **CORRECT**. Nontaxable unearned interest, such as tax-exempt interest and the nontaxable part of social security and pension payments, is not included.
D. Incorrect. Only one of the responses is correct.

Chapter 3: Child And Dependent Care Credit

Chapter Objective
After completing this chapter, you should be able to:

- Recall how to figure the child and dependent care credit.

I. What's New

For 2021 only, the Child and Dependent Care Credit was fully refundable. The dependent care expense limitation was increased to $8,000 for one qualifying person and to $16,000 for two or more qualifying persons. The maximum percentage of 35% was increased to 50% for AGI up to $125,000 and phased out to 0% when AGI reaches $438,000. In 2022, the Child and Dependent Care Credit reverts to its previous form as follows.

II. Introduction

This chapter discusses the credit for child and dependent care expenses and covers the following topics.

- Tests you must meet to claim the credit.
- How to figure the credit.
- How to claim the credit.
- Employment taxes you may have to pay as a household employer.

You may be able to claim the credit if you pay someone to care for your dependent who is under age 13 or for your spouse or dependent who is not able to care for himself or herself. The credit can be up to 35% of your expenses. To qualify, you must pay these expenses so you can work or look for work.
Dependent care benefits. If you received any dependent care benefits from your employer during the year, you may be able to exclude from your income all or part of them. You must complete Part III of Form 2441 before you can figure the amount of your credit.

III. Tests To Claim The Credit

To be able to claim the credit for child and dependent care expenses, you must file Form 1040, 1040-SR, or 1040-NR, and meet all the following tests.

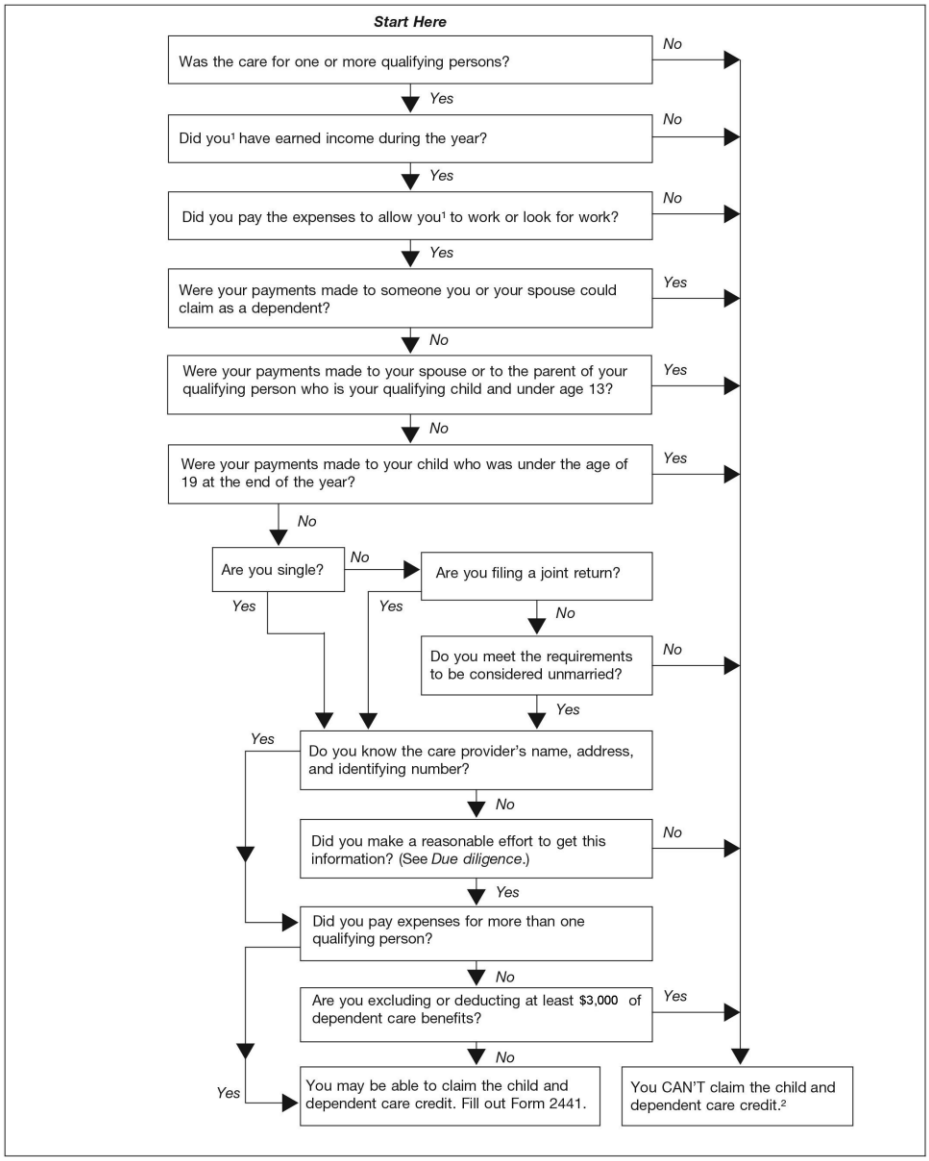
1. The care must be for one or more qualifying persons who are identified on Form 2441. (See Qualifying Person Test.)
2. You (and your spouse if filing jointly) must have earned income during the year. (However, see Rule for student-spouse or spouse not able to care for self under Earned Income Test, later.)
3. You must pay child and dependent care expenses so you (and your spouse if filing jointly) can work or look for work. (See Work-Related Expense Test, later.)
4. You must make payments for child and dependent care to someone you (or your spouse) cannot claim as a dependent. If you make payments to your child, he or she cannot be your dependent and must be age 19 or older by the end of the year. You cannot make payments to:
    a) Your spouse, or
    b) The parent of your qualifying person if your qualifying person is your child and under age 13.

    (See Payments to Relatives or Dependents under Work-Related Expense Test, later.)

5. Your filing status must be single, head of household, or qualifying widow(er) with dependent child. You must file a joint return if you are married, unless an exception applies to you. (See Joint Return Test, later.)
6. You must identify the care provider on your tax return. (See Care Provider Identification Test, later.)
7. If you exclude or deduct dependent care benefits provided by a dependent care benefits plan, the total amount you exclude or deduct must be less than the dollar limit for qualifying expenses (generally, $3,000 if one qualifying person was cared for or $6,000 if two or more qualifying persons were cared for).

These tests are presented in Figure 3-A and are also explained in detail in this chapter.

FIGURE 3-A. CAN YOU CLAIM THE CREDIT?



1. This also applies to your spouse, unless your spouse was disabled or a full-time student.
2. If you had expenses that met the requirements for 2021, except that you did not pay them until 2022, you may be able to claim those expenses in 2022. See Expenses not paid until the following year under How to Figure the Credit.

QUALIFYING PERSON TEST

Your child and dependent care expenses must be for the care of one or more qualifying persons.

A qualifying person is:

1. Your qualifying child who is your dependent and who was under age 13 when the care was provided,
2. Your spouse who was physically or mentally not able to care for himself or herself and lived with you more than half the year, or
3. A person who was physically or mentally not able to care for himself or herself, lived with you for more than half the year, and either:
    a) Was your dependent, or
    b) Would have been your dependent except that (i) he or she received gross income greater than the threshold, (ii) he or she filed a joint return, or (iii) you, or your spouse if filing jointly, could be claimed as a dependent on someone else's 2022 return.

If you are divorced or separated, see Child of Divorced or Separated Parents, later, to determine which parent may treat the child as a qualifying person.

Person qualifying for part of year. You determine a person's qualifying status each day. For example, if the person for whom you pay child and dependent care expenses no longer qualifies on September 16, count only those expenses through September 15. Also see Dollar Limit under How To Figure the Credit, later.

Taxpayer identification number. You must include on your return the name and taxpayer identification number (generally the social security number) of the qualifying person(s). If the correct information is not shown, the credit may be reduced or disallowed.

Individual taxpayer identification number (ITIN) for aliens. If your qualifying person is a nonresident or resident alien who does not have and cannot get a social security number (SSN), use that person's ITIN. To apply for an ITIN, file Form W-7 with the IRS. The ITIN is entered wherever an SSN is requested on a tax return.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

Adoption taxpayer identification number (ATIN). If your qualifying person is a child who was placed in your home for adoption and for whom you do not have an SSN, you must get an ATIN for the child. File Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions.

Child of Divorced or Separated Parents. Even if you cannot claim your child as a dependent, he or she is treated as your qualifying person if:

- The child was under age 13 or was not physically or mentally able to care for himself or herself,
- The child received over half of his or her support during the calendar year from one or both parents who are divorced or legally separated under a decree of divorce or separate maintenance, are separated under a written separation agreement, or lived apart at all times during the last six months of the calendar year,
- The child was in the custody of one or both parents for more than half the year, and
- You were the child's custodial parent.

The custodial parent is the parent with whom the child lived for the greater number of nights in 2022. If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income.

The noncustodial parent cannot treat the child as a qualifying person even if that parent is entitled to claim the child as a dependent under the special rule for a child of divorced or separated parents.

EARNED INCOME TEST

To claim the credit, you (and your spouse if filing jointly) must have earned income during the year.

Earned income. Earned income includes wages, salaries, tips, other taxable employee compensation, and net earnings from self-employment. A net loss from self-employment reduces earned income. Earned income also includes strike benefits and any disability pay you report as wages.

Generally, only taxable compensation is included. However, you can elect to include nontaxable combat pay in earned income. If you are filing a joint return and both you and your spouse received nontaxable combat pay, you can each make your own election. (In other words, if one of you makes the election, the other one can also make it but does not have to.) You should figure your credit both ways and make the election if it gives you a greater tax benefit.

Members of certain religious faiths opposed to social security. Certain income earned by persons who are members of certain religious faiths that are opposed to participation in Social Security Act programs and have an IRS-approved form that exempts certain income from social security and Medicare taxes may not be considered earned income for this purpose.

Not earned income. Earned income does not include:

- Pensions and annuities,
- Amounts reported on Form 1040 or 1040-SR, line 1 excluded as foreign earned income on Form 2555, line 45,
- Social security and railroad retirement benefits,
- Workers' compensation,
- Interest and dividends,
- Unemployment compensation,
- Scholarship or fellowship grants, except for those reported on a Form W-2 and paid to you for teaching or other services,
- Nontaxable workfare payments,
- Child support payments received,
- Income of nonresident aliens that is not effectively connected with a U.S. trade or business, or
- Any amount received for work while an inmate in a penal institution.

Rule for student-spouse or spouse not able to care for self. Your spouse is treated as having earned income for any month that he or she is:

1. A full-time student, or
2. Physically or mentally not able to care for himself or herself. (Your spouse also must live with you for more than half the year.)

If you are filing a joint return, this rule also applies to you. You can be treated as having earned income for any month you are a full-time student or not able to care for yourself.

Figure the earned income of the nonworking spouse described under (1) or (2) above as explained under Earned Income Limit, later.

This rule applies to only one spouse for any one month. If, in the same month, both you and your spouse do not work and are either full-time students or physically or mentally not able to care for yourselves, only one of you can be treated as having earned income in that month.

Full-time student. You are a full-time student if you are enrolled at and attend a school for the number of hours or classes that the school considers full time. You must have been a student for some part of each of 5 calendar months during the year. (The months need not be consecutive.)

School. The term "school" includes high schools, colleges, universities, and technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, or school offering courses only through the Internet.

WORK-RELATED EXPENSE TEST

Child and dependent care expenses must be work-related to qualify for the credit. Expenses are considered work related only if both of the following are true.

- They allow you (and your spouse if you are married) to work or look for work.
- They are for a qualifying person's care.

Working or Looking for Work

To be work-related, your expenses must allow you to work or look for work. If you are married, generally both you and your spouse must work or look for work. Your spouse is treated as working during any month he or she is a full-time student or is physically or mentally not able to care for himself or herself.

Your work can be for others or in your own business or partnership. It can be either full time or part time. Work also includes actively looking for work. However, if you do not find a job and have no earned income for the year, you cannot take this credit. See Earned Income Test, earlier.

An expense is not considered work-related merely because you had it while you were working. The purpose of the expense must be to enable you to work. Whether your expenses allow you to work or look for work depends on the facts.

Volunteer work. For this purpose, you are not considered to be working if you do unpaid volunteer work or volunteer work for a nominal salary.

Work for part of year. If you work or actively look for work during only part of the period covered by the expenses, then you must figure your expenses for each day. For example, if you work all year and pay care expenses of $250 a month ($3,000 for the year), all the expenses are work-related. However, if you work or look for work for only 2 months and 15 days during the year and pay expenses of $250 a month, your work-related expenses are limited to $625 (2½ months x $250).

Temporary absence from work. You do not have to figure your expenses for each day during a short, temporary absence from work, such as for vacation or a minor illness, if you have to pay for care anyway. Instead, you can figure your credit including the expenses you paid for the period of absence.

An absence of 2 weeks or less is a short, temporary absence. An absence of more than 2 weeks may be considered a short, temporary absence, depending on the circumstances.

Example

You pay a nanny to care for your 2-year-old son and 4-year-old daughter so you can work. You become ill and miss 4 months of work but receive sick pay. You continue to pay the nanny to care for the children while you are ill. Your absence is not a short, temporary absence, and your expenses are not considered work-related.

Part-time work. If you work part-time, you generally must figure your expenses for each day. However, if you have to pay for care weekly, monthly, or in another way that includes both days worked and days not worked, you can figure your credit including the expenses you paid for days you did not work. Any day when you work at least 1 hour is a day of work.

Example 1

You work 3 days a week. While you work, your 6-year-old child attends a dependent care center, which complies with all state and local regulations. You can pay the center $150 for any 3 days a week or $250 for 5 days a week. Your child attends the center 5 days a week. Your work-related expenses are limited to $150 a week.

Example 2

The facts are the same as in Example 1 except the center does not offer a 3-day option. The entire $250 weekly fee may be a work-related expense.

Care of a Qualifying Person

To be work related, your expenses must be to provide care for a qualifying person. You do not have to choose the least expensive way of providing the care. The cost of a paid care provider may be an expense for the care of a qualifying person even if another care provider is available at no cost.

Expenses are for the care of a qualifying person only if their main purpose is the person's well-being and protection.

Expenses for household services qualify if part of the services is for the care of qualifying persons. See Household services, later.

Expenses not for care. Expenses for care do not include amounts you pay for food, clothing, education, and entertainment. However, you can include small amounts paid for these items if they are incidental to and cannot be separated from the cost of caring for the qualifying person.

Child support payments are not for care and do not qualify for the credit.

Education. Expenses for a child in nursery school, pre-school, or similar programs for children below the level of kindergarten are expenses for care. Expenses to attend kindergarten or a higher grade are not expenses for care. Do not use these expenses to figure your credit.

However, expenses for before- or after-school care of a child in kindergarten or a higher grade may be expenses for care.

Summer school and tutoring programs are not for care.

Example 1

You take your 3-year-old child to a nursery school that provides lunch and educational activities as a part of its preschool childcare service. The lunch and educational activities are incidental to the childcare, and their cost cannot be separated from the cost of care. You can count the total cost when you figure the credit.

Example 2

You place your 10-year-old child in a boarding school so you can work full time. Only the part of the boarding school expense that is for the care of your child is a work-related expense. You can count that part of the expense in figuring your credit if it can be separated from the cost of education. You cannot count any part of the amount you pay the school for your child's education.

Care outside your home. You can count the cost of care provided outside your home if the care is for your dependent under age 13 or any other qualifying person who regularly spends at least 8 hours each day in your home.

Dependent care center. You can count care provided outside your home by a dependent care center only if the center complies with all state and local regulations that apply to these centers.

A dependent care center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment, or grant for providing services for any of those persons, even if the center is not run for profit.

Camp. The cost of sending your child to an overnight camp is not considered a work-related expense. The cost of sending your child to a day camp may be a work-related expense, even if the camp specializes in a particular activity, such as computers or soccer.

Transportation. If a care provider takes a qualifying person to or from a place where care is provided, that transportation is for the care of the qualifying person. This includes transportation by bus, subway, taxi, or private car. However, transportation not provided by a care provider is not for the care of a qualifying person. Also, if you pay the transportation cost for the care provider to come to your home, that expense is not for care of a qualifying person.

Fees and deposits. Fees you paid to an agency to get the services of a care provider, deposits you paid to an agency or pre-school, application fees, and other indirect expenses are work-related expenses if you have to pay them to get care, even though they are not directly for care. However, a forfeited deposit is not for the care of a qualifying person if care is not provided.

Example 1
You paid a fee to an agency to get the services of the nanny who cares for your 2-year-old daughter while you work. The fee you paid is a work-related expense.

Example 2
You placed a deposit with a pre-school to reserve a place for your 3-year-old child. You later sent your child to a different pre-school and forfeited the deposit. The forfeited deposit is not for care and so is not a work-related expense.

Household services. Expenses you pay for household services meet the work-related expense test if they are at least partly for the well-being and protection of a qualifying person.
Household services are ordinary and usual services done in and around your home that are necessary to run your home. They include the services of a housekeeper, maid, or cook. However, they do not include the services of a chauffeur, bartender, or gardener.
In this chapter, the term housekeeper refers to any household employee whose services include the care of a qualifying person.
Taxes paid on wages. The taxes you pay on wages for qualifying child and dependent care services are work-related expenses. See Employment Taxes for Household Employers, later.

Payments to Relatives or Dependents
You can count work-related payments you make to relatives who are not your dependents, even if they live in your home. However, do not count any amounts you pay to:

1. A person for whom you (or your spouse if filing jointly) can claim as a dependent,
2. Your child who was under age 19 at the end of the year, even if he or she is not your dependent,
3. A person who was your spouse any time during the year, or
4. The parent of your qualifying child who is your qualifying person and is under age 13.

JOINT RETURN TEST
Generally, married couples must file a joint return to take the credit. However, if you are legally separated or living apart from your spouse, you may be able to file a separate return and still take the credit.
Legally separated. You are not considered married if you are legally separated from your spouse under a decree of divorce or separate maintenance. You may be eligible to take the credit on your return using Head of Household filing status.
Married and living apart. You are not considered married and are eligible to take the credit if all the following apply.

1. You file a return apart from your spouse.
2. Your home is the home of a qualifying person for more than half the year.
3. You pay more than half the cost of keeping up your home for the year.
4. Your spouse does not live in your home for the last 6 months of the year.

Death of spouse. If your spouse died during the year and you do not remarry before the end of the year, you generally must file a joint return to take the credit. If you do remarry before the end of the year, the credit can be claimed on your deceased spouse's return.

CARE PROVIDER IDENTIFICATION TEST

You must identify all persons or organizations that provide care for your child or dependent. Use Part I of Form 2441 to show the information.

Information needed. To identify the care provider, you must give the provider's:

1. Name,
2. Address, and
3. Taxpayer identification number.

If the care provider is an individual, the taxpayer identification number is his or her social security number or individual taxpayer identification number. If the care provider is an organization, then it is the employer identification number (EIN).

You do not have to show the taxpayer identification number if the care provider is one of certain tax-exempt organizations (such as a church or school). In this case, write "Tax-Exempt" in the space where Form 2441 asks for the number.

If you cannot provide all of the information or if the information you provide is incorrect you must be able to show that you used due diligence (discussed later) in trying to furnish the necessary information.

Getting the information. You can use Form W-10 to request the required information from the care provider. If you do not use Form W-10, you can get the information from one of the other sources listed in the instructions for Form W-10 including:

1. A copy of the provider's social security card,
2. A copy of the provider's completed Form W-4 if he or she is your household employee,
3. A copy of the statement furnished by your employer if the provider is your employer's dependent care plan, or
4. A letter or invoice from the provider if it shows the information.

Due diligence. If the care provider information you give is incorrect or incomplete, your credit may not be allowed. However, if you can show that you used due diligence in trying to supply the information, you can still claim the credit.

You can show due diligence by getting and keeping the provider's completed Form W-10 or one of the other sources of information listed earlier. Care providers can be penalized if they do not provide this information to you or if they provide incorrect information.

Provider refusal. If the provider refuses to give you their identifying information, you should report on Form 2441 whatever information you have (such as the name and address) on the form you use to claim the credit. Enter "See Attached Statement" in the columns calling for the information you do not have. Then, attach a statement explaining that you requested the information from the care provider, but the provider did not give you the information. Be sure to write your name and social security number on this statement. The statement will show that you used due diligence in trying to furnish the necessary information.

IV. How To Figure The Credit

Your credit is a percentage of your work-related expenses. Your expenses are subject to the earned income limit and the dollar limit. The percentage is based on your adjusted gross income.

FIGURING TOTAL WORK-RELATED EXPENSES

To figure the credit for 2022 work-related expenses, count only those you paid by December 31, 2022.

Expenses prepaid in an earlier year. If you pay for services before they are provided, you can count the prepaid expenses only in the year the care is received. Claim the expenses for the later year as if they were actually paid in that later year.

Expenses not paid until the following year. Do not count 2021 expenses that you paid in 2022 as work-related expenses for 2022. You may be able to claim an additional credit for them on your 2022 return, but you must figure it separately.

Expenses reimbursed. If a state social services agency pays you a nontaxable amount to reimburse you for some of your child and dependent care expenses, you cannot count the expenses that are reimbursed as work-related expenses.

Example
You paid work-related expenses of $3,000. You are reimbursed $2,000 by a state social services agency. You can use only $1,000 to figure your credit.

Medical expenses. Some expenses for the care of qualifying persons who are not able to care for themselves may qualify as work-related expenses and also as medical expenses. You can use them either way, but you cannot use the same expenses to claim both a credit and a medical expense deduction.

If you use these expenses to figure the credit and they are more than the earned income limit or the dollar limit, discussed later, you can add the excess to your medical expenses. However, if you use your total expenses to figure your medical expense deduction, you cannot use any part of them to figure your credit.

Dependent Care Benefits

Dependent care benefits include:

1. Amounts your employer pays directly to either you or your care provider for the care of your qualifying person while you work,
2. The fair market value of care in a daycare facility provided or sponsored by your employer, and
3. Pre-tax contributions you made under a dependent care flexible spending arrangement.

Your salary may have been reduced to pay for these benefits. If you received benefits, they should be shown on your W-2 form. See Statement for employee, later.

Exclusion or deduction. If your employer provides dependent care benefits under a qualified plan, you may be able to exclude these benefits from your income. Your employer can tell you whether your benefit plan qualifies. To claim the exclusion, you must complete Part III of Form 2441.

If you are self-employed and receive benefits from a qualified dependent care benefit plan, you are treated as both employer and employee. Therefore, you would not get an exclusion from wages. Instead, you would get a deduction on Form 1040 or 1040-SR, Schedule C, Schedule E, or Schedule F. To claim the deduction, you must use Form 2441.

The amount you can exclude or deduct is limited to the smallest of:

1. The total amount of dependent care benefits you received during the year,
2. The total amount of qualified expenses you incurred during the year,
3. Your earned income,
4. Your spouse's earned income, or
5. $5,000 ($2,500 if married filing separately).

The definition of earned income for the exclusion or deduction is the same as the definition used when figuring the credit except that earned income for the exclusion or deduction does not include any dependent care benefits you receive. See Earned Income Limit, later.

Statement for employee. Your employer must give you a Form W-2 (or similar statement), showing in box 10 the total amount of dependent care benefits provided to you during the year under a qualified plan. Your employer will also include any dependent care benefits over $5,000 in your wages shown on your Form W-2 in box 1.

Effect of exclusion. If you exclude dependent care benefits from your income, the amount of the excluded benefits:

1. Is not included in your work-related expenses, and
2. Reduces the dollar limit, discussed later.

EARNED INCOME LIMIT

The amount of work-related expenses you use to figure your credit cannot be more than:

1. Your earned income for the year if you are single at the end of the year, or
2. The smaller of your or your spouse's earned income for the year if you are married at the end of the year.

Earned income is defined under Earned Income Test, earlier.

Tip
For purposes of item (2), use your spouse's earned income for the entire year, even if you were married for only part of the year.

Separated spouse. If you are legally separated or married and living apart from your spouse (as described under Joint Return Test, earlier), you are not considered married for purposes of the earned income limit. Use only your income in figuring the earned income limit.

Surviving spouse. If your spouse died during the year and you file a joint return as a surviving spouse, you may, but are not required to, take into account the earned income of your spouse who died during the year.

Community property laws. You should disregard community property laws when you figure earned income for this credit.

Student-spouse or spouse not able to care for self. Your spouse who is either a full-time student or not able to care for himself or herself is treated as having earned income. His or her earned income for each month is considered to be at least $250 if there is one qualifying person in your home, or at least $500 if there are two or more.

Spouse works. If your spouse works during that month, use the higher of $250 (or $500) or his or her actual earned income for that month.

Spouse qualifies for part of month. If your spouse is a full-time student or not able to care for himself or herself for only part of a month, the full $250 (or $500) still applies for that month.

You are a student or not able to care for yourself. These rules also apply if you are a student or not able to care for yourself and you are filing a joint return. For each month or part of a month you are a student or not able to care for yourself, your earned income is considered to be at least $250 (or $500). If you also work during that month, use the higher of $250 (or $500) or your actual earned income for that month.

Both spouses qualify. If, in the same month, both you and your spouse are either full-time students or not able to care for yourselves, only one spouse can be considered to have this earned income of $250 (or $500) for that month.

DOLLAR LIMIT

There is a dollar limit on the amount of your work-related expenses you can use to figure the credit. This limit is $3,000 for one qualifying person, or $6,000 for two or more qualifying persons.

Yearly limit. The dollar limit is a yearly limit. The amount of the dollar limit remains the same no matter how long, during the year, you have a qualifying person in your household. Use the $3,000 limit if you paid work-related expenses for the care of one qualifying person at any time during the year. Use $6,000 if you paid work-related expenses for the care of more than one qualifying person at any time during the year.

Reduced Dollar Limit

If you received dependent care benefits from your employer that you exclude from your income, you must subtract that amount from the dollar limit that applies to you. Your reduced dollar limit is figured in Part III of Form 2441. See Dependent Care Benefits, earlier, for information on excluding or deducting these benefits.

Example

George is a widower with one child and earns $24,000 a year. He pays work-related expenses of $2,900 for the care of his 4-year-old child and qualifies to claim the credit for child and dependent care expenses. His employer pays an additional $1,000 under a dependent care benefit plan. This $1,000 is excluded from George's income.

Although the dollar limit for his work-related expenses is $3,000 (one qualifying person), George figures his credit on only $2,000 of the $2,900 work-related expenses he paid. This is because his dollar limit is reduced as shown next.

George's Reduced Dollar Limit

1) Maximum allowable expenses for one qualifying person	$3,000
2) Minus: Dependent care benefits George excludes from income	1,000
3) Reduced dollar limit on expenses George can use for the credit	$2,000

AMOUNT OF CREDIT

To determine the amount of your credit, multiply your work-related expenses (after applying the earned income and dollar limits) by a percentage. This percentage depends on your adjusted gross income shown on Form 1040 or 1040-SR, line 11. The maximum percentage of your work-related expenses allowed as a credit for 2022 is 35 percent.

The following chart illustrates the percentage to be used based on adjusted gross income:

IF your adjusted gross income is over...	BUT not over...	THEN the percentage is...
$0	$15,000	35%
15,000	17,000	34%
17,000	19,000	33%
19,000	21,000	32%
21,000	23,000	31%
23,000	25,000	30%
25,000	27,000	29%
27,000	29,000	28%
29,000	31,000	27%
31,000	33,000	26%
33,000	35,000	25%
35,000	37,000	24%
37,000	39,000	23%
39,000	41,000	22%
41,000	43,000	21%
43,000	No limit	20%

V. How To Claim The Credit

To claim the credit, you must file Form 1040 or 1040-SR.
Form 1040 or 1040-SR. You must complete Form 2441 and attach it to your Form 1040 or 1040-SR. Enter the credit on Schedule 3 (Form 1040), line 2.
Limit on credit. The amount of credit you can claim is limited to the amount of your tax.
Tax credit not refundable. For 2022, you cannot get a refund for any part of the credit that is more than this limit.

VI. Employment Taxes For Household Employers

If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer. If you are a household employer, you will need an employer identification number (EIN) and you may have to pay employment taxes. If the individuals who work in your home are self-employed, you are not liable for any of the taxes discussed in this section. Self-employed persons who are in business for themselves are not household employees. Usually, you are not a household employer if the person who cares for your dependent or spouse does so at his or her home or place of business.
If you use a placement agency that exercises control over what work is done and how it will be done by a babysitter or companion who works in your home, that person is not your employee. This control could include providing rules of conduct and appearance and requiring regular reports. In this case, you do not have to pay employment taxes. But, if an agency merely gives you a list of sitters and you hire one from that list, the sitter may be your employee.
If you have a household employee you may be subject to:

1. Social security and Medicare taxes,
2. Federal unemployment tax, and
3. Federal income tax withholding.

Social security and Medicare taxes are generally withheld from the employee's pay and matched by the employer. Federal unemployment (FUTA) tax is paid by the employer only and provides for payments of unemployment compensation to workers who have lost their jobs. Federal income tax is withheld from the employee's total pay if the employee asks you to do so and you agree.
State employment tax. You may also have to pay state unemployment tax. Contact your state unemployment tax office for information. You should also find out whether you need to pay or collect other state employment taxes or carry workers' compensation insurance.

CHAPTER 3: TEST YOUR KNOWLEDGE
The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. For 2022, the credit for child and dependent care expenses can be up to what percent of your expenses:

A. 10%
B. 25%
C. 35%
D. 50%

2. In regards to the child and dependent care credit, work-related expenses for care of a child include amounts or expenses you pay for which of the following:

A. food
B. clothing
C. nursery school
D. tutoring programs

3. For 2022, what is the dollar limit on the amount of your work-related expenses that you can use to figure the child and dependent care credit for two qualifying persons:

A. $3,000
B. $6,000
C. $8,000
D. $16,000

CHAPTER 3: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. You can claim a credit of greater than 10%.
B. Incorrect. The maximum percentage of child and dependent care expenses that can be claimed is not 25%.
C. **CORRECT**. The credit is limited to 35% of the expenses for your dependent who is under 13, your spouse, or another dependent not able to care for him or herself. The expenses must have been paid so you can work or look for work.
D. Incorrect. The credit is limited to less than 50% of your expenses.

2.

A. Incorrect. Work-related expenses for care do not include amounts paid for food.
B. Incorrect. Work-related expenses for care do not include amounts paid for clothing.
C. **CORRECT**. Work-related expenses for a child in nursery school, pre-school, or similar programs for children below the level of kindergarten are expenses for care.
D. Incorrect. Summer school and tutoring programs are not considered a work-related expense for care.

3.

A. Incorrect. The limit is higher than $1,000.
B. Incorrect. Three thousand dollars applies to one qualifying person, not two persons.
C. Incorrect. Five thousand dollars is the maximum amount excludable from income if your employer provides dependent care benefits under a qualified plan, but is not the correct answer to this question.
D. **CORRECT**. The limit for two or more qualifying persons is six thousand dollars. The percentage of the expenses that can be claimed as a credit varies from 20% to 35%, depending on the amount of your reported adjusted gross income.

Chapter 4: Credit For The Elderly Or The Disabled

Chapter Objective
After completing this chapter, you should be able to:

- Identify who qualifies to take the credit for the elderly or disabled.

I. Introduction

If you qualify, you may be able to reduce the tax you owe by taking the credit for the elderly or the disabled on Schedule R (Form 1040).
This chapter explains:

- Who qualifies for the credit for the elderly or the disabled, and
- How to figure the credit.

You may be able to take the credit for the elderly or disabled if:

- You are age 65 or older at the end of 2022, or
- You retired on permanent and total disability and have taxable disability income.

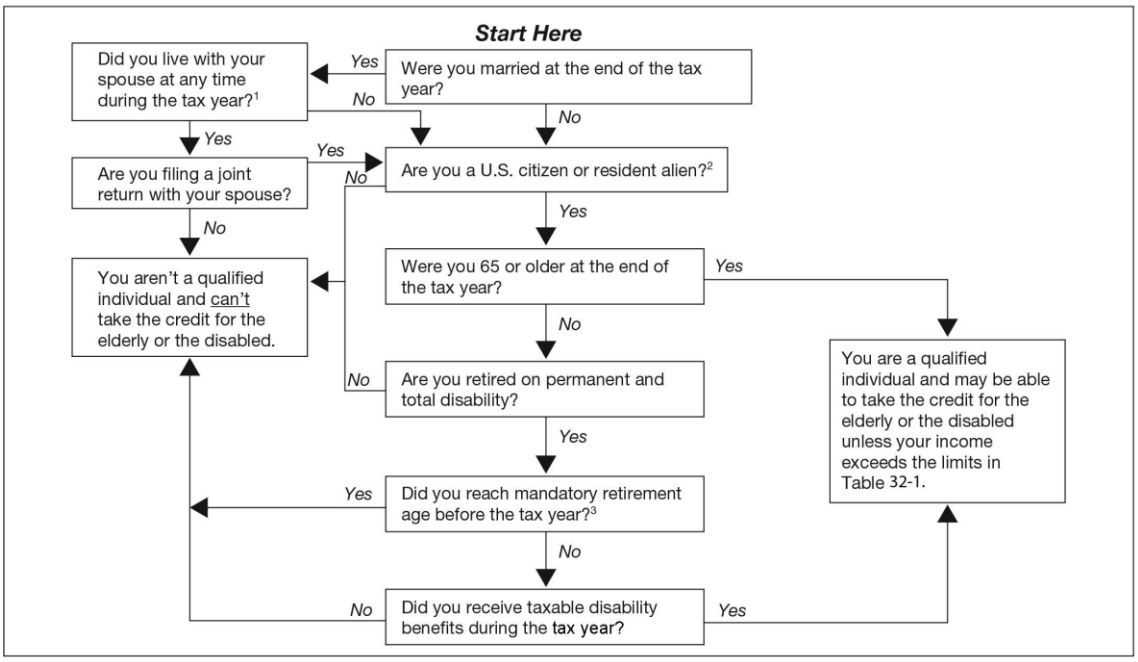
II. Can You Take The Credit?

You can take the credit for the elderly or the disabled if you meet both of the following requirements.

1. You are a qualified individual.
2. Your income is not more than certain limits.

You can use Figure 4-A and Table 4-1 as guides to see if you are eligible for the credit.
Use Figure 4-A first to see if you are a qualified individual. If you are, go to Table 4-1 to make sure your income is not too high to take the credit.

FIGURE 4-A. ARE YOU A QUALIFIED INDIVIDUAL?



1. However, you may be able to claim this credit even if you lived with your spouse during the first 6 months of the tax year, as long as you qualify to file as head of household. You qualify to file as head of household if you are considered unmarried and meet certain other conditions.
2. If you were a nonresident alien at any time during the tax year and were married to a U.S. citizen or resident at the end of the tax year, see U.S. Citizen or Resident under Qualified Individual. If you and your spouse choose to treat you as a U.S. resident, answer "yes" to this question.
3. Mandatory retirement age is the age set by your employer at which you would have been required to retire, had you not become disabled.

TABLE 4-1. INCOME LIMITS

If your filing status is...	THEN even if you qualify (see Figure 4-A), you CANNOT take the credit if...	
	Your adjusted gross income (AGI)* is equal to or more than...	OR the total of your nontaxable social security and other nontaxable pension(s) is equal to or more than...
single, head of household, or qualifying widow(er)	$17,500	$5,000
married filing a joint return **and** both spouses qualify in Figure 4-A	$25,000	$7,500
married filing a joint return **and** only one spouse qualifies in Figure 4-A	$20,000	$5,000
married filing a separate return **and** you did not live with your spouse for all of 2022	$12,500	$3,750

**AGI is the amount on Form 1040 or 1040-SR, line 11.*

QUALIFIED INDIVIDUAL
You are a qualified individual for this credit if you are a U.S. citizen or resident and either of the following applies.

1. You were age 65 or older at the end of 2022
2. You were under age 65 at the end of 2022 and all three of the following statements are true.
    a) You retired on permanent and total disability (explained later).
    b) You received taxable disability income for 2022.
    c) On January 1, 2022, you had not reached mandatory retirement age (defined later under Disability income).

Age 65. You are considered to be age 65 on the day before your 65th birthday. Therefore, if you were born on January 1, 1958, you are considered to be age 65 at the end of 2022.

U.S. Citizen or Resident Alien
You must be a U.S. citizen or resident alien (or be treated as a resident alien) to take the credit. Generally, you cannot take the credit if you were a nonresident alien at any time during the tax year.

Exceptions
You may be able to take the credit if you are a nonresident alien who is married to a U.S. citizen or resident alien at the end of the tax year and you and your spouse choose to treat you as a U.S. resident alien. If you make that choice, both you and your spouse are taxed on your worldwide incomes.

If you were a nonresident alien at the beginning of the year and a resident alien at the end of the year, and you were married to a U.S. citizen or resident alien at the end of the year, you may be able to choose to be treated as a U.S. resident alien for the entire year. In that case, you may be allowed to take the credit.

Married Persons

Generally, if you are married at the end of the tax year, you and your spouse must file a joint return to take the credit. However, if you and your spouse did not live in the same household at any time during the tax year, you can file either joint or separate returns and still take the credit.

Head of household. You can file as head of household and qualify to take the credit, even if your spouse lived with you during the first 6 months of the year, if you meet certain tests.

Under Age 65

If you are under age 65 at the end of 2022, you can qualify for the credit only if you are retired on permanent and total disability and have taxable disability income.

You are retired on permanent and total disability if:

- You were permanently and totally disabled when you retired, and
- You retired on disability before the close of the tax year.

Even if you do not retire formally, you are considered retired on disability when you have stopped working because of your disability.

Permanent and total disability. You are permanently and totally disabled if you cannot engage in any substantial gainful activity because of your physical or mental condition. A qualified physician must certify that the condition has lasted or can be expected to last continuously for 12 months or more, or that the condition can be expected to result in death. See Physician's statement, later.

Substantial gainful activity. Substantial gainful activity is the performance of significant duties over a reasonable period of time while working for pay or profit, or in work generally done for pay or profit. Full-time work (or part-time work done at your employer's convenience) in a competitive work situation for at least the minimum wage conclusively shows that you are able to engage in substantial gainful activity.

Substantial gainful activity is not work you do to take care of yourself or your home. It is not unpaid work on hobbies, institutional therapy or training, school attendance, clubs, social programs, and similar activities. However, the nature of the work you perform may show that you are able to engage in substantial gainful activity.

The fact that you have not worked or have been unemployed for some time is not, of itself, conclusive evidence that you cannot engage in substantial gainful activity.

Sheltered employment. Certain work offered at qualified locations to physically or mentally impaired persons is considered sheltered employment. These qualified locations include work centers that are certified by the Department of Labor, hospitals and similar institutions, homebound programs, and Department of Veterans Affairs (VA) sponsored homes.

Compared to commercial employment, pay is lower for sheltered employment. Therefore, one usually does not look for sheltered employment if he or she can get other employment. The fact that one has accepted sheltered employment is not proof of that person's ability to engage in substantial gainful activity.

Physician's statement. If you are under age 65, you must have your physician complete a statement certifying that you were permanently and totally disabled on the date you retired. You can use the statement in the Instructions for Schedule R.

You do not have to file this statement with your tax return, but you must keep it for your records.

Veterans. If the Department of Veterans Affairs (VA) certifies that you are permanently and totally disabled, you can substitute VA Form 21-0172, Certification of Permanent and Total Disability, for the

physician's statement you are required to keep. VA Form 21-0172 must be signed by a person authorized by the VA to do so. You can get this form from your local VA regional office.

Physician's statement obtained in earlier year. If you got a physician's statement in an earlier year and, due to your continued disabled condition, you were unable to engage in any substantial gainful activity during 2021, you may not need to get another physician's statement for 2021. For a detailed explanation of the conditions you must meet, see the instructions for Part II of Schedule R. If you meet the required conditions, check the box on line 2 of Part II of Schedule R.

If you checked box 4, 5, or 6 in Part I of Schedule R, enter in the space above the box on line 2 in Part II, the first name(s) of the spouse(s) for whom the box is checked.

Disability income. If you are under age 65, you can qualify for the credit only if you have taxable disability income. Disability income must meet both of the following requirements.

1. It must be paid under your employer's accident or health plan or pension plan.
2. It must be included in your income as wages (or payments instead of wages) for the time you are absent from work because of permanent and total disability.

Payments that are not disability income. Any payment you receive from a plan that does not provide for disability retirement is not disability income. Any lump-sum payment for accrued annual leave that you receive when you retire on disability is a salary payment and is not disability income.

For purposes of the credit for the elderly or the disabled, disability income does not include amounts you receive after you reach mandatory retirement age. Mandatory retirement age is the age set by your employer at which you would have had to retire, had you not become disabled.

INCOME LIMITS

To determine if you can claim the credit, you must consider two income limits. The first limit is the amount of your adjusted gross income (AGI). The second limit is the amount of nontaxable social security and other nontaxable pensions, annuities, or disability income you received. The limits are shown in Table 4-1, earlier.

If your AGI and nontaxable pensions, annuities, or disability income are less than the income limits, you may be able to claim the credit. See Figuring the Credit, next.

Caution!
If your AGI or your nontaxable pensions, annuities, or disability income are equal to or more than the income limits, you cannot take the credit.

III. Figuring The Credit

You can figure the credit yourself or the IRS will figure it for you.

CREDIT FIGURED BY YOU

To figure the credit yourself, first check the box in Part I of Schedule R that applies to you. Only check one box in Part I. If you check box 2, 4, 5, 6, or 9 in Part I, also complete Part II of Schedule R.

Next, figure the amount of your credit using Part III of Schedule R.

Finally, report the amount from line 22 of Schedule R on your tax return. Then, check box c on Schedule 3 (Form 1040), line 6, and enter "Sch R" on the line next to that box. Attach Schedule R to your return.

Limit on credit. The amount of the credit you can claim is generally limited to the amount of your tax. Use the Credit Limit Worksheet in the Instructions for Schedule R to determine if your credit is limited.

CHAPTER 4: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. You may be able to take the credit for the elderly or the disabled if you meet which of the following conditions:

A. you are a qualified individual
B. your income is not more than certain limits
C. both A and B above
D. you are over age 59½ and are retired

2. If your filing status is married filing a joint return and only one spouse qualifies for the credit for the elderly or disabled, you cannot take the credit if your AGI is equal to or more than what amount:

A. $12,500
B. $17,500
C. $20,000
D. $25,000

CHAPTER 4: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. Being a qualified individual is only one of the necessary conditions to claim the credit.
B. Incorrect. Income restricted to certain limits is only one of the necessary conditions to claim the credit.
C. **CORRECT**. You must meet both an income limit test and an age/residency test.
D. Incorrect. You are a qualified individual for this credit if you are a U.S. citizen or a resident, meet certain income limits, and either: (1) you were age 65 or older at the end of the year, or (2) you were under age 65 and you were retired on permanent and total disability, you received taxable disability income, and you had not reached the mandatory retirement age.

2.

A. Incorrect. If your filing status is married filing a joint return and you did not live with your spouse at any time during the year, then even if you qualify for the credit for the elderly or disabled, you cannot take the credit if your AGI is equal to or more than $12,500.
B. Incorrect. If your filing status is single, head of household, or qualifying widow(er) with dependent child, then even if you qualify for the credit for the elderly or disabled, you cannot take the credit if your AGI is equal to or more than $17,500.
C. **CORRECT**. If your filing status is married filing a joint return and only one spouse qualifies for the credit for the elderly or disabled, you also cannot take the credit if the total of your nontaxable social security and other nontaxable pension(s) is equal to or more than $5,000.
D. Incorrect. If your filing status is married filing a joint return and both spouses qualify for the credit for the elderly or disabled, you cannot take the credit if your AGI is equal to or more than $25,000.

Chapter 5: Child Tax Credit/Credit For Other Dependents

Chapter Objective
After completing this chapter, you should be able to:

- Recall the limits of the child tax credit.

I. What's New

Effective for 2022, the child tax credit (CTC), which was significantly expanded for 2021, reverts to its previous form for 2022.

II. Introduction

The child tax credit (CTC) is a credit that may reduce your tax by as much as $2,000 for each of your qualifying children in 2022.
The additional child tax credit (ACTC) is a credit you may be able to take if you are not able to claim the full amount of the child tax credit. For 2022, the ACTC is a refundable tax credit up to $1,500 per qualifying child.
The other dependents credit (ODC) is a credit that may reduce your tax by as much as $500 for each eligible dependent.

Caution!
The CTC and the ACTC should not be confused with the child and dependent care credit.

If you have no tax. Credits, such as the CTC or the child and dependent care credit, reduce your tax. If your tax on Form 1040 or 1040-SR, line 18, is zero, you cannot claim the child tax credit because there is no tax to reduce. However, you may qualify for the ACTC on line 28 (Form 1040 or 1040-SR).

III. Qualifying Child For The CTC

A qualifying child for purposes of the child tax credit is a child who meets all of the following conditions:

1. The child is your son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, half brother, half sister, or a descendant of any of them;
2. The child was under age 17 at the end of 2022;
3. The child did not provide over half his or her own support for 2022;
4. The child lived with you for more than half of 2022;
5. The child is claimed as a dependent on your return;
6. The child does not file a joint return for the year (or files it only to claim a refund of withheld income tax or estimated tax paid); and
7. The child was a U.S. citizen, a U.S. national, or a U.S. resident alien. If the child was adopted, see Adopted child, later.

Example
Your son turned 17 on December 30, 2022. He is a citizen of the United States and you claimed him as a dependent on your return. You cannot use him to claim the CTC because he was not under age 17 at the end of 2022.

Adopted child. An adopted child is always treated as your own child. An adopted child includes a child lawfully placed with you for legal adoption.
If you are a U.S. citizen or U.S. national and your adopted child lived with you as a member of your household in 2022, that child meets condition (7) above to be a qualifying child for the child tax credit.

IV. Credit For Other Dependents (ODC)

This credit is for individuals with a dependent who meets additional conditions (described later).

Note
This credit is different from and in addition to the credit for child and dependent care expenses that you also may be eligible to claim.

The maximum amount you can claim for this credit is $500 for each qualifying dependent. See Limits on the CTC and ODC, later.

QUALIFYING PERSON FOR THE ODC
A person qualifies you for the ODC if the person meets all of the following conditions.

1. The person is claimed as a dependent on your return.
2. The person cannot be used by you to claim the CTC or ACTC. See Child Tax Credit (CTC), earlier.
3. The person is a U.S. citizen, U.S. national, or U.S. resident alien.

Example
Your 10-year-old nephew lives in Mexico and qualifies as your dependent. He is not a U.S. citizen, U.S. national, or U.S. resident alien. You cannot use him to claim the ODC.

Caution!
You cannot use the same child to claim both the CTC (or ACTC) and the ODC.

In addition to being a qualifying person for the ODC (defined earlier), your qualifying person must have an SSN, ITIN, or ATIN issued to him or her on or before the due date of your 2022 return (including extensions). If your qualifying person has not been issued an SSN, ITIN, or ATIN by that date, you cannot use the individual to claim the ODC.

V. Limits On The CTC And ODC

The maximum credit amount of your CTC or ODC may be reduced if:

- Your modified adjusted gross income (AGI) is above the amount shown below for your filing status.
    a) Married filing jointly - $400,000.
    b) All other filing statuses - $200,000.

Modified AGI. For purposes of the child tax credit, your modified AGI is your AGI plus the following amounts that may apply to you.

- Any amount excluded from income because of the exclusion of income from Puerto Rico.
    - On the dotted line next to Form 1040 or 1040-SR, line 11, enter the amount excluded and identify it as “EPRI”

    - Also attach a copy of any Form(s) 499R-2/W-2PR to your return
- Any amount on line 45 or line 50 of Form 2555, Foreign Earned Income.
- Any amount on line 15 of Form 4563, Exclusion of Income for Bona Fide Residents of American Samoa.

If you do not have any of the above, your modified AGI is the same as your AGI.
AGI. Your AGI is the amount on Form 1040, 1040-SR, or 1040-NR, line 11.

VI. Claiming The CTC And ODC

To claim the CTC or ODC, make sure you meet the following requirements.

- You must file Form 1040, 1040-SR, or 1040-NR and include the name and TIN of each dependent for whom you are claiming the CTC or ODC.
- You must file Form 8862, if applicable.
- You must have a timely issued TIN on your tax return for you and your spouse (if filing jointly).
- For each qualifying child under 17 for whom you are claiming the CTC, you must enter the required SSN for the child in column (2) of the Dependents section of your tax return and check the Child tax credit box in column (4).
- For each dependent for whom you are claiming the ODC, you must enter the timely issued TIN for the dependent in column (2) of the Dependents section of your tax return and check the Credit for other dependents box in column (4).

Caution!
Do not check both the Child tax credit box and the Credit for other dependents box for the same person.

VII. Additional Child Tax Credit (ACTC)

This credit is 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.

Caution!
The ODC cannot be used to figure the ACTC. Only your CTC can be used to figure your ACTC. If you are claiming the ODC but not the CTC, you cannot claim the ACTC.

Foreign earned income. If you file Form 2555 (relating to foreign earned income), you cannot claim the ACTC.
How to claim the additional child tax credit. To claim the additional child tax credit, follow the steps below.

1. Be sure you figured the amount, if any, of your CTC and your ODC using the appropriate Child Tax Credit and Credit for Other Dependents Worksheet.
2. If you answered "Yes" on line 11 or 12 of the Child Tax Credit and Credit for Other Dependents Worksheet in your tax return instructions or line 16 of the Child Tax Credit and Credit for Other Dependents Worksheet in Pub 972, and line 1 of the worksheet is more than zero, use Schedule 8812 to see if you can claim the additional child tax credit.
3. If you have an additional child tax credit on line 15 of Schedule 8812, carry it to Form 1040, 1040-SR, or 1040-NR, line 28.

4. For each qualifying child under 17 for whom you are claiming the ACTC, be sure to enter the required SSN for the child in column (2) of the Dependents section of your tax return and check the Child Tax Credit box in column (4).

Tip
If the amount on line 1 of your Child Tax Credit and Credit for Other Dependents Worksheet is zero, your ACTC also is zero. You do not need to complete Schedule 8812.

CHAPTER 5: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. For 2022, the child tax credit may reduce your tax by as much as what amount for a qualifying child:

A. $1,000
B. $2,000
C. $3,000
D. $4,000

2. The additional child tax credit (ACTC) is for individuals who exceed the modified adjusted gross income limit for the regular child tax credit.

A. true
B. false

CHAPTER 5: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. The child tax credit is greater than this suggested amount per child of any age.
B. **CORRECT**. The child tax credit may reduce your tax by as much as $2,000 for each qualifying child.
C. Incorrect. The maximum child tax credit is less than this amount, but multiple qualifying children will increase the total amount of the credit to the taxpayer.
D. Incorrect. The maximum child tax credit is less than this amount per child.

2.

A. Incorrect. This credit is for individuals who get less than the full amount of the child tax credit.
B. **CORRECT**. This credit is for individuals who get less than the full amount of the child tax credit, not for those that exceeded the modified adjusted gross income limit for the regular child tax credit.

Chapter 6: Education Credits

Chapter Objective
After completing this chapter, you should be able to:

- Identify the requirements for and benefits of the American opportunity credit and the lifetime learning credit.

I. Introduction

For 2022, there are two tax credits available to persons who pay expenses for higher (postsecondary) education. They are:

- The American opportunity credit, and
- The lifetime learning credit.

The chapter will present an overview of these education credits.

Can you claim more than one education credit this year? For 2022, you can claim one education credit for each eligible student. For example, if you elect to claim the American opportunity credit for a child on your 2022 tax return, you cannot, for that same child, also claim the lifetime learning credit for 2022.

If you are eligible to claim the American opportunity credit and you are also eligible to claim the lifetime learning credit for the same student in the same year, you can choose to claim either credit, but not both.

If you pay qualified education expenses for more than one student in the same year, you can choose to take the American opportunity and the lifetime learning credits on a per-student, per-year basis. This means that, for example, you can claim the American opportunity credit for one student and the lifetime learning credit for another student in the same year.

Differences between the American opportunity and lifetime learning credits. There are several differences between these two credits. These differences are summarized in Table 6-1, next.

TABLE 6-1. COMPARISON OF EDUCATION CREDITS

Caution! You can claim both the American opportunity credit and the lifetime learning credit on the same return – but not for the same student.

	American Opportunity Credit	**Lifetime Learning Credit**
Maximum credit	Up to $2,500 per eligible **student**	Up to $2,000 credit per return
Limit on modified adjusted gross income (MAGI)	$180,000 if married filing jointly; $90,000 if single, head of household, or qualifying widow(er)	$180,000 if married filing jointly; $90,000 if single, head of household, or qualifying widow(er)
Refundable or nonrefundable	40% of credit may be refundable	Nonrefundable - Credit limited to the amount of tax you must pay on your taxable income
Number of years of postsecondary education	Available **ONLY** if the student had not completed the first 4 years of postsecondary education before 2022	Available for all years of postsecondary education and for courses to acquire or improve job skills

Number of tax years credit available	Available **ONLY** for 4 tax years per eligible student	Available for an unlimited number of years
Type of program required	Student must be pursuing a program leading to a degree or other recognized education credential	Student does not need to be pursuing a program leading to a degree or other recognized education credential
Number of courses	Student must be enrolled at least half time for at least one academic period beginning during 2022 (or the first 3 months of 2023 if the qualified expenses were paid in 2022)	Available for one or more courses
Felony drug conviction	At the end of 2022, the student had not been convicted of a felony for possessing or distributing a controlled substance	Felony drug convictions do not make the student ineligible
Qualified expenses	Tuition, required enrollment fees, and course materials that the student needs for a course of study, whether or not the materials are bought at the educational institution as a condition of enrollment or attendance	Tuition and required enrollment fees (including amounts required to be paid to the institution for course-related books, supplies, and equipment)
Payments for academic periods	Payments made in 2022 for academic periods beginning in 2022 and in the first 3 months of 2023	
TIN needed by filing due date	Filers and students must have a TIN by the due date of their 2022 return (including extensions)	
Educational institution's EIN	You must provide the educational institution's employer identification number (EIN) on your Form 8863	

II. Who Can Claim An Education Credit

You may be able to claim an education credit if you, your spouse, or a dependent you claim on your tax return was a student enrolled at or attending an eligible educational institution. For 2022, the credits are based on the amount of qualified education expenses paid for the student in 2022 for academic periods beginning in 2022 and in the first 3 months of 2023.

For example, if you paid $1,500 in December 2022 for qualified tuition for the spring 2023 semester beginning in January 2023, you may be able to use that $1,500 in figuring your 2022 education credit(s).

Academic period. An academic period includes a semester, trimester, quarter, or other period of study (such as a summer school session) as reasonably determined by an educational institution. In the case of an educational institution that uses credit hours or clock hours and does not have academic terms, each payment period can be treated as an academic period.

Eligible educational institution. An eligible educational institution is any college, university, vocational school, or other postsecondary educational institution eligible to participate in a student aid program

administered by the U.S. Department of Education. It includes virtually all accredited public, nonprofit, and proprietary (privately owned profit-making) postsecondary institutions.

Who can claim a dependent's expenses. If a dependent is claimed on a tax return, all qualified education expenses of the student are treated as having been paid by the person claiming the dependent. Therefore, only the person claiming the dependent on a tax return can claim an education credit for the student. If a student is not claimed as a dependent on another person's tax return, only the student can claim a credit.

Expenses paid by a third party. Qualified education expenses paid on behalf of the student by someone other than the student (such as a relative) are treated as paid by the student. However, qualified education expenses paid (or treated as paid) by a student who is claimed as a dependent on your tax return are treated as paid by you. Therefore, you are treated as having paid expenses that were paid by the third party.

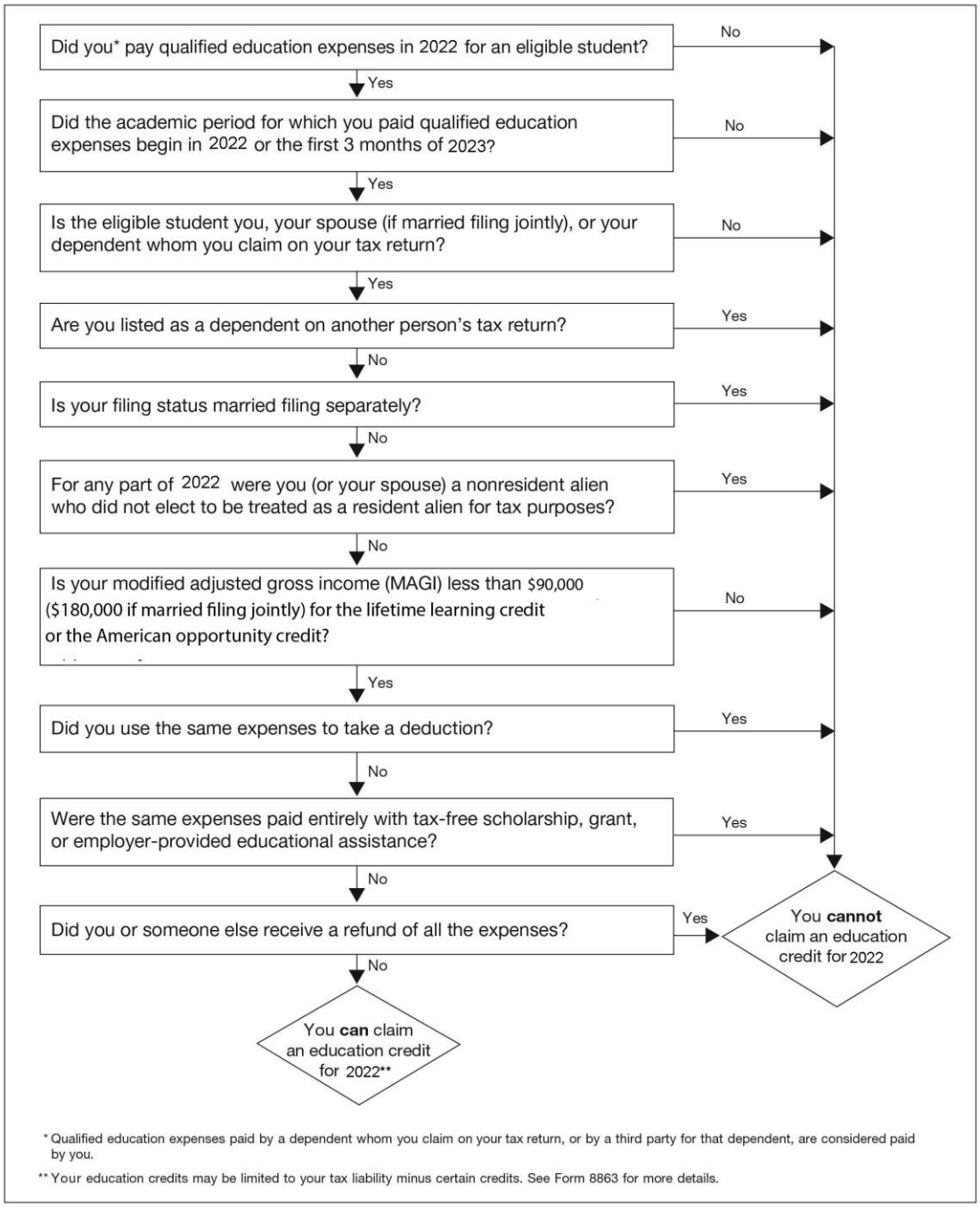
Who cannot claim a credit. You cannot claim an education credit if any of the following apply.

1. Your filing status is married filing separately.
2. You are claimed as a dependent on another person's tax return, such as your parent's return.
3. You (or your spouse) were a nonresident alien for any part of 2022 and did not elect to be treated as a resident alien for tax purposes.
4. You did not have a social security number (SSN) (or individual taxpayer identification number (ITIN)) by the due date of your 2022 return (including extensions); you cannot claim the American opportunity credit on either your original or an amended 2022 return, even if you later get an SSN (or ITIN). Also, you cannot claim this credit on your original or amended 2022 return for a student who did not have an SSN, adoption taxpayer identification number (ATIN), or ITIN by the due date of your return (including extensions), even if the student later gets one of those numbers.
5. Your MAGI is one of the following.
    a) American opportunity credit: $180,000 or more if married filing jointly, or $90,000 or more if single, head of household, or qualifying widow(er).
    b) Lifetime learning credit: $180,000 or more if married filing jointly, or $90,000 or more if single, head of household, or qualifying widow(er).

Generally, your MAGI is the amount on your Form 1040 or 1040-SR, line 11. However, if you are filing Form 2555 or Form 4563, or are excluding income from Puerto Rico, add to the amount on your Form 1040 or 1040-SR, line 11, the amount of income you excluded.

Figure 6-A may be helpful in determining if you can claim an education credit on your tax return.

FIGURE 6-A. CAN YOU CLAIM AN EDUCATION CREDIT FOR 2022?



III. Qualified Education Expenses

Generally, qualified education expenses are amounts paid in 2022 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, by credit or debit card, or with borrowed funds.
Only certain expenses for course-related books, supplies, and equipment qualify.

- American opportunity credit: Qualified education expenses include amounts spent on books, supplies, and equipment needed for a course of study, whether or not the materials are purchased from the educational institution as a condition of enrollment or attendance.
- Lifetime learning credit: Qualified education expenses include only amounts for books, supplies, and equipment only if required to be paid to the institution as a condition of enrollment or attendance.

Qualified education expenses include nonacademic fees, such as student activity fees, athletic fees, or other expenses unrelated to the academic course of instruction, only if the fee must be paid to the institution as a condition of enrollment or attendance. However, fees for personal expenses (described below) are never qualified education expenses.

Qualified education expenses do not include amounts paid for:

- Personal expenses. This means room and board, insurance, medical expenses (including student health fees), transportation, or other similar personal, living, or family expenses.
- Any course or other education involving sports, games, or hobbies, or any noncredit course, unless such course or other education is part of the student's degree program or (for the lifetime learning credit only) helps the student acquire or improve job skills.

Paid with borrowed funds. You can claim an education credit for qualified education expenses paid with the proceeds of a loan. Use the expenses to figure the credit for the year in which the expenses are paid, not the year in which the loan is repaid. Treat loan payments sent directly to the educational institution as paid on the date the institution credits the student's account.

Student withdraws from class(es). You can claim an education credit for qualified education expenses not refunded when a student withdraws.

NO DOUBLE BENEFIT ALLOWED

You cannot do any of the following.

- Deduct higher education expenses on your income tax return (as, for example, a business expense) and also claim an education credit based on those same expenses.
- Claim more than 1 education credit based on the same qualified education expenses.
- Claim an education credit based on the same expenses used to figure the tax-free portion of a distribution from a Coverdell education savings account (ESA) or qualified tuition program (QTP).
- Claim an education credit based on qualified education expenses paid with educational assistance, such as a tax-free scholarship, grant, or employer-provided educational assistance. See Adjustments to Qualified Education Expenses, next.

ADJUSTMENTS TO QUALIFIED EDUCATION EXPENSES

For each student, reduce the qualified education expenses paid in 2022 by or on behalf of that student under the following rules. The result is the amount of adjusted qualified education expenses for each student.

Tax-free educational assistance. For tax-free educational assistance received in 2022, reduce the qualified educational expenses for each academic period by the amount of tax-free educational assistance allocable to that academic period. See Academic period, earlier.

Tax-free educational assistance includes:

- Tax-free parts of scholarships and fellowships (including Pell grants),
- The tax-free part of employer-provided educational assistance,
- Veterans' educational assistance, and
- Any other nontaxable (tax-free) payments (other than gifts or inheritances) received as educational assistance.

Refunds. A refund of qualified education expenses may reduce qualified education expenses for the tax year or may require you to repay (recapture) the credit that you claimed in an earlier year. Some tax-free educational assistance received after 2022 may be treated as a refund. See Tax-free educational assistance, earlier.

Amounts that do not reduce qualified education expenses. Do not reduce qualified education expenses by amounts paid with funds the student receives as:

- Payment for services, such as wages,
- A loan,
- A gift,
- An inheritance, or
- A withdrawal from the student's personal savings.

Do not reduce the qualified education expenses by any scholarship or fellowship reported as income on the student's tax return in the following situations.

- The use of the money is restricted, by the terms of the grant, to costs of attendance (such as room and board) other than qualified education expenses.
- The use of the money is not restricted.

CHAPTER 6: TEST YOUR KNOWLEDGE

The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.

We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. For 2022, what is the maximum American opportunity credit:

A. $1,500 per eligible student
B. $2,000 per eligible student
C. $2,500 per eligible student
D. $3,000 per eligible student

2. The lifetime learning credit may be claimed for qualified educational expenses paid to postsecondary institutions, but is restricted to which of the following:

A. the first 2 years of study
B. the first 3 years
C. a total of 4 years
D. none of the above; there is no limit on the years of study

CHAPTER 6: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. The maximum credit available is more than $1,500 per eligible student.
B. Incorrect. The maximum credit available is more than $2,000 per eligible student. The lifetime learning credit, however, is $2,000 per return.
C. **CORRECT**. The maximum credit available per eligible student is $2,500.

D. Incorrect. The maximum credit available per eligible student is lower than $3,000.

2.

A. Incorrect. Neither of the education credits are restricted to claiming a tax credit to two years.
B. Incorrect. Neither of the education credits are restricted to claiming a tax credit to three years.
C. Incorrect. The American opportunity credit is limited to four years postsecondary education.
D. **CORRECT**. There is no limit on the number of years for which the lifetime learning credit can be claimed for qualifying students. The lifetime learning credit can be up to $2,000 per year for all students.

Chapter 7: Earned Income Credit (EIC)

Chapter Objective
After completing this chapter, you should be able to:

- Recall the limit of investment income to qualify for the earned income credit.

I. Introduction

The earned income credit (EIC) is a tax credit for certain people who work and have a limited earned income. A tax credit usually means more money in your pocket. It reduces the amount of tax you owe. The EIC may also give you a refund.

Earned income amount is more. The maximum amount of income you can earn and still get the credit has increased. You may be able to take the credit if:

- You have three or more qualifying children and you earned less than $53,057 ($59,187 if married filing jointly),
- You have two qualifying children and you earned less than $49,399 ($55,529 if married filing jointly),
- You have one qualifying child and you earned less than $43,492 ($49,622 if married filing jointly), or
- You do not have a qualifying child and you earned less than $16,480 ($22,610 if married filing jointly).

Your adjusted gross income also must be less than the amount in the above list that applies to you.

Investment income amount is more. The maximum amount of investment income you can have and still get the credit is $10,300.

How do you get the earned income credit? To claim the EIC, you must:

1. Qualify by meeting certain rules, and
2. File a tax return, even if you:
    a) Do not owe any tax,
    b) Did not earn enough money to file a return, or
    c) Did not have income taxes withheld from your pay.

When you complete your return, you can figure your EIC by using a worksheet in the instructions for Form 1040 or 1040-SR. Or, if you prefer, you can let the IRS figure the credit for you.

II. Do You Qualify For The Credit?

To qualify to claim the EIC, you must first meet all of the rules explained in Part A, Rules for Everyone. Then, you must meet the rules in Part B, Rules If You Have a Qualifying Child, or Part C, Rules If You Do Not Have a Qualifying Child. There is one final rule you must meet in Part D, Figuring and Claiming the EIC. You qualify for the credit if you meet all the rules in each part that applies to you.

- If you have a qualifying child, the rules in Parts A, B, and D apply to you.
- If you do not have a qualifying child, the rules in Parts A, C, and D apply to you.

IF IMPROPER CLAIM MADE IN PRIOR YEAR
If your EIC for any year after 1996 was denied or reduced for any reason other than a math or clerical error, you must attach a completed Form 8862 to your next tax return if you wish to claim the EIC. You must also qualify to claim the EIC by meeting the rules.

If your EIC was denied or reduced as a result of a math or clerical error, do not attach Form 8862 to your next tax return. For example, if your arithmetic is incorrect, the IRS can correct it. If you do not provide a correct social security number, the IRS can deny the EIC. These kinds of errors are called math or clerical errors.

If your EIC for any year after 1996 was denied and it was determined that your error was due to reckless or intentional disregard of the EIC rules, then you cannot claim the EIC for the next 2 years. If your error was due to fraud, then you cannot claim the EIC for the next 10 years.

TABLE 7-1. EARNED INCOME CREDIT IN A NUTSHELL

First, you must meet all the rules in this column.		**Second, you must meet all the rules in one of these columns, whichever applies.**		**Third, you must meet the rule in this column.**
Part A. Rules for Everyone		**Part B. Rules If You Have a Qualifying Child**	**Part C. Rules If You Do Not Have a Qualifying Child**	**Part D. Figuring and Claiming the EIC**
1. Your adjusted gross income (AGI) must be less than: • $53,057 ($59,187 for married filing jointly) if you have three or more qualifying children. • $49,399 ($55,529 for married filing jointly) if you have two qualifying children. • $43,492 ($49,622 for married filing jointly) if you have one qualifying child, or • $16,480 ($22,610 for married filing jointly) if you do not have a qualifying child.	**2.** You must have a valid social security number by the due date of your 2022, return (including extensions). **3.** Your filing status cannot be "married filing separately." **4.** You must be a U.S. citizen or resident alien all year. **5.** You cannot file Form 2555 (relating to foreign earned income). **6.** Your investment income must be $10,300 or less. **7.** You must have earned income.	**8.** Your child must meet the relationship, age, residency, and joint return tests. **9.** Your qualifying child cannot be used by more than one person to claim the EIC. **10.** You cannot be a qualifying child of another person.	**11.** You must be at least age 25 but under age 65. **12.** You cannot be the dependent of another person. **13.** You cannot be a qualifying child of another person. **14.** You must have lived in the United States more than half of the year.	**15.** Your earned income must be less than: • $53,057 ($59,187 for married filing jointly) if you have three or more qualifying children. • $49,399 ($55,529 for married filing jointly) if you have two qualifying children. • $43,492 ($49,622 for married filing jointly) if you have one qualifying child, or • $16,480 ($22,610 for married filing jointly) if you do not have a qualifying child.

Example 1

You, your 5-year-old son, and your son's father lived together all year. You and your son's father are not married. Your son is a qualifying child of both you and his father because he meets the relationship, age,

residency, and joint return tests for both you and his father. Your earned income and AGI are $12,000, and your son's father's earned income and AGI are $14,000. Neither of you had any other income. Your son's father agrees to let you treat the child as a qualifying child. This means, if your son's father does not claim your son as a qualifying child for the EIC or any of the other tax benefits listed earlier, you can claim him as a qualifying child for the EIC and any other tax benefits listed for which you qualify.

Example 2
You and your 7-year-old niece, your sister's child, lived with your mother all year. You are 25 years old, and your AGI is $9,300. Your only income was from a part-time job. Your mother's AGI is $15,000. Her only income was from her job. Your niece's parents file jointly, have an AGI of less than $9,000, and do not live with you or their child. Your niece is a qualifying child of both you and your mother because she meets the relationship, age, residency, and joint return tests for both you and your mother. However, only your mother can treat her as a qualifying child. This is because your mother's AGI, $15,000, is more than your AGI, $9,300.

CHAPTER 7: TEST YOUR KNOWLEDGE
The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. The earned income credit not only may reduce the tax you owe, but also give you a refund.
A. true
B. false

2. What is the maximum amount of income you can earn and still receive the earned income credit if you have three or more qualifying children and are filing single:
A. $16,480
B. $43,492
C. $53,057
D. $59,187

CHAPTER 7: SOLUTIONS AND SUGGESTED RESPONSES
Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.
A. **CORRECT**. The earned income credit is different than most credits because not only does it reduce the amount of tax you may owe, but it also may give you a refund.
B. Incorrect. To get your earned income credit, you must qualify by meeting certain rules, and file a tax return even if you did not owe any tax, did not earn enough money to file a return, or did not have income taxes withheld from your pay.

2.

A. Incorrect. $16,480 is the maximum that an individual can earn and receive the earned income credit if he or she is filing single and has no qualifying children.
B. Incorrect. $43,492 is the maximum that an individual can earn and receive the earned income credit if he or she is filing single and has one qualifying child.
C. **CORRECT**. The adjusted gross income must also be less than $53,057.
D. Incorrect. $59,187 is the maximum that an individual can earn and receive the earned income credit if he or she is married filing jointly and has three or more qualifying children.

Chapter 8: Premium Tax Credit (PTC)

Chapter Objective
After completing this chapter, you should be able to:

- Recognize who is eligible to claim the premium tax credit.

I. Reminder

For 2021 and 2022, the ARPA provides larger PTCs to qualifying households. The law extends eligibility to taxpayers with household income above 400 percent of the federal poverty line by lowering the upper premium contribution limit to 8.5 percent of household income. All household income levels will experience a boost in premium credits for 2021 and 2022.

Example

- A single 21 year old with an income of 150 percent of the federal poverty line (FPL) - would claim $4,300 in premium tax credits under the ARPA, compared to $3,500 under prior law.
- A single 45 year old with an income of 450 percent of FPL - would claim $1,250 in premium tax credits under the ARPA, compared to zero under prior law.

II. Introduction

You may be able to take the PTC only for health insurance coverage in a qualified health plan purchased through a Health Insurance Marketplace (also known as an Exchange). This includes a qualified health plan purchased on healthcare.gov or through a state Marketplace.
This chapter provides an overview of the following.

- What is the PTC.
- Who can take the PTC.
- How to claim the credit.

III. What Is The Premium Tax Credit (PTC)?

Premium tax credit (PTC). The PTC is a tax credit for certain people who enroll, or whose family member enrolls, in a qualified health plan. The credit provides financial assistance to pay the premiums for the qualified health plan offered through a Marketplace by reducing the amount of tax you owe, giving you a refund, or increasing your refund amount. You must file Form 8962 to compute and take the PTC on your tax return.
Advance payments of the premium tax credit (APTC). APTC is a payment made to your insurance provider that pays for part or all of the premiums for a qualified health plan covering you or an individual in your tax family. Your APTC eligibility is based on the Marketplace's estimate of the PTC you will be able to take on your tax return. If APTC was paid for you or an individual in your tax family, you must complete Form 8962 to reconcile (compare) the APTC with your PTC. If the APTC is more than your PTC, you have excess APTC. If the APTC is less than the PTC, you can get a credit for the difference, which reduces your tax payment or increases your refund.
Changes in circumstances. The Marketplace determined your eligibility for and the amount of your 2022 APTC using projections of your income and the number of individuals you certified to the Marketplace would be in your tax family (yourself, spouse, and dependents) when you enrolled in a qualified health plan. If this information changed during 2022 and you did not promptly report it to the Marketplace, the

amount of APTC paid may be substantially different from the amount of PTC you can take on your tax return.

IV. Who Can Take The PTC?

You can take the PTC for 2022 if you meet all the conditions under (1) and (2) below.

1. For at least one month of the year, all of the following were true.
    a) An individual in your tax family was enrolled in a qualified health plan offered through the Marketplace on the first day of the month;
    b) The individual was not eligible for minimum essential coverage, other than coverage in the individual market; and
    c) The portion of the enrollment premiums for the month for which you are responsible was paid by the due date of your tax return (not including extensions).
2. You are an applicable taxpayer for 2022. To be an applicable taxpayer, you must meet all of the following requirements.
    a) For 2022, your household income is at least 100% but no more than 400% of the Federal poverty line for your family size (provided in Tables 1-1, 1-2, and 1-3, in the Instructions for Form 8962). See the Instructions for Form 8962 for exceptions when household income is below 100% of the Federal poverty line.
    b) No one can claim you as a dependent on their tax return for 2022.
    c) If you were married at the end of 2022, generally you must file a joint return. However, filing a separate return from your spouse will not disqualify you from being an applicable taxpayer if you meet certain requirements described under Married taxpayers in the Instructions for Form 8962.

V. How To Take The PTC?

You must file Form 8962 with your income tax return if any of the following apply to you.

- You are taking the PTC.
- APTC was paid for you or another individual in your tax family.
- APTC was paid for an individual for whom you told the Marketplace would be in your tax family and neither you nor anyone else included that individual in a tax family. See Individual enrolled who is not included in a tax family under Lines 12 Through 23 – Monthly Calculation in the Instructions for Form 8962.

If any of the circumstances above apply to you, you must file an income tax return and attach Form 8962 even if you are not otherwise required to file. You must file Form 1040, 1040-SR, or 1040-NR.

Form 1095-A. You will need Form 1095-A to complete Form 8962. The Marketplace uses Form 1095-A to report certain information to the IRS about individuals who enrolled in a qualified health plan through the Marketplace. The Marketplace sends copies to individuals to allow them to accurately file a tax return taking the PTC and reconciling APTC. For coverage in 2022, the Marketplace is required to provide or send Form 1095-A to the individual(s) identified in the Marketplace enrollment application by January 31, 2023. Under certain circumstances (for example, where two spouses enroll in a qualified health plan and divorce during the year), the Marketplace will provide Form 1095-A to one taxpayer, but another taxpayer will also need the information from that form to complete Form 8962. The recipient of Form 1095-A should provide a copy to other taxpayers as needed.

Allocating policy amounts. You need to allocate policy amounts (enrollment premiums, LCSP premiums, and/or APTC) on a Form 1095-A between your tax family and another tax family if:

- The policy covered at least one individual in your tax family and at least one individual in another tax family, and
- You received a Form 1095-A for the policy that does not accurately reflect the members of your tax family who were enrolled in the policy (meaning that it either lists someone who is not in your tax family or does not list a member of your tax family who was enrolled in the policy) or the other tax family received a Form 1095-A for the policy that includes a member of your tax family.

If these conditions apply to you, check the "Yes" box on line 9 of Form 8962. For each policy to which the two conditions above apply, follow the instructions in Table 3. Shared Policy Allocation—Line 9, in the Form 8962 instructions, to determine which allocation rule applies for that qualified health plan.

A qualified health plan may have covered at least one individual in your tax family and one individual not in your tax family if:

- You got divorced during the year,
- You are married but filing a separate return from your spouse,
- You or an individual in your tax family was enrolled in a qualified health plan by someone who is not part of your tax family (for example, your ex-spouse enrolled a child whom you are claiming as a dependent), or
- You or an individual in your tax family enrolled someone not part of your tax family in a qualified health plan (for example, you enrolled a child whom your ex-spouse is claiming as a dependent).

CHAPTER 8: TEST YOUR KNOWLEDGE

The following question is designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). It is included as an additional tool to enhance your learning experience and does not need to be submitted in order to receive CE credit.

We recommend that you answer the question and then compare your response to the suggested solution on the following page before answering the final exam question(s) related to this chapter (assignment).

1. To be an applicable taxpayer for purposes of taking the premium tax credit (PTC), which of the following must be true:

A. no one can claim you as a dependent on their tax return for 2022
B. if you were married at the end of 2022, generally you must file a separate return
C. your household income cannot be above the Federal poverty line for your family size
D. you must have reached retirement age

CHAPTER 8: SOLUTIONS AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. **CORRECT**. Not being able to be claimed as a dependent on another's tax return is one of the three requirements that must be met in order to be an applicable taxpayer to take the PTC.
B. Incorrect. If you were married at the end of 2022, generally you must file a joint return; however, filing a separate return from your spouse will not automatically disqualify you from being an applicable taxpayer if you meet certain requirements.
C. Incorrect. Your household income must be at least 100% but not more than 400% of the Federal poverty line for your family size in order to be an applicable taxpayer to take the credit.
D. Incorrect. There is no age restriction for those taking the PTC.

Chapter 9: Other Credits

Chapter Objective
After completing this chapter, you should be able to:
- Identify various nonrefundable and refundable credits available for income tax purposes.

I. Important

Adoption credit. The maximum adoption credit has been increased to $14,890 for 2022.

II. Introduction

This chapter discusses the following nonrefundable credits.
- Adoption credit.
- Credit to holders of tax credit bonds.
- Foreign tax credit.
- Mortgage interest credit.
- Nonrefundable credit for prior year minimum tax.
- Residential energy credit.
- Retirement savings contributions credit.

This chapter also discusses the following refundable credits.
- Credit for tax on undistributed capital gain.
- Credit for Excess Social Security Tax or Railroad Retirement Tax Withheld.

Nonrefundable credits. The first part of this chapter, Nonrefundable Credits, covers seven credits that you subtract directly from your tax. These credits may reduce your tax to zero. If these credits are more than your tax, the excess is not refunded to you.
Refundable credits. The second part of this chapter, Refundable Credits, covers three credits that are treated as payments and are refundable to you. These credits are added to the federal income tax withheld and any estimated tax payments you made. If this total is more than your total tax, the excess will be refunded to you.

III. Nonrefundable Credits

ADOPTION CREDIT
You may be able to take a tax credit of up to $14,890 for qualifying expenses paid to adopt an eligible child. The credit may be allowed for the adoption of a child with special needs even if you do not have any qualified expenses.
If your modified adjusted gross income (AGI) is more than $223,410, your credit is reduced. If your modified AGI is $263,410 or more, you cannot claim the credit.
Qualified adoption expenses. Qualified adoption expenses are reasonable and necessary adoption fees, court costs, attorney fees, traveling expenses (including amounts spent for meals and lodging) while away from home, and other expenses directly related to, and whose principal purpose is for, the legal adoption of an eligible child. These expenses include:
- Adoption fees,
- Court costs,
- Attorney fees,
- Travel expenses (including amounts spent for meals and lodging) while away from home, and

- Re-adoption expenses to adopt a foreign child.

Nonqualified expenses. Qualified adoption expenses do not include expenses:

- That violate state or federal law,
- For carrying out any surrogate parenting arrangement,
- For the adoption of your spouse's child,
- For which you received funds under any federal, state, or local program,
- Allowed as a credit or deduction under any other federal income tax rule, or
- Paid or reimbursed by your employer or any other person or organization.

Eligible child. The term "eligible child" means any individual:

1. Under 18 years old, or
2. Physically or mentally incapable of caring for himself or herself.

Child with special needs. An eligible child is a child with special needs if all three of the following apply:

1. The child was a citizen or resident of the United States (including U.S. possessions) at the time the adoption process began.
2. A state (including the District of Columbia) determines that the child cannot or should not be returned to his or her parents' home.
3. The state has determined that the child will not be adopted unless assistance is provided to the adoptive parents. Factors used by states to make this determination include:
    - The child's ethnic background,
    - The child's age,
    - Whether the child is a member of a minority or sibling group, or
    - Whether the child has a medical condition or physical, mental, or emotional handicap.

When to take the credit. Generally, until the adoption becomes final, you take the credit in the year after your qualified expenses are paid or incurred. If the adoption becomes final, you take the credit in the year your expenses were paid or incurred.

Foreign child. If the child is not a U.S. citizen or resident, you cannot take the credit unless the adoption becomes final. You treat all adoption expenses paid or incurred in years before the adoption becomes final as paid or incurred in the year it becomes final.

How to take the credit. Figure your 2022 nonrefundable credit and any carryforward to 2023 on Form 8839 and attach it to your Form 1040 or 1040-SR. Include the credit in your total for Schedule 3 (Form 1040), line 6c.

CREDIT TO HOLDERS OF TAX CREDIT BONDS

Tax credit bonds are bonds in which the holder receives a tax credit in lieu of some or all of the interest on the bond.

You may be able to take a credit if you are a holder of one of the following bonds.

- Clean renewable energy bonds (issued before 2010).
- New clean renewable energy bonds.
- Qualified energy conservation bonds.
- Qualified school construction bonds.
- Qualified zone academy bonds.
- Build America bonds.

In some instances, an issuer may elect to receive a credit for interest paid on the bond. If the issuer makes this election, you cannot also claim a credit.

Interest income. The amount of any tax credit allowed (figured before applying tax liability limits) must be included as interest income on your tax return.

How to take the credit. Complete Form 8912 and attach it to your Form 1040 or 1040-SR. Include the credit in your total for Schedule 3 (Form 1040), line 6k.

FOREIGN TAX CREDIT

You generally can choose to claim income taxes you paid or accrued during the year to a foreign country or U.S. possession as a credit against your U.S. income tax. Or, you can deduct them as an itemized deduction.

You cannot take a credit (or deduction) for foreign income taxes paid on income that you exclude from U.S. tax under the foreign earned income exclusion, the foreign housing exclusion, income from Puerto Rico exempt from U.S. tax, or the possession exclusion.

Limit on the credit. Unless you can elect not to file Form 1116, your foreign tax credit cannot be more than your U.S. tax liability (the total of Form 1040 or 1040-SR, line 16, and Schedule 2 (Form 1040), line 2) multiplied by a fraction. The numerator of the fraction is your taxable income from sources outside the United States. The denominator is your total taxable income from U.S. and foreign sources.

How to take the credit. Complete Form 1116 and attach it to your Form 1040 or 1040-SR. Enter the credit on Schedule 3 (Form 1040), line 1.

Exception

You do not have to complete Form 1116 to take the credit if all of the following apply.

1. All of your foreign source gross income was "passive category income" (which includes most interest and dividends) and all of that income and the foreign tax paid on it were reported to you on qualified payee statements, such as Form 1099-INT and Form 1099-DIV (or substitute statements).
2. The total of your foreign taxes was not more than $300 (not more than $600 if married filing jointly).

For more details on these requirements, see the instructions for Form 1116.

MORTGAGE INTEREST CREDIT

The mortgage interest credit is intended to help lower-income individuals own a home. If you qualify, you can take a credit each year for part of the home mortgage interest you pay.

Who qualifies. You may be eligible for the credit if you were issued a mortgage credit certificate (MCC) from your state or local government. Generally, an MCC is issued only in connection with a new mortgage for the purchase of your main home.

Amount of credit. Figure your credit on Form 8396. If your mortgage is equal to (or smaller than) the certified indebtedness amount (loan) shown on your MCC, enter on Form 8396, line 1, all the interest you paid on your mortgage during the year.

If your mortgage loan amount is larger than the certified indebtedness amount shown on your MCC, you can figure the credit on only part of the interest you paid. To find the amount to enter on line 1, multiply the total interest you paid during the year on your mortgage by the following fraction.

$$\frac{\text{Certified indebtedness amount on your MCC}}{\text{Original amount of your mortgage}}$$

Limit based on credit rate. If the certificate credit rate is more than 20%, the credit you are allowed cannot be more than $2,000. If two or more persons (other than a married couple filing a joint return) hold an interest in the home to which the MCC relates, this $2,000 limit must be divided based on the interest held by each person.

Carryforward. Your credit (after applying the limit based on the credit rate) is also subject to a limit based on your tax that is figured using Form 8396. If your allowable credit is reduced because of this tax liability

limit, you can carry forward the unused portion of the credit to the next 3 years or until used, whichever comes first.

If you are subject to the $2,000 limit because your certificate credit rate is more than 20%, you cannot carry forward any amount more than $2,000 (or your share of the $2,000 if you must divide the credit).

How to take the credit. Figure your 2022 credit and any carryforward to 2023 on Form 8396, and attach it to your Form 1040 or 1040-SR. Be sure to carry any credit carryforward from 2019, 2020, and 2021. Include the credit on Schedule 3 (Form 1040), line 6g.

Reduced home mortgage interest deduction. If you claim the credit and itemize your deductions on Schedule A (Form 1040), you must reduce your home mortgage interest deduction by the amount of the mortgage interest credit shown on Form 8396, line 3. You must do this even if part of that amount is to be carried forward to 2023.

Recapture of federal mortgage subsidy. If you received an MCC with your mortgage loan, you may have to recapture (pay back) all or part of the benefit you received from that program. The recapture may be required if you sell or dispose of your home at a gain during the first 9 years after the date you closed your mortgage loan.

NONREFUNDABLE CREDIT FOR PRIOR YEAR MINIMUM TAX

The tax laws give special treatment to some kinds of income and allow special deductions and credits for some kinds of expenses. If you benefit from these laws, you may have to pay at least a minimum amount of tax in addition to any other tax on these items. This is called the alternative minimum tax.

The special treatment of some items of income and expenses only allows you to postpone paying tax until a later year. If in prior years you paid alternative minimum tax because of these tax postponement items, you may be able to claim a credit for prior year minimum tax against your current year's regular tax.

You may be able to take a credit against your regular tax if for 2021 you:

1. Had an alternative minimum tax liability and adjustments or preferences other than exclusion items,
2. Had a minimum tax credit that you are carrying forward to 2022, or
3. Had an unallowed qualified electric vehicle credit.

How to take the credit. Figure your 2022 nonrefundable credit (if any) and any carryforward to 2023 on Form 8801, and attach it to your Form 1040 or 1040-SR. Include the credit on Schedule 3 (Form 1040), line 6b. You can carry forward any unused credit for prior year minimum tax to later years until it is completely used.

For additional information about the credit, see the instructions for Form 8801.

RESIDENTIAL ENERGY CREDIT

You may be able to claim the residential energy efficient property credit if you made energy saving improvements to your home located in the United States in 2022.

Note

If you are a member of a condominium management association for a condominium you own or a tenant-stockholder in a cooperative housing corporation, you are treated as having paid your proportionate share of any costs of the association or corporation.

Residential energy efficient property credit. You may be able to take a credit of 26% of your costs of qualified solar electric property, qualified solar water heating property, small wind energy property, geothermal heat pump property, and fuel cell property. Include any labor costs properly allocable to the onsite preparation, assembly, or original installation of the residential energy efficient property and for piping or wiring to interconnect such property to the home.

Basis reduction. You must reduce the basis of your home by the amount of any credit allowed. How to take the credit. Complete Form 5695 and attach it to your Form 1040 or 1040-SR. Enter the credit on Schedule 3 (Form 1040), line 5.

RETIREMENT SAVINGS CONTRIBUTIONS CREDIT (SAVER'S CREDIT)

You may be able to take this credit if you, or your spouse if filing jointly, made:

- Contributions (other than rollover contributions) to a traditional or Roth IRA,
- Elective deferrals to a 401(k) or 403(b) plan (including designated Roth contributions) or to a governmental 457, SEP, SIMPLE, or to the federal Thrift Savings Plan,
- Voluntary employee contributions to a qualified retirement plan (including the federal Thrift Savings Plan),
- Contributions to a 501(c)(18)(D) plan, or
- Contributions to an ABLE account by the designated beneficiary.

However, you cannot take the credit for 2022 if either of the following applies.

1. The amount on Form 1040 or 1040-SR, line 11, is more than $34,000 ($51,000 if head of household; $68,000 if married filing jointly).
2. The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 2004, (b) is claimed as a dependent on someone else's 2022 tax return or (c) was a student (defined next).

Student. You were a student if during any part of 5 calendar months of 2022 you:

- Were enrolled as a full-time student at a school, or
- Took a full-time, on-farm training course given by a school or a state, county, or local government agency.

School. A school includes a technical, trade, or mechanical school. It does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet.

How to take the credit. Figure the credit on Form 8880. Enter the credit on your Schedule 3 (Form 1040), line 4, and attach Form 8880 to your return.

IV. Refundable Credits

CREDIT FOR TAX ON UNDISTRIBUTED CAPITAL GAIN

You must include in your income any amounts that regulated investment companies (commonly called mutual funds) or real estate investment trusts (REITs) allocated to you as capital gain distributions, even if you did not actually receive them. If the mutual fund or REIT paid a tax on the capital gain, you are allowed a credit for the tax since it is considered paid by you. The mutual fund or REIT will send you Form 2439, Notice to Shareholder of Undistributed Long-Term Capital Gains, showing the undistributed capital gains and the tax paid, if any.

How to take the credit. To take the credit, attach Copy B of Form 2439 to your Form 1040 or 1040-SR. Include the amount from box 2 of your Form 2439 in the total for Schedule 3 (Form 1040), line 13a.

CREDIT FOR EXCESS SOCIAL SECURITY TAX OR RAILROAD RETIREMENT TAX WITHHELD

Most employers must withhold social security tax from your wages. If you work for a railroad employer, that employer must withhold tier 1 railroad retirement (RRTA) tax and tier 2 RRTA tax.

If you worked for two or more employers in 2022, you may have had too much social security tax withheld from your pay. If one or more of those employers was a railroad employer, too much tier 1 RRTA tax may also have been withheld at the 6.2% rate. You can claim the excess social security or tier 1 RRTA tax as a credit against your income tax when you file your return. For the tier 1 RRTA tax, only use the portion of the tier 1 RRTA tax that was taxed at the 6.2% rate when figuring if excess tier 1 RRTA tax was withheld;

do not include any portion of the tier 1 RRTA tax that was withheld at the Medicare tax rate (1.45%) or the Additional Medicare Tax rate (0.9%). The following table shows the maximum amount of wages subject to tax and the maximum amount of tax that should have been withheld for 2022.

Type of tax	Maximum wages subject to tax	Maximum tax that should have been withheld
Social security or RRTA tier 1	$147,000	$9,114.000
RRTA tier 2	$109,200	$5,350.80

Caution!
All wages are subject to Medicare tax withholding.

Tip
Use Form 843, Claim for Refund and Request for Abatement, to claim a refund of excess tier 2 RRTA tax. Be sure to attach a copy of all of your W-2 forms.

Employer's error. If any one employer withheld too much social security or tier 1 RRTA tax, you cannot take the excess as a credit against your income tax. The employer should adjust the tax for you. If the employer does not adjust the overcollection, you can file a claim for refund using Form 843.
Joint return. If you are filing a joint return, you cannot add the social security or tier 1 RRTA tax withheld from your spouse's wages to the amount withheld from your wages. Figure the withholding separately for you and your spouse to determine if either of you has excess withholding.
How to figure the credit if you did not work for a railroad. If you did not work for a railroad during 2022, figure the credit as follows:

1. Add all social security tax withheld (but not more than $9,114.00 for each employer). Enter the total here _____
2. Enter any uncollected social security tax on tips or group-term life insurance included in the total on Schedule 2 (Form 1040), line 8, identified by "UT" _____
3. Add lines 1 and 2. If $9,114.00 or less, stop here. You cannot take the credit _____
4. Social security tax limit $9,114.00
5. Credit. Subtract line 4 from line 3. Enter the result here and on Schedule 3 (Form 1040), line 11 _____

CHAPTER 9: TEST YOUR KNOWLEDGE
The following questions are designed to ensure that you have a complete understanding of the information presented in the chapter (assignment). They are included as an additional tool to enhance your learning experience and do not need to be submitted in order to receive CE credit.
We recommend that you answer each question and then compare your response to the suggested solutions on the following page(s) before answering the final exam questions related to this chapter (assignment).

1. Which of the following is a refundable credit:
A. the adoption credit
B. the foreign tax credit

C. the mortgage interest credit
D. the credit for tax on undistributed capital gain

2. You may be able to take a 26% credit of your costs of qualified solar electric property incurred in 2022.

A. true
B. false

CHAPTER 9: SOLUTION AND SUGGESTED RESPONSES

Below are the solutions and suggested responses for the questions on the previous page(s). If you choose an incorrect answer, you should review the pages as indicated for each question to ensure comprehension of the material.

1.

A. Incorrect. You may be able to take a credit of up to $14,890 (2022) for qualifying expenses paid to adopt an eligible child. This credit, however, is nonrefundable.
B. Incorrect. You generally can choose to claim income taxes you paid or accrued during the year to a foreign country or U.S. possession as a credit against your U.S. income tax. This credit, however, is nonrefundable. You can otherwise choose to deduct them as an itemized deduction if within the SALT limitation.
C. Incorrect. The mortgage interest credit is intended to help lower-income individuals own a home. If you qualify, you can take a credit each year for part of the home mortgage interest you pay. This credit, however, is nonrefundable.
D. **CORRECT**. You must include in your income any amounts that regulated investment companies or real estate investment trusts allocated to you as capital gain distributions, even if you did not actually receive them. To take the credit, attach Copy B of Form 2439 to your Form 1040 or 1040-SR.

2.

A. **CORRECT**. You must reduce the basis of your home by the amount of any credit allowed.
B. Incorrect. To take the credit, you must complete Form 5695 and attach it to your Form 1040 or 1040-SR.

Final Exam

Figuring Your Taxes and Credits

The following exam is attached only for your convenience. To access the official exam for this self-study course, please log into your account online and take the Final Exam from the course details page. A passing score of 70 percent or better will receive course credit and a Certificate of Completion.

1. Earned income required to claim the child and dependent care credit includes which of the following:

A. tip income
B. workers' compensation
C. pensions
D. social security benefits

2. Child and dependent care expenses must be work-related to qualify for the child and dependent care credit. Which of the following must be true of the expenses to be considered work-related:

A. they must allow the taxpayer (and his or her spouse if married) to work or look for work
B. they must be for a qualifying person's care
C. either A or B above
D. both A and B above

3. In figuring the child and dependent care credit for 2022, which of the following can be included in figuring total work-related expenses:

A. prepaid expenses only in the year the care is received
B. 2021 expenses that you paid in 2022
C. the nontaxable amount of reimbursed expenses received from state social services agencies
D. the same medical expenses used to calculate your medical expense deduction

4. What is the dollar limit on the amount of your work-related expenses you can use to figure the child and dependent care credit for 3 qualifying persons:

A. $3,000
B. $6,000
C. $9,000
D. $12,000

5. If your AGI is $32,000, then your child and dependent care credit is calculated using what percentage of your work-related expenses (after applying earned income and dollar limits):

A. 20%
B. 26%
C. 30%
D. 35%

6. All of the following are correct regarding claiming the child and dependent care credit <u>except</u>:

A. the tax credit is refundable
B. you must complete Form 2441 and attach it to your return
C. you must file Form 1040 or 1040-SR

D. the amount of the credit is limited to the amount of your tax

7. In determining whether you are a qualified individual for the credit for the elderly or the disabled, when are you considered 65:

A. when you turn 65½
B. on January 1 during the year in which you turn 65
C. on the day before your 65th birthday
D. on the day of your 65th birthday

8. Which of the following credits is limited to $500 for each qualifying child in 2022:

A. the child tax credit (CTC)
B. the credit for other dependents (ODC)
C. the additional child tax credit (ACTC)
D. both A and B above

9. Which of the following is correct regarding the American opportunity credit:

A. it is limited to the amount of tax you must pay on your taxable income
B. it generally can be up to $2,500 per eligible student
C. it is available for an unlimited number of years
D. it is only available for those with a MAGI less than $40,000

10. To be eligible for the lifetime learning credit, a student must meet which of the following requirements:

A. have no felony convictions
B. be enrolled in one or more courses at an eligible educational institution
C. have incurred greater than $10,000 in qualified education expenses
D. have completed at least two years of postsecondary education

11. In which of the following situations can you <u>not</u> take the lifetime learning credit:

A. you are claimed as a dependent on another person's tax return
B. your filing status is married filing separately
C. you file married filing jointly and your MAGI is $180,000 or more
D. any of the above

12. Qualified education expenses should not be reduced for which of the following:

A. loans
B. Pell grants
C. the tax-free part of employer-provided educational assistance
D. tax-free parts of scholarships

13. To qualify for the earned income credit, your investment income is limited to how much:

A. $130 or less
B. $1,300 or less
C. $10,300 or less
D. zero

14. Which of the following credits is for certain people who enroll, or whose family member enrolls, in a qualified health plan offered through a Marketplace:

A. Earned Income Tax Credit
B. Savers Credit
C. Premium Tax Credit (PTC)
D. Small Business Health Care Tax Credit

15. Qualifying adoption expenses for calculating the adoption credit include which of the following:

A. expenses for carrying out any surrogate parenting arrangement
B. traveling expenses while away from home
C. cost for the adoption of a spouse's child
D. costs for which funds were received under any federal, state, or local program