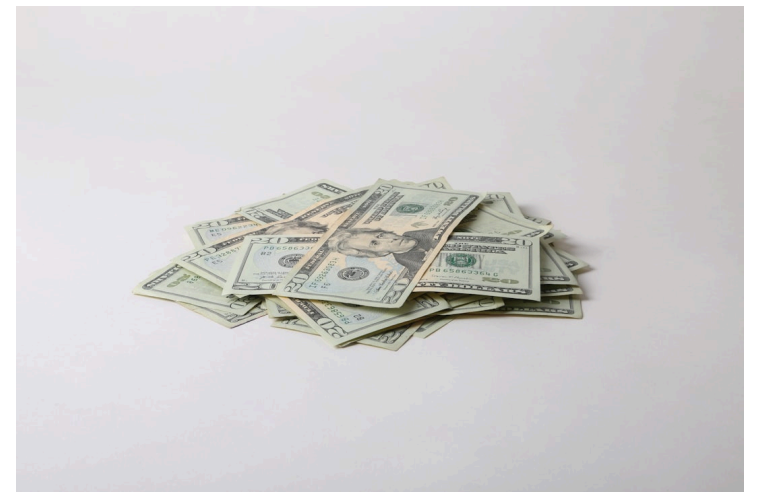


The Child and Dependent Care Credit



My CV

- **Graduated with Bachelor's of Science in Accountancy from George Mason University in 1984**
- **Joined the American Institute of Certified Public Accountants (AICPA) in 1986**
- **Licensed as a Certified Public Accountant since April 1986**
- **Member of the AICPA Tax Section and the AICPA Non-Profit Section**
- **Other certifications include CIA, CISA, GFSA, CGAP and CGMA**
- **Joined the NATP in April of 2023**



Let's get started!



What is the Child and Dependent Care Credit?

- The purpose of the child and dependent care credit is to help taxpayers by refunding in the form of a tax credit a portion of their dependent care expenses while either:
 - ***Working, or***
 - ***Looking for work***
- The dependent must be **under the age of 13**, or
- a spouse who is not able to care for himself or herself



To be eligible the taxpayer must file a:

- 1040 (page 2, line 19)
- 1040 NR (page 2, line 19)
- 1040 SR (page 1, line 19)



In order to take the credit, the taxpayer must meet all five of the following tests:



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- **Qualifying Person Test**: The care must be for one or more qualifying persons
- **Earned Income Test**: You (and your spouse) if filing jointly must have earned income during the year
- **Work-related Expense Test**: You must pay child and dependent care expenses so you and your spouse, if filing jointly, either work or look for work
- **Joint Return Test**: Your filing status may be single, head of household, or qualifying surviving spouse. If you are married, you must file a joint return, unless an exception applies to you.
- **Provider Identification Test**: You must provide the identification of the care provider on your return

Who is a qualifying person?

Your child and dependent care expenses must be for one of the following persons:

- Your qualifying child who is your **dependent** and who was under age 13 when the care was provided (but see Child of divorced or separated parents or parents living apart, later);
- Your spouse who wasn't physically or mentally able to care for themselves and lived with you for more than half the year; or
- (Continued on the next page)

Who is a qualifying person? (continued)

- A person who wasn't physically or mentally able to care for themselves, 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 of \$5,050 or more,
 - 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 2024 return

Definition of a “qualifying child”

- Section 152(C) (1) defines a “qualifying child of a taxpayer as an individual who:
- (A) bears a certain relationship to the taxpayer,
- (B) has the same principal abode as the taxpayer for more than one-half of the taxable year,
- (C) meets certain age requirements (be under the age of 13), and
- (D) Has not provided over one-half of his or her own support for the calendar year

Definition of a “qualifying relative”

- Section 152(d)(1) provides, in part, that to be a “qualifying relative” of a taxpayer, an individual must:
- (A) bear a certain relationship to the taxpayer,
- (B) have gross income for the calendar year that is less than the exemption amount (as defined in section 151(d), and
- (C) derive over one-half of his or support for the calendar year from the taxpayer.
- In addition, section 152(d)(1)(D) requires that the individual not be a qualifying child of the taxpayer or of “any other taxpayer” for the taxable year. Section 152(d)(2)(H) provides that the qualifying relative may include an individual who has the same principal place of abode as the taxpayer and who is a member of the taxpayer’s household.

Who is a Dependent?

- A dependent is a person, ***other than you or your spouse***, for whom you could claim an exemption.
- To be your dependent, a person must be your qualifying child (or your qualifying relative). However, the deductions for personal and dependency exemptions for tax years 2018 through 2025 are suspended, and, therefore, the amount of the deduction is zero.
- But, in determining whether you may claim a person as a qualifying relative for 2024, the person's gross income must be less than \$5,050.

Qualifying Relative Relationship Test

The individual must bear one of the following relationships to the taxpayer:

- (1) A child or descendant of a child;
- (2) A brother, sister, stepbrother, or stepsister;
- (3) A father or mother, or an ancestor of either;
- (4) A stepfather or stepmother;
- (5) A niece or nephew;
- (6) An aunt or uncle;
- (7) A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law;
or
- (8) An individual (other than one who at any time during the taxable year was the taxpayer's spouse, determined without regard to section [7703](#)) who for the taxable year of the taxpayer has the same principal place of abode as the taxpayer and is a member of the taxpayer's household

Qualifying Relative for Purposes of Section 152(d) (1) per Notice 2008-5

- This notice clarifies that an individual is not the qualifying child of “any other taxpayer” if the individual’s parent or other person with respect to whom the individual is defined as a qualifying child is not required by section 6012 to file an income tax return and
 - (i) does not file an income tax return, or
 - (ii) files an income tax return solely to obtain a refund of withheld income taxes



The Earned Income Test



- You (and your spouse if filing jointly) must have earned income during the year.
- 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.

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Nominal Receipt of Earned Income

- A taxpayer's spouse is regarded as having received earned income during any month in which he or she is either:
 - A full-time student (a full-time student is assumed to make \$250 per month while a full-time student)
 - Physically or mentally incapable of taking care of him or herself
 - This rule can only be applied to one spouse during each month

Working or Looking for work

- To be work related, your expenses must allow you to work or look for work. If you are married, you or your spouse must work or look for work.
- Note, however, that employment-related expenses are limited to the lower of the earned income of you or your spouse.



Work-Related Expense Test

- You must pay child and dependent care expenses so you (or your spouse if filing jointly) can work or look for work.
- 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 (or your spouse if filing jointly) to work or look for work.
 - They are for a qualifying person's care
 - An expense isn't considered work related merely because you had it while you were working. **The purpose of the expense must be to allow you to work.**

Example of work-related expenses



-
- Your earned income - \$27,000
 - Your spouse's earned income \$2,500 plus 4 months as a full-time student
 - Your child is 13 years old
 - Employment related child care expenses \$3,900
 - What is the amount of work-related expenses for the purpose of calculating the credit?

Payments you make to relatives or dependents

- You can count work-related payments you make to relatives who aren't your dependents, even if they live in your home. However, don't 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 (including stepchild or foster child) who was under age 19 at the end of the year, even if he or she isn't your dependent;
 - 3. A person who was your spouse any time during the year; or
 - 4. The parent of your qualifying person if your qualifying person is your child and under age 13

Payments to children who provide care

- You can pay your child to provide care, but that child must be **over the age of 18**, and
- Must not claimed as a dependent by the taxpayer

The 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.



[This Photo](#)
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The Provider Identification Test

- You must identify all persons or organizations that provide care for your child or dependent. Use Form 2441, Part I, to show the information. If you don't have any care providers and you are filing Form 2441 only to report taxable income in Part III, enter “none” on line 1, column (a). Information needed. To identify the care provider, you must give the provider's:
 - 1. Name,
 - 2. Address, and
 - 3. Taxpayer identification number
 - (Continued on the next slide)

The Provider Identification Test (continued)

- 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.
- You don't have to show the taxpayer identification number if the care provider is a tax-exempt organization (such as a church or school). In this case, enter "Tax-Exempt" in the space where Form 2441 asks for the number.
- If you can't provide all of the information or the information is incorrect, you must be able to show that you used **due diligence** in trying to furnish the necessary information.

What do you do if the Provider refuses to Provide their Identification?



- **Provider refusal.** If the provider refuses to give you the identifying information, you should report on Form 2441 whatever information you have (such as the name and address). Enter “See Attached Statement” in the columns calling for the information you don't have. Then attach a statement explaining that you requested the information from the care provider, but the provider didn't give you the information. Be sure to write your name and SSN on this statement. The statement will show that you used due diligence in trying to furnish the necessary information.

Dollar Limit

- **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. The amount of the employment-related expenses incurred during any taxable year which may be taken into account under subsection (a) IRC Code Section 21 shall not exceed -
 - (1) \$3,000 if there is 1 qualifying individual with respect to the taxpayer for such taxable year, or
 - (2) \$6,000 if there are 2 or more qualifying individuals with respect to the taxpayer for such taxable year. (Line 3, Part II, Form 2441)
- Subject to the lowest earned income of either spouse

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 as shown on Form 1040, 1040-SR, or 1040-NR
- Form 2441, Part II line 8 shows the percentage as a decimal based on Adjusted Gross Income that may be taken as a credit limited to the smallest of \$3,000 for one dependent, \$6,000 for two dependents, or the lowest earned income for either spouse (filing jointly) multiplied by the percentage.



The following table shows the percentage to use based on adjusted gross income

IF your adjusted gross income is:		THEN the
Over:	But not over:	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%



The credit is based on adjusted gross income times the applicable percentage

Example



A couple, Bill and Gena, with earned income of \$40,000 and \$70,000 respectively, paid \$7,000 in childcare with no employer related benefits.

Their Adjusted Gross Income is \$120,000

Qualified Child Care Expenses: \$7,000 which limited to \$6,000 for two dependents

What is their Child Care credit?

Credit: $.20 * \$6,000 = \$1,200$

1. **For years after 2025**

2. The OBBBA increases the maximum credit rate from 35 percent to 50 percent and introduces a two-step phasedown.
3. In the first step, the credit rate is reduced (but not below 35 percent) by one percentage point for each \$2,000 (or fraction thereof) by which the taxpayer's AGI exceeds \$15,000.
4. In the second step, the credit rate is further reduced (but not below 20 percent) by one percentage point for each \$2,000 (\$4,000 for joint returns) by which the taxpayer's AGI exceeds \$75,000 (\$150,000 for joint returns).
5. **Example: In 2026**, Kate's AGI is \$80,000. She does not file a joint return. Kate's credit rate is calculated as follows - Step One: initial credit rate of 50 percent is reduced to 35 percent (one percentage point for every \$2,000 Kate's AGI exceeds \$15,000 would result in a 33 percent reduction, but the credit rate cannot be reduced below 35 percent in the first step). Step Two: credit rate of 35 percent (from Step One) is reduced to 32 percent (one percentage point for every \$2,000 Kate's AGI exceeds \$75,000, resulting in a 3 percentage point reduction). Kate's final credit rate is 32 percent.

STEP 1:

The following table shows the percentage to use based on adjusted gross income

If your adjusted gross income is	Column1	THEN the
Over:	But not over:	percentage is:
\$ -	\$ 15,000	50%
\$ 15,000	\$ 17,000	49%
\$ 17,000	\$ 19,000	48%
\$ 19,000	\$ 21,000	47%
\$ 21,000	\$ 23,000	46%
\$ 23,000	\$ 25,000	45%
\$ 25,000	\$ 27,000	44%
\$ 27,000	\$ 29,000	43%
\$ 29,000	\$ 31,000	42%
\$ 31,000	\$ 33,000	41%
\$ 33,000	\$ 35,000	40%



For 2026: The credit is based on adjusted gross income in 2 steps:

STEP 2:

1. Then, the minimum rate of 35% is reduced by 1% for each \$2,000 of adjusted gross income over \$75,000
2. Kate's adjusted gross income of \$80.00 reduces the applicable rate from 35% to 32%
3. If Kate's child care expenses are \$3,000, her credit will be $32\% \times \$3,000$ or \$960. Compared to the credit using the pre-OBBA of 2025 rules, her credit for one child with a maximum out-of-pocket expense of \$3,000 is \$360 greater or 60% than under the old existing law.



How to claim the credit



- To claim the credit, you can file Form 1040, 1040-SR, or 1040-NR. You must complete Form 2441 and attach it to your Form 1040, 1040-SR, or 1040-NR. Enter the credit on your Schedule 3 (Form 1040), line 2. The amount of credit you can claim is limited to your tax.

What if you work from home?

- Expenses are employment related only if they allow the taxpayer to work or actively search for work. The employment can be either inside or outside the taxpayer's home. It includes self-employment. It also includes full-time or part-time work. However, it does not include volunteer work or work for a nominal salary (Reg. Sec. [1.21-1\(c\)\(1\)](#)).

What if the care provider is a household employee?

- A whole host of additional responsibilities ensue:
 - Obtain Wage Statements W-4, Employee's Withholding Certificate
 - You must pay the FUTA tax on the first \$7,000 you pay to each household employee
 - You have to complete Schedule H and attach it to your return

Household *Employees and Child Care Expenses*

- **Meals and lodging provided for housekeeper.** If you have expenses for meals that your housekeeper eats in your home because of his or her employment, count these as work-related expenses. If you have extra expenses for providing lodging in your home to the housekeeper, count these as work-related expenses also.

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.
- **Definition.** Household services are ordinary and usual services done in and around your home that are necessary to run your home. They include, for example, the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person.
- However, they don't include the services of a chauffeur, bartender, or gardener.

Let's test your knowledge



Announcements and Notices

- 
- The IRS makes time-sensitive public pronouncements through announcements and notices. Announcements have immediate or short-term value. They can summarize laws and regulations without making substantive interpretations, explain forthcoming regulations, and notify taxpayers of approaching deadlines.
 - Notices may contain substantive interpretations of the IRC or other laws. The IRS has used notices to inform taxpayers of the types of transactions that they are scrutinizing. Treasury and the IRS can publish announcements and notices in the IRB. Typically, taxpayers can rely on announcements and notices published in the IRB, but they do not have the same level of authority as Treasury regulations.

Example 1

- *A* supports as members of his household for the taxable year an unrelated friend, *B*, and her 3-year-old child, *C*. *B* has no gross income, is not required by section 6012 to file an income tax return. Accordingly, because *B* does not have a filing requirement and did not file an income tax return, *C* is not treated as a qualifying child of *B* or any other taxpayer.
- Can *A* deduct *B*?
- Can *A* deduct *C* (*B*'s 3 year old child)?
- *A* may claim both *B* and *C* as his qualifying relatives, provided all other requirements of sections 151 and 152 to qualify for the deduction are met.
- But how, they are not related?
- See Notice 2008-5

Example 2

- Same facts as Example 1, except that *B* has earned income of \$1,500 during the taxable year 2006, had income tax withheld from her wages, and is not required by section 6012 to file an income tax return. With one qualifying child, *B* may claim the earned income credit (EIC) in the amount of \$519 for the taxable year. *B* files an income tax return solely to obtain a refund of withheld income taxes and does not claim the EIC. Accordingly, because *B* does not have a filing requirement and filed only to obtain a refund of withheld income taxes.
- *C* is not a qualifying child of *B* or any other taxpayer.
- *A* may claim both *B* and *C* as his qualifying relatives, provided all other requirements of sections 151 and 152 to qualify for the deduction are met.



Example 3

- Same facts as Example 1, except that *B* has earned income of \$8,000 during the taxable year 2006, had income tax withheld from her wages, and is not required by section 6012 to file an income tax return for the taxable year.
- With one qualifying child, *B* may claim the EIC in the amount of \$2,729 for the taxable year. *B* files an income tax return for the taxable year to obtain a refund of withheld income taxes, and *B* claims the EIC on the return.
- Accordingly, because *B* filed an income tax return to obtain the EIC, and not solely to obtain a refund of withheld income taxes, *C* is a qualifying child of another taxpayer, *B*.
- *A* may not claim *C* as a qualifying relative.

Form 8867 Paid Preparer's Due Diligence Checklist

To ensure compliance with the IRS requirements for certain tax credits



References:

- Internal Revenue Service Publication 503 Child and Dependent Care Expenses
- Tax Topics 602
- Form 2441 Child and Dependent Care Expenses
- Internal Revenue Code Sections:
 - [Section 1.21-1 Expenses for household and dependent care services necessary ...](#)
 - [Section 1.21-2 Limitations on amount creditable.](#)
 - [Section 1.21-3 Special rules applicable to married taxpayers.](#)
 - [Section 1.21-4 Payments to certain related individuals.](#)
 - [Proposed Reg. 1.21-1. Expenses for household and dependent care services ...](#)

Notice 2008-5

Proposed Reg. 1.152-3. Qualifying relative.

One Big Beautiful Bill Act of 2025

Questions?



Thank you



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