TAX YEAR 2021

Child and Dependent Care Tax Credit

West & Company
Certified Public Accountants

General Rules

You are eligible to claim this credit if you, or your spouse if filing jointly, pay someone to care for one or more qualifying persons in order for you to work or look for work, and your income level is within the income limits set for the credit. If you are married, generally both you and your spouse must work or look for work. If you are married, you must file a joint return to claim 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 claim the credit.

Qualifying expenses. Qualifying expenses include expenses for the care of a child under 13 years old or other dependent who is not able to care for themselves that are incurred so you can work or look for work.

Special Rules for 2021

Legislation enacted in March, 2021, expanded the credit and made the credit refundable.

- All families with incomes up to $125,000 will save up to one-half the cost of their eligible child care expenses, getting back up to $4,000 for one child and $8,000 for two or more children when they file taxes for 2021. By comparison, the same families in 2020 would have had only up to one-fifth of their eligible expenses covered, receiving no more than $600 for one child or $1,200 for two or more children. And, in 2021, families making between $125,000 and $400,000 can still receive a partial credit at least as generous as the credit they would have received in 2020.
- For the first time, the Child and Dependent Care Tax Credit will be fully refundable, making the credit fairer by allowing low-income working families to receive the full value of the credit towards their eligible child care expenses regardless of how much they owe on their 2021 taxes.

Credit rate. The percentage of your child and dependent care expenses allowed as a credit depends on your income (and your spouse's income in the case of a joint return). The 2021 credit rate was increased for many low- and moderate-income taxpayers, and declined for the highest-income taxpayers. The maximum percentage of your child and dependent care expenses allowed as a credit is 50%.

Phaseout. The amount of your adjusted gross income (AGI) determines the percentage of your child and dependent care expenses that are allowed as a credit. The 50% amount begins to phase out if your adjusted gross income is more than $125,000, and completely phases out if your adjusted gross income is more than $438,000.

- If your income is under $125,000 the credit rate is 50%.
- If your income is between $125,000 and $183,000, the credit rate gradually declines by one percentage point for each $2,000 (or fraction thereof) above $125,000 of AGI until it reaches 20% at $183,000 of AGI.
- If your income is greater than $183,000 and less than or equal to $400,000, the credit rate is 20%.
- If your income is over $400,000, the credit rate gradually declines by one percentage point for each $2,000 (or fraction thereof) above $400,000 of AGI until the credit rate equals 0% at $438,000 of AGI.

The dollar amounts are the same for all tax filing statuses.

Child and Dependent Care Tax Credit

Expense limit. The amount of expenses used to calculate the 2021 credit was increased. The maximum amount of child and dependent care expenses that you can take into account for purposes of this credit is $8,000 if you have one qualifying person and $16,000 if you have two or more qualifying persons. This means that the maximum total amount of the credit is $4,000 (50% of $8,000) if you have one qualifying person and $8,000 (50% of $16,000) if you have two or more qualifying persons.

Earned income limitation. The amount of child and dependent care expenses that can be taken into account in calculating the credit cannot exceed your earned income. If you are married and filing a joint return, the child and dependent care expenses you can take into account are limited to the lesser of your or your spouse's earned income.

Refundable credit. For 2021, the credit is refundable for eligible taxpayers. This means that even if your credit exceeds the amount of federal income tax you owe, you can still claim the full amount of your credit, and the amount of the credit in excess of your tax liability can be refunded to you.

Eligibility requirements. To be eligible for the refundable portion of the credit, you must have your main home in one of the 50 states or the District of Columbia for more than half of the year. U.S. military personnel who are stationed outside the United States on extended active duty are considered to have their main home in one of the 50 states or the District of Columbia for purposes of qualifying for the refundable portion of the credit. For purposes of this credit, extended active duty means any period of active duty pursuant to a call or order to active duty for a period in excess of 90 days or for an indefinite period.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 72.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.