



Tax Tips You Can Use Nov 2008

THE BASIC'S – THE CHILD TAX CREDIT

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The article this month continues the series of articles about the 1040 federal tax form and its parts. The August article described credits as a direct reduction of tax due and mentioned three “flavors” using an ice cream metaphor. The September article discussed the Earned Income Credit as a ‘Rocky Road’ type of credit because that which is not used to satisfy tax is actually given to the taxpayer as a refund. Another ‘Rocky Rock’ credit is the Child Tax Credit.

The child tax credit is \$1000 per qualifying child. In the 90’s, this nonrefundable credit was a lower amount, but the rules for a qualifying child were looser. In 2004, the laws were changed. The rules for a qualifying child were tightened so that, in general, a child must be a blood relative for the taxpayer to qualify for this credit. That was bad news for some taxpayers, but the credit was increased and changed to a refundable credit so that any excess could turn into a refund.

This credit has been a real benefit to struggling families. As an example, Mary and Doug have two children and Doug works for wages. Mary sells a home party product. Together their income generates an income tax liability of \$1100 and self-employment (SE) tax for Mary of \$300. In the old days, the two children would qualify Doug and Mary for a tax credit of \$1200, making their income tax minus \$100 or zero tax due, EXCEPT that Mary would owe \$300 in SE tax. Under the new rules, the children would qualify Doug and Mary for \$2000 of credit, making their income tax minus \$900. Under current law, the \$900 moves to payments, paying Mary’s SE tax and still giving them a \$600 refund. There are calculations and limitations, but a refundable credit can make a big difference to a family.

Another set of credits that benefit struggling families are the education tuition credits. These allow credits up to \$1650 per student or \$2000 per family for college tuition and qualified job improvement training, but are year by year, use-it-or-lose-it credits. The qualifications, requirements, and limitations are too complex for this short article, but these credits can be a big help to families facing continually increasing college tuition.

Congress uses credits to influence taxpayer behavior. At this writing, tax law allows for hybrid vehicle credits and credits for energy efficient home improvements, as well as child care credits and retirement credits. The states also try to influence behavior by having their own set of credits. Some of these credits are the same as federal, but Oregon, as is usual, goes its own way and has many credits not seen at the federal level or in other states. A tax professional can ensure that you receive all of the state and federal tax credits you are entitled to receive.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

