Tax Tips You Can Use Dec 2008

THE BASIC'S – THE CHILD TAX CREDIT Part 2

By Kathleen Crawford, EA

The child care credit is the subject of this final article about the basics of the 1040 tax return. The child care credit is used to lower federal taxes and is allowed by Oregon as well. Credits are important because they reduce the actual tax liability that is accessed. There are also several unique Oregon credits of which taxpayers should be aware.

Child care expenses sound quite simple to calculate, but the credit is not simple. The credit is allowed when three conditions are met. First, there must be expenses incurred out of pocket, that is, beyond any employer benefits or barter. Second, the expenses must be incurred with a qualified care provider. Some family members are not qualified. Third, the expense must be incurred to allow the taxpayer (and spouse, if joint) to work, look for work or go to school. Examples of where the credit is not allowed are a rural family with a stay-at-home spouse who uses the after-school program to keep the children until the working spouse can pick them up. While this will save gas, no child care credit is allowed for the expenses of the after school program. Also a spouse going to school cannot use child care expenses for the summer vacation months to increase her credit, even if the child care facility requires a full year contract.

Assuming that a taxpayer meets all of the requirements to take the child care credit, a special form is required to calculate the credit, which can range from 20 to 35 percent of the allowable expenses. At the federal level, the credit is a year by year, use-it-or-lose-it credit.

Oregon takes a different view of the child care credit. Not only can it be carried to the next year if you can't use it all this year, but Oregon adds a second credit, the Working Family Credit, that uses the same expenses to calculate a second credit on the Oregon return. It is rare to get a credit on both the state and federal returns, but in the case of child care expenses, a taxpayer who qualifies can get a credit on the federal return and TWO credits on the state return. The Working Family Credit is a refundable credit and it is one of the very rare instances where Oregon is willing to give money away.

A family must have child care expenses and a limited income to receive the working family credit. Because Oregon does not like giving away money, many tax returns that claim this credit are reviewed and documentation of the expenses is required to be submitted. Even with this hassle, a struggling family can get almost 75% of their child care expenses as credits between the three possible credits.

Oregon is also unique because we are allowed to deduct up to $50 per taxpayer as a credit for political contributions. In this election year where many people contributed to candidates, parties or causes, taxpayers can deduct those contributions (up to the limit) as a direct reduction of Oregon income tax. This is the most common error that I see on Oregon returns prepared by out of state tax preparers or self-prepared returns. It is unique to Oregon and little known outside of our state.

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.