

Credits

Daycare Dilemma: Child-Care Credit or Pre-Tax Dependent Care

If you're a working parent, whether you choose pre-tax dependent care benefits or claim the child-care credit, you benefit. If you pay child-care expenses through your employer's plan, the amount you set aside for these expenses, up to \$5,000, is not subject to income tax, social security tax or medicare tax. If you claim the child-care credit, the credit is equal to 20 to 30 percent of your expenses, depending on your income. When you claim the credit, you're entitled to a maximum of \$2,400 if you have one child or \$4,800 if you have two or more children. You should see a tax advisor to determine which method works best for your circumstances.

Single Parenthood Offers Modest Tax Benefits

Single parents often qualify for head of household status, which offers a higher standard deduction and more favorable tax rates than the single status. Also, single parents, like married couples, can take advantage of the earned income credit and other credits.

Divorced or Separated: Who Claims the Children?

General rules exist for divorced and separated parents. If, between both of them, they provide more than 50 percent of the support, the exemption generally goes to the custodial parent, that is, the parent who has the child for more than half the year. The custodial parent can release the exemption to the non-custodial parent by filing Form 8332. The custodial parent can release the exemption for one year or for all future years.

A Gift to Your Children

You can give your children as much as you'd like per year in stocks or cash. However, depending on the value of the stock or cash, you may have to file a gift tax return, Form 706.

Tax Benefits for the Disabled

If you are caring for a disabled person, you could be eligible for the dependent care credit. Disabled individuals must be unable to care for themselves to qualify you for the credit. You could be required to pay taxes on all or a percentage of your disability payments, depending on the type of disability payment you're receiving and who pays the premiums. Workman's compensation, something you could receive if you're injured on the job, is not taxable. Generally, ordinary disability is non-taxable to the extent that the taxpayer recipient paid the premiums. Social security disability is taxed under the usual rules for social security.

A Full House could Decrease your Taxes

You're entitled to exemptions for each of your children, from one to one hundred. You can also claim a child tax credit of up to \$500 per child. If you and your spouse work and pay for child care, you may be eligible for a child care credit based on the amount you pay the care provider. The total amount of the credits and exemptions you are entitled to depends on the amount of your adjusted gross income (AGI).

Planning for Year 2000 Taxes

You can reduce your 2000 tax liability by contributing to a traditional IRA, if you are eligible. Also, review these tax tips and others at www.hrblock.com to make sure you claim all of your allowable deductions and credits to ensure you pay the lowest possible tax. Lastly, don't forget to keep a paper trail throughout the year to make next year's filing easier.

Lifetime Learning Credit + Hope Credit = Tax Advantage

If you have a student in your household attending his first or second year of college and another entering her third year or later, you may be able to claim both the lifetime learning credit and the Hope credit. Although you can't claim both credits for the same expenses, you can claim a Hope credit for each qualifying student and a lifetime learning credit for a different student's qualifying expenses. The Hope and lifetime learning credits are nonrefundable. Any credit remaining after your tax liability has been reduced to zero is lost--it will not be refunded to you.

Uncle Sam Wants You -- to Go Back to School

If you continue your education beyond your first two years of higher learning, the lifetime learning picks up where the Hope credit leaves off. You can receive a credit for 20 percent of the first \$5,000 you pay for any eligible student in your family. The credit can be claimed every year and also can be applied to prepaid expenses for the next school year. As with some other tax credits, your modified adjusted gross income (AGI) affects your benefits. If you're single, the credit is phased out as your modified adjusted gross income reaches \$40,000 and completely disappears at \$50,000. If you're married and file jointly, the modified AGI phase-out range is between \$80,000 and \$100,000. Taxpayers who choose the married filing separately status cannot claim this credit.

Rewarding Low-Income Workers for Their Efforts

The earned income tax credit (EITC) is designed to help low-income working Americans. The credit is refundable, meaning that any amount of the credit that exceeds the taxpayer's tax liability will be refunded.

You may be eligible for the EITC if you have less than \$2,400 in investment income, and have a modified adjusted gross income and earned income of less than \$10,380 with no children, \$27,413 with one qualifying child or \$31,152 with two or more qualifying children. A qualifying child is your son, daughter, stepson, stepdaughter, adopted child, grandchild or foster child who is either under 19 - or under 24 if a full-time student - or a totally disabled child of any age. The child must live with you for more than half of the tax year (all year in the case of a foster child).

If you are married and filing separately, you cannot claim the EITC. Also, if you share a qualifying child with another taxpayer, only the taxpayer with the higher modified AGI may claim the credit. Also, if you are a qualifying child of another taxpayer, you are not eligible for the credit.

To receive the EITC, you must file an error-free return with the social security number of each qualifying child. Any errors or omissions will cause significant delays in your receiving the credit. To receive the EITC, you must file an error-free return with the social security number of each qualifying child. Any errors or omissions will cause significant delays in your receiving the credit.

Cash in on Your Kids' Education

Uncle Sam believes in education, so he's created the Hope credit, which allows you a tax credit of up to \$1,500 for each qualifying full-time student who is in his or her first two years of post-secondary education and attends school at least half time. You can claim the Hope credit for 100 percent of the first \$1,000 and 50 percent of the next \$1,000 of qualified expenses, which include tuition, fees and books that must be purchased from the educational institution. Because this is a per-child credit, you'll receive a tax credit of up to \$1,500 for every qualifying student dependent you claim. Income is also a factor in Hope credit eligibility. If you're single, the Hope credit is phased out as your modified adjusted gross income (AGI) reaches \$40,000 and completely disappears at \$50,000. If you're married and file jointly, the AGI phase-out range is between \$80,000 and \$100,000. If you are married and file separately, you cannot claim the credit. To learn more about eligibility requirements for the Hope credit, [click here](#).

Tax Savings for Adoption

If you're thinking about adopting a child, you'll be pleased to learn that tax laws make the process much less expensive. If you adopt, you can generally claim a credit of up to \$5,000 to help you cover your expenses. The credit is as much as \$6,000 if the child is certified by your state as a child with special needs that make him or her difficult to place for adoption. If your credit wipes out your tax for the year in which you claim it, you can carry the unused portion over to future years. The credit begins phasing out if your adjusted gross income exceeds \$75,000, and is completely unavailable if your adjusted gross income exceeds \$115,000.

Are You Due Social Security Credit?

Did you have more than one job in 2000? Did the combined pay exceed \$76,200? If you answered yes to both questions, too much social security tax was withheld from your paychecks. To even things out, you get a credit. How much? The difference between what you paid in social security taxes (6.2 percent of your wages) and \$4,724, the maximum amount anyone was supposed to pay in 2000. Your tax preparer can help ensure you get proper credit for any overpayment.

Credit Opportunities for College Expenses

College kids heading back to campus soon? Remember that you may qualify for the Hope scholarship credit of up to \$1,500 if your student is in his or her freshman or sophomore years of undergraduate school. Also check out the lifetime learning credit of 20 percent of qualified educational expenses up to \$5,000, which may be used by anyone who qualifies, not just college freshmen or sophomores. Both credits are subject to income phase-out limits.

Child Care Credit Opportunities

The kids are out of school, but you still must work. Who takes care of your children during the workday? If you're paying someone, it's likely you'll qualify for a child care credit. Keep track of the amounts you pay the caregivers, and be sure to acquire their names, addresses, and social security numbers (or employer identification numbers). You'll need all that information to claim the credit on your tax return. Not all child care expenses are deductible, even if they're necessary to allow you to work, look for work, or attend school. You can't claim the credit based on amounts you pay to:

- Anyone you or your spouse could claim as a dependent
- Your child under age 19, even if the child isn't your tax dependent
- Overnight camps (but day camps are okay).