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We provide a prompt, professional, personal one-on-one tax preparation service from the comfort of your home. We are competitively priced and offer a lot of additional information from our web site – <http://www.taxlogic.com>

Now is a good time to talk about the different credits available to those who qualify.

## Child Tax Credit

Before the new law, eligible taxpayers could claim a \$500 tax credit for each qualifying dependent child under age 17. Taxpayers whose tax liabilities were not high enough to take full advantage of the credit generally could not receive refunds of any unused credit amounts, with the exception of eligible families with three or more qualifying children. Moreover, prior law prohibited use of the child tax credit to reduce alternative minimum tax liability after 2001.

Under the new law, the credit is increased to \$1,000, phased in over 10 years, starting in 2001.

Calendar Year	Credit Amount per Child
2002-2004	\$ 600
2005-2008	\$ 700
2009	\$ 800
2010 and after	\$1000

For 2001, you must reduce your child tax credit if either (1) or (2) applies:

1. The amount on line 42 (Form 1040) or line 26 (Form 1040A) is less than the credit. If this amount is zero, you cannot take this credit because there is no tax to reduce. But if you have three or more qualifying children, you may be able to take the additional child tax credit
2. Your tax liability is less than the credit, or
3. Your modified AGI is above the maximum limit for your filing status

The new law also makes the child tax credit refundable to the extent of 10% of the taxpayer's earned income in excess of \$10,000 (as indexed for inflation after 2001) for tax years 2001 through 2004 (15% after 2004). Families with three or more children may continue to use the old rules for a refundable child tax credit if that amount is greater than the new credit-refund amount. And the new law allows the child tax credit to be claimed permanently against the alternative minimum tax for tax years starting after 2001.

Use the worksheet and Form 8813 in the tax package to compute your Child Tax Credit. You can use Form 8812 for the additional child tax credit.

## Adoption Tax Benefits

Currently, taxpayers may claim a tax credit for qualified adoption expenses of up to \$5,000 a child (\$6,000 in the case of special needs child). The credit is phased out ratably for taxpayers with \$75,000 to \$115,000 of AGI. The credit for non-special needs adoption was set to expire after 2001. The law also allows, through 2001, an exclusion from income for employer-provided adoption assistance (the dollar limits and phaseout are the same as for the credit).

Effective for years starting after 2001, the credit is permanent for all adoptions, the maximum credit increases to \$10,000 per child for all adoptions, and the phaseout starting point becomes \$150,000 of AGI. The law permanently extends the income exclusions for employer-provided adoption assistance and raises the maximum exclusion amount and phaseout range to match the credit. After 2002, a credit/exclusion can be claimed for a special needs adoption regardless of whether the taxpayer actually has qualified adoption expenses.

See Form 8839, Instructions and Publications 968 for detailed information.

### **Dependent Care Credit**

Current law allows a taxpayer to claim a dependent care credit for a portion of qualifying child or dependent care expenses paid for the purpose of allowing the taxpayer to work. Generally, to be eligible, the taxpayer must maintain a home for a dependent under age 13, or a spouse or other dependent incapable of self-care. The maximum annual credit is 30% of up to \$2,400 of expenses for one qualifying individual and \$4,000 for two or more. The credit percentage is reduced in steps to 20% as AGI increases from \$10,000 to \$28,000.

If you qualify for the credit, use Schedule 2 of Form 1040A, or Form 2441 with Form 1040. In addition to the conditions just described to take the credit, you must meet all the following conditions:

1. The qualifying person must have lived with you in a home kept up by you.
2. You must provide the taxpayer identification number.
3. Your filing status must be a status other than married filing separate.
4. The payments for care cannot be paid to someone you can claim as your dependent, or to your child who is under age 19.
5. You must report the name, address, and taxpayer identification number (either the social security number or the employer identification number) of the care provider on your return.

Effective for years starting after 2002, the 30% credit percentage increases to 35% and the maximum amount of eligible expenses rises to \$3,000 for one qualifying individual and \$6,000 for two or more. Plus, the credit percentage "phase-down" to 20% will occur when AGI increases from \$15,000 to \$43,000.

In a related provision, beginning in tax years starting after 2001, employers may claim a tax credit equal to 25% of qualified expenses for employer-provided child care and 10% of qualified expenses for employer-provided child care resource and referral services, up to a maximum \$150,000 credit per tax year.

Next week we will be discussing the Earned Income Tax Credit and the Credit to the Elderly. We would be happy to give you more information on the different types of Credits and help you to understand the financial issues that affect you at our site <http://www.taxlogic.com>.