



Getting the Most out of Child Related Tax Benefits Supplement

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Family Dynamics

- Can change every year
 - divorce, death, employment and non-traditional living scenarios
- Determine benefit eligibility for each child every year





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The Life of a Tax Preparer

Did I Ask the Right Questions?





What Child Related Benefits Do the Grady Group Qualify For?

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Grady Group Interview Facts

John and Susan

- Filing Status: Married Filing Jointly
- Income: \$26,050 (John) and \$7,200 (Susan)
- Relationship: John is the father of Felix and Charlie, Susan is the Mother of Brady and both are Amy's parents
- Residency: U.S citizens lived in U.S. all year
- John, Susan and all children have valid SSNs for employment
- Susan presented child care expenses receipt with all necessary information for Brady and Amy





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Grady Group Interview Facts

Felix

- Age: 20
- Relationship: Son of John
- Residency: Lived with John and Susan for full year under temporary absence
- Full-time college student

Charlie

- Age: 17
- Relationship: Son of John
- Residency: Lived with John and Susan for full year
- High-school student





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Grady Group Interview Facts

Brady

- Age: 11
- Relationship: Son of Susan
- Residency: Lived with John and Susan for more than half the year
- Susan signed Form 8332 so ex-husband can claim dependency exemption
- Incurred child care expenses





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Grady Group Interview Facts

Amy

- Age: 3
- Relationship: Daughter of John and Susan
- Residency: Lived with parents, John and Susan, for full year
- Child care expenses incurred





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Grady Group Interview Facts

Additional Information

- No one else lives in the home
- All children are single
- The children's ages are for the last day of the tax year





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Grady Group Challenge Scenarios

1 – Dependency Exemption

2 – Child Tax Credit

3 – Earned Income Tax Credit

4 – Child & Dependent Care Expenses

5 – American Opportunity Tax Credit





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Scenario 1

What questions should you ask to determine who is a qualifying child for the
Dependency Exemption?

- A. Did you receive any outside support for any of the children?
- B. Did any of your children live somewhere else for more than half the year?
- C. What are the birth dates of the children?
- D. A, B and C
- E. Need more information





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Scenario 1

What questions should you ask to determine who is a qualifying child for the
Dependency Exemption?

A. Did you receive any outside support for any of the children?

B. Did any of your children live somewhere else for more than half the year?

C. What are the birth dates of the children?

D. A, B and C

E. Need more information





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Why would you ask all the questions?

- A. Did not ask questions about support test during interview
- B. Need to know if any of the children lived with someone else for more than half the year. And, if the child is a qualifying child of more than one person
- C. Need the birth dates to confirm age at end of tax year





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You Find Out:

- A. Felix earned \$600 and Brady's father provided partial support and they received no other support for Charlie or Amy.
- B. Felix, Charlie and Amy lived with John and Susan for the full year. Brady lived with them for all but every other weekend and two weeks in summer.
- C. The birth dates and confirmed each child's age at end of tax year.





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Scenario 1

Based on your client's response who is a qualifying child for the
Dependency Exemption?

A. Amy

B. Amy, Brady, and Charlie

C. Amy, Charlie, and Felix

D. All

E. Need more information





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Scenario 1

Based on your client's response who is a qualifying child for the
Dependency Exemption?

A. Amy

B. Amy, Brady and Charlie

C. Amy, Charlie and Felix

D. All

E. Need more information





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Why is C the answer?

- Susan gave Brady's exemption to his father
- Carefully verify qualifying child criteria for the dependency exemption
- Remember the requirements may change with each benefit





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Scenario 1 - Recap

Which eligibility requirements were satisfied for the
Dependency Exemption?

	<i>Felix</i>	<i>Brady</i> ¹	<i>Charlie</i>	<i>Amy</i>
Relationship	Pass	Pass	Pass	Pass
Residency	Pass	Pass	Pass	Pass
Age	Pass	Pass	Pass	Pass
Support	Pass	Pass	Pass	Pass
Joint Return	Pass	Pass	Pass	Pass

¹Remember: Susan gave the **Dependency Exemption** to her ex-husband so cannot claim Brady



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Exceptions can be Complex

- All 4 children passed the dependency exemption
- But, Susan gave the dependency exemption to her ex, so they cannot claim Brady





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Grady Group Challenge

1 – Dependency Exemption

2 – Child Tax Credit

3 – Earned Income Tax Credit

4 – Child & Dependent Care Expenses

5 – American Opportunity Tax Credit





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Scenario 2

What questions should you ask to determine who is a qualifying child for the **Child Tax Credit?**

- A. What are the birth dates of the children?
- B. Did any of your children provide over half of their own support?
- C. Where did your children live last year?
- D. Are the children all U.S. Citizens, U.S. Nationals or U.S. Residents?
- E. All of the above





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Scenario 2

What questions should you ask to determine who is a qualifying child for the **Child Tax Credit?**

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C. Where did your children live last year?

D. Are the children all U.S. Citizens, U.S. Nationals or U.S. Residents?

E. All of the above





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Why would you ask all the questions?

- A. Need the birth dates to confirm age at end of tax year
- B. Did not ask questions about support test during interview
- C. Need to know if the children lived with your client for more than half the year
- D. Need to know if the children are U.S. Citizens, U.S. Nationals or U.S. Residents. If they have an ITIN, complete Part 1 of Schedule 8812, Child Tax Credit





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You Find Out:

- A. The birth dates and confirmed each child's age at end of tax year.
- B. Felix earned \$600 and Brady's father provided partial support and they received no other support for Charlie or Amy.
- C. Felix, Charlie and Amy lived with John and Susan for the full year. Brady lived with them for all but every other weekend and two weeks in summer.
- D. All the children have SSNs that are valid for employment.





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Scenario 2

Based on your client's response who is a qualifying child for the **Child Tax Credit?**

- A. All of them
- B. Amy
- C. Amy, Charlie and Brady
- D. Amy, Charlie and Felix
- E. Need more information





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Scenario 2

Based on your client's response who is a qualifying child for the
Child Tax Credit?

A. All

B. Amy

C. Amy, Charlie and Brady

D. Amy, Charlie and Felix

E. Need more information





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Scenario 2 - Recap

Which of the eligibility requirements were satisfied for the **Child Tax Credit**?

	<i>Felix</i>	<i>Brady</i>	<i>Charlie</i>	<i>Amy</i>
Relationship	Pass	Pass	Pass	Pass
Residency	Pass	Pass	Pass	Pass
Age	Fail	Pass	Fail	Pass
Support	Pass	Pass	Pass	Pass
Joint Return	Pass	Pass	Pass	Pass

*Remember, Susan gave Brady's **Dependency Exemption** to her ex-husband so they cannot claim the **Child Tax Credit for him**. You have to claim the child as a dependent for the Child Tax Credit.*



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Why only Amy?

- Felix and Charlie are over the age limit so they do not qualify for the child tax credit
- Susan released Brady's exemption and to claim the Child Tax Credit the child must be your dependent
- Only Amy is a qualifying child for the Child Tax Credit





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Be Careful--Eligibility Requirements for the Child Tax Credit Differ

The Child Tax Credit differs from:

- The Dependency Exemption if the child has an ITIN, the child must pass the Citizenship or Residency test
- The Earned Income Tax Credit because the child can use a ITIN for CTC
- The Earned Income Tax Credit because the child must be your client's dependent for CTC





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Grady Group Challenge

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Scenario 3

What questions should you ask to determine who is a qualifying child for the Earned Income Tax Credit?

A. What are the birth dates of the children?

B. Did you have any other income?

C. Did all of the children live with you for more than half the year?

D. Did any of your children support themselves?

E. All of the above?





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Scenario 3

What questions should you ask to determine who is a qualifying child for the Earned Income Tax Credit?

A. What are the birth dates of the children?

B. Did you have any other income?

C. Did all of the children live with you for more than half the year?

D. Did any of your children support themselves?

E. All of the above?





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Why would you ask these questions?

- A. Need the birth dates to confirm age at end of tax year
- B. Ask your clients if they have any other income. Make sure they meet the limits for AGI, earned and investment income
- C. Need to know if the children lived with your client for more than half the year





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You Find Out:

- A. The birth dates and confirmed each child's age at end of tax year
- B. John and Susan had no other income
- C. Felix, Charlie and Amy lived with John and Susan for the full year
- D. Brady lived with them for all but every other weekend and two weeks in summer





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Beware of these EITC Top Errors

- Claiming a child that does not meet the age , relationship or residency requirements
- Married taxpayers who file as single or head of household
- Over or under reporting earned income or expenses





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Scenario 3

Based on your client's response who is a qualifying child for the
Earned Income Tax Credit?

- A. All of the children
- B. Amy and Charlie
- C. Amy, Brady and Charlie
- D. Brady and Felix
- E. Felix





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Scenario 3

Based on your client's response who is a qualifying child for the
Earned Income Tax Credit?

A. All of the children

B. Amy and Charlie

C. Amy, Brady and Charlie

D. Brady and Felix

E. Felix





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Scenario 3 - Recap

Which eligibility requirements were satisfied for the
the
Earned Income Tax Credit?

	<i>Felix</i>	<i>Brady</i> ¹	<i>Charlie</i>	<i>Amy</i>
Relationship	Pass	Pass	Pass	Pass
Residency	Pass	Pass	Pass	Pass
Age	Pass	Pass	Pass	Pass
Support	NA	NA	NA	NA
Joint Return	Pass	Pass	Pass	Pass

¹Susan can claim Brady for the EITC because the benefit stays with the custodial parent even though she gave her ex-husband the Dependency Exemption





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EITC Recap

- Support is not a test for EITC.
- EITC is limited to three qualifying children...the Grady's have four children that meet the qualifications.
- Which one would you omit? Would you eliminate the one that might cause less confusion, such as Brady? Or, Felix, the oldest? There's no set answer.





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Grady Group Challenge

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Interview Reminder

Susan presented child care expenses receipt with all necessary information for Brady and Amy





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Scenario 4

What questions should you ask to determine who is a qualifying child for the **Child and Dependent Care Expenses Credit?**

- A. Did you have any child care expenses?
- B. Were any of the children permanently and totally disabled?
- C. What are the birth dates of the children?
- D. Did your employer pay any part of the child care expense?
- E. All of the above





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Scenario 4

What questions should you ask to determine who is a qualifying child for the **Child and Dependent Care Expenses Credit?**

A. Did you have any child care expenses?

B. Were any of the children permanently and totally disabled?

C. What are the birth dates of the children?

D. Did your employer pay any part of the child care expense?

E. All of the above





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Why not answer E, all of the above?

- Only Amy and Brady had expenses and both are under the age of 13 at the end of the tax year so Question B, were any of the children permanently and totally disabled is not necessary





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You Find Out:

- The child care provider receipt is correct
- The birth dates and confirmed each child's age at end of tax year
- Neither John or Susan's employer paid any of the child care expenses and did not have pretax dollars withheld





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Scenario 4

Based on your client's response who is a qualifying child for the

Child and Dependent Care Expenses Credit?

A. All of the children

B. Amy and Charlie

C. Amy and Brady

D. Brady

E. None





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Scenario 4

Based on your client's response who is a qualifying child for the

Child and Dependent Care Expenses Credit?

A. All of the children

B. Amy and Charlie

C. Amy and Brady

D. Brady

E. None





Scenario 4 - Recap

Which eligibility requirements were satisfied for the Credit for Child and Dependent Care Expenses?

	<i>Felix</i>	<i>Brady</i>	<i>Charlie</i>	<i>Amy</i>
Relationship	Pass	Pass	Pass	Pass
Residency	Pass	Pass	Pass	Pass
Age	Fail	Pass	Fail	Pass
Support	Pass	Pass	Pass	Pass
Joint Return	Pass	Pass	Pass	Pass
Dependency Exemption	Pass	Released	Pass	Pass

Only the custodial parent can claim the credit for Child and Dependent Care Expenses

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Grady Group Challenge

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Scenario 5

What questions should you ask to determine who is an eligible student for the
American Opportunity Tax Credit?

- A. Did you or your children pay any college expenses leading up to an undergraduate degree?
- B. Were any of your children at least a half-time college student anytime last year?
- C. How old are the children you are claiming?
- D. Were any of your children convicted of a felony?
- E. All of the above





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Scenario 5

What questions should you ask to determine who is a qualifying child for the American Opportunity Tax Credit?

A. Did you or your children pay any college expenses leading up to an undergraduate degree?

B. Were any of your children at least a half-time college student anytime last year?

C. How old are the children you are claiming?

D. Were any of your children convicted of a felony?

E. All of the above





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Why is C part of the answer?

- Verifying age is not a requirement for AOTC
- But the student must be enrolled in postsecondary school pursuing a degree or certificate of completion and if the child is obviously under the typical age of a “college” student, they are unlikely a qualifying student
- Claiming a student who is not enrolled in an eligible educational institution or did not pay qualified expenses are common AOTC errors
- So, we want you to ask more questions if the student is over or under the typical age for a “college” student





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Scenario 5

Based on your client's response who is a eligible student for the
American Opportunity Tax Credit?

A. Felix and Charlie

B. Felix and Amy

C. Felix

D. Amy

E. Need more information





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Scenario 5

Based on your client's response who is a qualifying child for the American Opportunity Tax Credit?

A. Felix and Charlie

B. Felix and Amy

C. Felix

D. Amy

E. Need more information





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Scenario 5 - Recap

Which eligibility requirements were satisfied for the American Opportunity Tax Credit?

	<i>Felix</i>	<i>Brady</i>	<i>Charlie</i>	<i>Amy</i>
Dependency Exemption	Pass	Pass	Pass	Pass
Degreed Program or Other Educational Credentials	Pass	Fail	Fail	Fail
Enrollment Status (i.e., At Least Half-Time Student)	Pass	Fail	Fail	Fail
Paid (Out of Pocket) Qualified Expenses	Pass	Fail	Fail	Fail





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Why is the Answer C?

Felix was the only child who:

- Attended an eligible educational institution at least half-time
- Is pursuing a degree
- Has qualifying education expenses paid during the year by his parents and student loans





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Recap & Review

- Child related tax benefits are available to your clients with a qualifying child
- The rules for a qualifying child for each benefit are similar, yet distinct
- Ask appropriate interview questions for each client's child to
 - Maximize the credits your client qualifies for
 - Reduce the likelihood of an audit
 - Avoid penalties that may apply to you and your client if you file inaccurate tax returns
- Request documentation and keep copies of any you use to complete the return if your client claims EITC





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Forms and Schedules Required to Claim a Benefit

- For the Earned Income Tax Credit use:
 - Form 1040/1040A Schedule EIC, Earned Income Credit
 - Form 8867, Paid Preparer's Earned Income Credit Checklist
 - Form 8862, Information To Claim Earned Income Credit After Disallowance if necessary





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Forms and Schedules Required to Claim a Benefit

- For the Child Tax Credit and Additional Child Tax Credit use:
 - Form 1040/1040A Schedule 8812, Child Tax Credit
- For the Child and Dependent Care Expenses Credit use:
 - Form 2441, Child and Dependent Care Expenses
- For the American Opportunity Tax Credit use:
 - Form 8863, Education Credits





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Additional Questions

If you have questions email:

eitc.program@irs.gov

