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Child- and Dependent-care Tax Credit

When filing your federal income-tax return, you may be able to take advantage of a tax credit available for qualifying child- or dependent-care expenses. In addition, certain expenses paid on behalf of a child or dependent may qualify as deductions on your tax return.

A credit is allowed for a portion of qualifying child- or dependent-care expenses, paid for the purpose of allowing the taxpayer to be gainfully employed.

Who Can Claim this Tax Credit?

To be eligible for this credit, the taxpayer must maintain a household for one of the following:

- A person under the age of 13 who can be claimed as a dependent
- Any other person who is physically or mentally incapable of caring for him or herself and, in most cases, who can be claimed as a dependent by the taxpayer
- A taxpayer's spouse who is physically or mentally incapable of self-care
- Certain dependent children of divorced parents
- A disabled spouse or dependent who must regularly spend at least eight hours per day in the taxpayer's home

To claim this credit you must complete Form 2441 and attach it to your federal tax return.

What Types of Expenses Qualify for the Tax Credit?

Qualifying expenses include expenses paid for in-home services related to the care of a qualifying individual, such as nanny services and home-health aid. Services outside the home, such as day care, qualify if they involve the care of a qualified child or a disabled spouse or dependent.

How Much is the Tax Credit?

The maximum amount of expenses that can be applied to the credit is \$3,000 for one qualifying child or dependent or \$6,000 for two or more children or dependents. The credit is equal to 35 percent of related expenses for taxpayers with income of \$15,000 or less. Taxpayers with income over \$43,000 can deduct 20 percent of the expenses.

Dependent-care Deductions

If you can claim a child or family member as a dependent on your tax return, then you can deduct certain expenses that you incur on behalf of that individual during the year. For example, you can include medical expenses as part of your itemized deductions to the extent that they exceed 7.5 percent of your adjusted gross income.

In order to claim someone as a dependent on your tax return, you must furnish more than one-half of the total support provided during the year before claiming an exemption for that dependent. Total support includes, but is not limited to, such things as the rental value of lodging furnished to a dependent; the cost of food, clothing, education, medical and dental care; gifts; transportation; church contributions; and entertainment.

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