

Information Release: Are Your Child Care Expenses Deductible?

Taxpayers with children

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Taxpayers with children may experience additional tax savings on 2020 returns

When trying to cut costs with a child, parents can get creative. One thing they often cannot cut, however, is child care costs. Luckily, there is a tax credit for child and dependent care expenses offered on individual tax returns. The credit can be up to 35 percent of qualifying child care expenses, limited to \$3,000 for one qualifying person or \$6,000 for two or more qualifying persons, depending on adjusted gross income.

To receive the credit for child and dependent care expenses, the person receiving the care must be a qualifying person — either a dependent child under the age of 13 or individuals who are physically or mentally incapable of caring for themselves. The taxpayer must also be the custodial guardian for the qualifying person, and they must live with them more than half the year, even if they do not claim them as a dependent.

Only care provided while the taxpayer (and their spouse) are either working or looking for work qualifies. If they are married, the taxpayers must file a joint return to claim the credit. Furthermore, they (and their spouse) must have earned income from wages, salaries, tips, or net earnings from self-employment. However, one spouse can be exempt from having earned income if they were a full-time student or were physically or mentally unable to care for themselves.

Another requirement to claim the credit is a qualified caregiver must provide the dependent care. Spouses, dependents, and children under age 19 are not qualified, caregivers. At the end of the year, most caregivers will provide a statement with their federal employer ID number (EIN) or Social Security number (SSN), full name, address, and amount paid. All of this information is necessary for the tax return. If the taxpayer does not receive a statement at the end of the year with this information, they should request this information prior to bringing their information to their tax preparer.

If the taxpayer's employer provides a dependent care benefit, the benefit amount reduces the amount of credit available on the tax return. If they pay someone to come to their home and provide care, they may be considered a household employer, in which case additional forms need to be included with the tax return.

This article contains general tax information for taxpayers. Each tax situation may be different, so do not rely upon this information as your sole source of authority. Contact Stephanie Ferdinand with [business name], located at Stephanie Ferdinand EA, for professional advice about your specific tax situation. Ferdinand is an expert who keeps current on tax law changes, and is also a member of the National Association of Tax Professionals (NATP). She can save you time and offer insight on how to use the tax breaks available to you.

Visit StephanieFerdinandEA.com for more information.