

ANSWERS

SESSION 6 – NONREFUNDABLE CREDITS

Problem 1 –

1. The correct answer is “a”. This answer is different from last year when this question was on the test because the increase in the age for CTC purposes to under age 18 was a one-time provision and the law has reverted to under age 17 for 2022. Timothy turned 17 in 2022 and thus cannot qualify for the CTC. Laura satisfies all the requirements to be a QC.
2. The answer is “b”. Timothy does not qualify for the CTC due to his age. However, he still satisfies all the tests to be a QC of the Reynolds, which makes him a qualifying person for purposes of the ODC.
3. The answer is No. For purposes of the CDCC, payments to a Dependent and payments to a child of the taxpayers who is under the age of 19 do not qualify for the CDCC. Thus, the Reynolds have no qualifying childcare expenses for Laura and cannot claim the credit.

Problem 2 –

1. Bill cannot file as Single because he is still married and has not yet gone to court to get a divorce or separation decree. The voluntary separation does not end the marriage for tax purposes. Thus, his only choice, since they refuse to file a joint return, is to file as Head of Household (HoH) if he qualifies and MFS if he does not. Bill cannot file as HoH because he did not pay more than half the costs of the home where he lived with his daughter for more than half the year. Thus, he must file as MFS, answer ‘b’.
2. This is a Divorce/Separated Parents question and a Tiebreaker Rules question. Under the Divorce and Separated Parents rules, we have to first determine who is a custodial parent. Bill is the custodial parent since Veronica lived with him for more than half the year and only lived with Tammy on weekends once a month, which is less than half the year. As the only custodial parent, he is the only parent entitled to claim the child unless he signs Form 8332, which he refuses to do. Thus, Tammy cannot claim Veronica and cannot take the CTC. When we turn to Bill’s parents, Veronica is a QC of them in addition to being a QC of Bill. The Tiebreaker Rules apply when a child is a QC of more than one taxpayer. Under these rules, Bill is the only parent who can claim Veronica and thus is the winner under the Tiebreaker Rules unless his AGI is less than his parents and he chooses not to claim Veronica. Here, the facts state that Bill has a higher AGI than his parents, and thus they are not able to claim Veronica. Thus, the correct answer is “b”, as Bill is the only person who can claim Veronica for CTC purposes.

Problem 3 –

1. Various limits apply to the energy credit. First, there is a limit on the credit based on the equipment purchased. Here, it was a heat pump that the question assumes qualifies for the credit and constitutes energy-efficient building property, which has a credit limit of \$300. Second, there is an overall credit limit of \$500 for all years after 2005. The Freemans previously claimed \$300 in energy credits, so the maximum credit they can claim for 2022 is \$200. Thus, the answer is “b”, \$200.
2. The heat pump does not qualify for the energy credit as a 14-SEER heat pump is below the threshold requirements to qualify for the credit. The correct answer is “b.”