2022 TAX TRAINING
NONREFUNDABLE CREDITS

REFUNDABLE VS. NONREFUNDABLE CREDITS

There are two types of credits – refundable and nonrefundable.
Refundable Credits are credits that will be refunded to the taxpayer even if the taxpayer owes no Federal tax. For example, with the Earned Income Credit, if the taxpayer has income less than the Standard Deduction, the taxpayer will owe no Federal income tax but will receive the amount of the Earned Income Credit as a refund in the same manner as a refund of withheld taxes.
A nonrefundable credit can only reduce Federal income tax owed and cannot generate a refund. For example, if the taxpayer owes $100 in income tax before credits and receives a $500 nonrefundable credit, the nonrefundable credit will reduce the taxpayer's Federal income tax liability to $0 but will not generate a refund. No benefit will be received for the remaining $400 of credit.

NONREFUNDABLE CREDITS

The following are the credits that are not fully refundable that we typically see at VITA sites:

- Foreign Tax Credit
- Child Tax Credit
- Other Dependent Credit
- Child and Dependent Care Credit
- Education Credits (these will be discussed in a separate session)
- Retirement Savings Credit
- Residential Energy Credit
- Credit for Elderly and Disabled

FOREIGN TAX CREDIT

The Foreign Tax Credit (FTC) is a credit for foreign taxes paid with respect to foreign income that is also subject to taxation in the U.S. For VITA sites, the FTC is in scope without International certification if the following conditions are satisfied (there are additional conditions, but these are seldom if ever relevant):

- The total foreign taxes paid are equal to or less than $300.
- The foreign taxes are reported on Form 1099-INT, Form 1099-DIV, or Schedule K-1.
- All of the taxpayer's foreign income is passive (investment income such as interest and dividends).

Foreign taxes reported on Form 1099-INT, Form 1099-DIV, or Schedule K-1 are entered from the form into TaxSlayer on the appropriate input page and then TaxSlayer handles the foreign tax credit for you. However, if the total of these foreign taxes exceeds $300 and you do not have an International certification, the return is out of scope.

CHILD TAX CREDIT

The Child Tax Credit (CTC) is a credit of up to $2,000 per Qualifying Child under the age of 17. There are a number of other qualification requirements (see p. G-2 through 4 of Pub. 4012), but there are two important ones to remember: the child must be a US citizen, national or resident alien; and the child must have an SSN that allows the child to work in the US. TaxSlayer calculates the CTC automatically based on the Dependent page inputs.

While the $2,000 credit is a nonrefundable credit, there is an "Additional Child Tax Credit" that makes up to $1,500 of the CTC refundable if either: (1) the taxpayer has more than $2,500 of taxable earned income and either one or two qualifying children; or (2) the taxpayer has 3 or more qualifying children without regard to earned income. Earned income is generally wages plus self-employment income and nontaxable combat pay.

TaxSlayer also does this automatically, so for the CTC and Additional CTC no inputs are required other than the completion of the Dependents page.

OTHER DEPENDENT CREDIT
The Other Dependent Credit is a $500 nonrefundable credit for Dependents who do not qualify for the CTC. Thus, this would include dependents who are over age 16 or who do not have an SSN that allows them to work in the U.S. The Dependent must still be a US citizen, national, or resident alien and must have a taxpayer identification number (including an ITIN) by the due date of the return (including if the ITIN has been applied for by the due date).

CHILD AND DEPENDENT CARE CREDIT
The Child and Dependent Care Credit (CDCC) is a credit provided for expenses incurred for the care of children under the age of 13 or a disabled Dependent or spouse. There are limitations on to whom the payments can be made (for example, can't be made to a Dependent). The maximum amount of the credit is $1,050 for one person and $2,100 for 2 or more. The credit is based on a percentage of the qualifying costs incurred for providing the care which reduces as income increases (35% to 20%). The maximum amount of expenses that can be included is $3,000 for one person or $6,000 for two or more. The qualifying person must live with the taxpayer for more than half the year.

A basic premise of the credit is that it is provided to allow the taxpayer (and spouse on a joint return) to work or look for work. Thus, the taxpayer (and spouse on a joint return) must have earned income to claim the credit. There are special rules that create "deemed" income for a spouse who is either a full-time student or disabled to allow the credit to be claimed.

The taxpayer must have an SSN or Employer Identification Number for the care provider to e-file the return.

A taxpayer filing MFS is allowed to claim the credit only if they are considered unmarried (TaxSlayer provides the 3 requirements for this to be met).
See Pub. 4012, pp. G-9 through 13 for further details.

RETIREMENT SAVINGS CREDIT
The credit is for voluntary contributions or deferrals to an IRA or other qualified plan. The credit is a percentage of the contribution made based on the taxpayer's income. The credit is focused on lower-income taxpayers as it phases out at $34,000 for Single taxpayers, $51,000 for Head of Household taxpayers, and $68,000 for MFJ taxpayers. It can also be impacted by certain qualified plan distributions in the same or two previous years. See Pub. 4012, pp. G-14 through 16.

TaxSlayer calculates this credit for you based either on contributions through an employer shown in Box 12 of Form W-2 or IRA contributions you enter.

RESIDENTIAL ENERGY CREDITS
For VITA, the energy credits that are in scope are focused on tax credits for purchasing certain energy-efficient improvements to the taxpayer's personal residence. See Pub. 4012, p. EXT-6.
The types of improvements that can qualify include heat pumps, whole house air conditioning units, water heaters, exterior windows and doors, and insulation. The credits are very limited, generally with a lifetime limit of $500 ($200 for windows). Not all energy-efficient improvements qualify. The

best source for determining whether a particular item qualifies can be found on the EnergyStar website. For example, heat pumps must be a minimum SEER of 15 and even then may not qualify.

RESIDENTIAL ENERGY CREDITS - TAXSLAYER

The energy credits for home improvements are found in TaxSlayer under Federal/Deductions/Credits/Residential Energy Credit.

- TaxSlayer first asks whether the improvements were made to your main home in the US (which they must be to qualify) and then whether the improvements related to the original construction of the home (which do not qualify).
- You will then choose “Nonbusiness Energy Property” as the other choice is out of scope.
- The category “Energy Efficient Building Property” is where you would enter heat pumps, central air conditioning units, and water heaters.
- You will also need to enter prior year information if the taxpayer has claimed the credit anytime since 2006.

CREDIT FOR ELDERLY OR DISABLED

This credit is for lower-income taxpayers 65 years of age or older or who are disabled. This credit has very low-income thresholds so seldom applies (see Pub. 4012, pp. G-17 through 19). The only time you need to enter anything for this credit is if the taxpayer is under 65 and disabled. In that case, the taxpayer must answer certain questions and either provide a physician’s statement about the disability or state that one was previously provided. In addition, you must enter the taxpayer’s taxable disability income and nontaxable income from pensions, annuities, or disability income (other than nontaxable SS which TaxSlayer automatically computes).