11 Tax Credits

Tab 11 Contents

Child and Dependent Care Credit Percentages (page 11-4)

If AGI is: over	but not over	Percentage is:	If AGI is: over	but not over	Percentage is:
$ 0	– 15,000	.35	$29,000	– 31,000	.27
15,000	– 17,000	.34	31,000	– 33,000	.26
17,000	– 19,000	.33	33,000	– 35,000	.25
19,000	– 21,000	.32	35,000	– 37,000	.24
21,000	– 23,000	.31	37,000	– 39,000	.23
23,000	– 25,000	.30	39,000	– 41,000	.22
25,000	– 27,000	.29	41,000	– 43,000	.21
27,000	– 29,000	.28	43,000	– No limit	.20

Dollar limit is $3,000 ($6,000 if two or more qualifying persons).

New for 2024

- **Home energy audits.** Home energy audits must be performed by a qualified home energy auditor. See *Qualified home energy auditor,* page 11-16.
- **Electric vehicle final regulations.** The final regulations for electric vehicle tax credits have been issued. See *Electric vehicle final regulations,* page 11-17.
- **Transfer of electric vehicle credits.** A taxpayer may be eligible to transfer electric vehicle credits to the dealer for an immediate financial benefit. See *Transfer of electric vehicle credits,* page 11-18.
- **Electric vehicle credit approval.** Electric vehicle credits must be initiated and approved at the time of sale. See *Approval of electric vehicle credits,* page 11-18.

Common Elections

- Election to include nontaxable combat pay in earned income for the Child and Dependent Care Credit, page 11-6.
- Election to include nontaxable combat pay in earned income for the Earned Income Credit, page 11-10.
- Election to claim the Foreign Tax Credit without filing Form 1116, page 11-12.
- Election to deduct foreign taxes, page 11-13.

Dependent Credits—Schedule 8812 (page 11-7)

Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC)	*Credit for Other Dependents*
CTC ...... $2,000 per child (nonrefundable) ACTC .... Up to $1,700 (refundable)	$500 per qualifying dependent (nonrefundable)

Earned Income Credit (page 11-8)

	Income Range	*Income Range for Maximum Credit*	*Maximum Credit*
Married Filing Jointly			
No children	$0 – $25,511	$8,260 – $17,250	$632
One child	$0 – $56,004	$12,390 – $29,640	$4,213
Two children	$0 – $62,688	$17,400 – $29,640	$6,690
Three children	$0 – $66,819	$17,400 – $29,640	$7,830
Single, Head of Household, Qualifying Surviving Spouse			
No children	$0 – $18,591	$8,260 – $10,330	$632
One child	$0 – $49,084	$12,390 – $22,720	$4,213
Two children	$0 – $55,768	$17,400 – $22,720	$6,690
Three children	$0 – $59,899	$17,400 – $22,720	$7,830

Taxpayers with more than $11,600 of investment income are ineligible for the Earned Income Credit.

Retirement Savings Contributions Credit Chart (page 11-16)

Rate	*MFJ*	*HOH*	*Single, QSS, MFS*
50%	$0 – $46,000	$0 – $34,500	$0 – $23,000
20%	$46,001 – $50,000	$34,501 – $37,500	$23,001 – $25,000
10%	$50,001 – $76,500	$37,501 – $57,375	$25,001 – $38,250
0%	Over $76,500	over $57,375	over $38,250

Tax Credits Chart

Credit	Form/Sch.	IRC §	Summary	Effective	Page
Nonrefundable Individual Credits					
Adoption Expenses Credit	8839	23	Adoption of child, including a child with special needs.	No expiration date	11-3
Alternative Fuel Vehicle Refueling Property Credit	8911	30C	Property other than buildings used to dispense clean-burning fuel including electricity into vehicles.	Expires 12/31/32	11-17
American Opportunity Credit	8863	25A(b)	Tuition and related expenses.	No expiration date	12-3
Child and Dependent Care Expenses Credit	2441	21	Daycare so taxpayer can work/attend school	No expiration date	11-4
Child Tax Credit	Sch. 8812	24	Qualifying dependents under age 17.	No expiration date	11-7
Clean Vehicle Credit	8936	30D	Purchase of plug-in electric drive vehicle.	Expires 12/31/32	11-18
Credit for Other Dependents	Sch. 8812	24(h)(4)	Qualifying dependents.	Expires 12/31/25	11-8
Credit for Prior Year Minimum Tax	8801	53	Minimum tax credit.	No expiration date	14-4
Credit for the Elderly or the Disabled	Sch. R	22	Low income with low pension.	No expiration date	11-8
Energy Efficient Home Improvement Credit	5695	25C	Energy-efficient improvements.	Expires 12/31/32	11-15
Foreign Tax Credit	1116	27	Tax imposed by foreign countries and U.S. possessions.	No expiration date	11-11
Lifetime Learning Credit	8863	25A(c)	Tuition and related expenses.	No expiration date	12-4
Mortgage Interest Credit	8396	25	Certificate for low-income first-time homebuyers.	No expiration date	11-13
Previously-Owned Clean Vehicle Credit	8936	25E	Purchase of used plug-in electric drive vehicle.	Expires 12/31/32	11-18
Residential Clean Energy Credit	5695	25D	Solar, wind, geothermal, or fuel cell property installed at a residence.	Expires 12/31/34	11-16
Retirement Savings Contributions Credit (Saver's Credit)	8880	25B	Low and middle income taxpayers who contribute to retirement plan.	No expiration date	11-16
Refundable Individual Credits					
Additional Child Tax Credit	Sch. 8812	24	Disallowed portion of Child Tax Credit.	No expiration date	11-7
American Opportunity Credit	8863	25A(i)	Refundable portion of credit.	No expiration date	12-3
Credit for Federal Tax Paid on Fuels	4136	34	Off-highway fuel use.	No expiration date	11-8
Earned Income Credit	Sch. EIC	32	For low and middle income earners.	No expiration date	11-8
Excess Social Security and RRTA tax withheld	Sch. 3	31	Social Security tax withholding.	No expiration date	Tab 3
First-Time Homebuyer Credit	5405	36	Certain taxpayers may be subject to repayment rules through 2024.	Expired—repayment may be required	11-10
Premium Tax Credit	8962	36B	Financial assistance to pay premiums of qualified health plans purchased through Marketplace.	No expiration date	11-13
General Business Credits are covered in ***Business Credits***, Tab 31.					

Due Diligence Requirements

Cross References

- Form 8862, *Information to Claim Certain Credits After Disallowance*
- Form 8867, *Paid Preparer's Due Diligence Checklist*
- IRS Pub. 4687, *Paid Preparer Due Diligence*
- IRC §6695(g), *Failure to be diligent in determining eligibility for certain tax benefits*
- Reg. §1.6695-2

Related Topics

- Head of Household, Tab 3
- American Opportunity Credit, page 12-3
- Return Preparer Penalties, page 15-2

Due Diligence Requirements

Paid preparers must meet due diligence requirements on returns claiming any the following tax benefits:

- American Opportunity Credit.
- Child Tax Credit and/or Additional Child Tax Credit.
- Credit for Other Dependents.
- Earned Income Credit.
- Head of Household filing status.

Form 8867, *Paid Preparer's Due Diligence Checklist.* Form 8867 must be completed and attached to the tax return when a taxpayer is claiming the Earned Income Credit, Child Tax Credit, Additional Child Tax Credit, Credit for Other Dependents, American Opportunity Credit, or Head of Household filing status.

Return preparers are required to maintain copies of documents that were relied upon to determine eligibility for the qualifying taxpayer. In the case of a self-employed taxpayer filing for a credit, a tax preparer may be required to verify the existence of the business and to determine whether the Schedule C is correct and complete.

Regulations. Treasury Regulations clarify certain items within the due diligence requirements. (Reg. §1.6695-2)

- Tax preparers cannot rely on pre-existing knowledge obtained outside of the preparer's tax return preparation practice to meet the knowledge requirement. The tax preparer must make reasonable inquiries and contemporaneously document the responses in his or her files.
- Tax preparers who complete Form 8867 but fail to comply with one or more additional requirements such as meeting the knowledge requirement and contemporaneously documenting the inquiries and responses have not satisfied the due diligence requirements.

Due Diligence Requirements Chart

Requirement	*Description*
Complete eligibility checklist	• Complete Form 8867, *Paid Preparer's Due Diligence Checklist*, or an equivalent checklist based on information provided to the preparer by the taxpayer. • For tax returns completed by a paid preparer, Form 8867 must be attached to the taxpayer's tax return for any taxpayer claiming the Earned Income Credit, Child Tax Credit, Credit for Other Dependents, American Opportunity Credit, or Head of Household filing status.

continued on next page

Due Diligence Requirements Chart continued

Requirement	Description
Compute credit	• Complete the applicable tax credit worksheet as well as required forms and schedules for each credit claimed.
Knowledge	The preparer must: • Not know or have reason to know that any information used is incorrect, incomplete, or inconsistent. • Not ignore the implications of information furnished or known. • Make reasonable inquiries if the information appears to be incorrect, inconsistent, or incomplete. • Contemporaneously document additional inquiries made and the taxpayer's responses.
Record retention (paper or electronic)	• Retain Form 8867 and tax credit worksheets or equivalent. • Keep copies of any taxpayer-provided documents relied on to determine eligibility for credit and/or HOH filing status. • Maintain a record of how, when, and from whom the information was obtained. • Maintain a record of any additional information relied upon, including questions asked and the taxpayer's responses. • Retain the records for three years from the latest of: – Original due date of the return, not including extensions, – For an e-filed return, the date the return is filed, – For a paper-filed return, the date the return is presented to the taxpayer for signature, or – The date submitted to the signing tax return preparer for the part of the return for which the nonsigning preparer was responsible.
Earned Income Credit	• Determine whether the taxpayer is eligible to claim the EIC and explain the tiebreaker rules to the taxpayer. See *Tiebreaker rules,* Tab 3. • Ask the taxpayer if the qualifying child lived with the taxpayer more than half the year.
Child Tax Credit, Additional Child Tax Credit and Credit for Other Dependents	• Determine that the qualifying person is the taxpayer's dependent who is a citizen, national, or resident of the United States. • For the CTC and ACTC, determine that the qualifying child lived with the taxpayer for over half the year, unless the noncustodial parent released the dependency claim for the child. • For divorced or separated parents determine which parent qualifies for the credit.
American Opportunity Credit	• The taxpayer provided substantiation of qualified expenses, such as Form 1098-T, *Tuition Statement,* and/or receipts for qualified tuition and related expenses.
Head of Household filing status	• Determine that the taxpayer is unmarried or considered unmarried and provided more than half the cost of keeping up a home for a qualifying person.

Delayed Refunds for Refundable Credits

The IRS cannot issue refunds before February 15 for returns that claim the Earned Income Credit or Additional Child Tax Credit. This applies to the entire refund, not just the portion associated with these credits.

Enforcement

Taxpayer penalties. If the IRS denies all or part of a refundable credit , the taxpayer:

- Must pay back the amount received in error, with interest,
- May need to file Form 8862, *Information to Claim Certain Refundable Credits After Disallowance,*
- May be banned from claiming the EIC for two years if the error is due to reckless or intentional disregard for the rules, or
- May be banned from claiming EIC for ten years if the error is due to fraud.

Form 8862, Information to Claim Certain Credits After Disallowance. If a taxpayer's Earned Income Credit, Child Tax Credit, Refundable Child Tax Credit, Additional Child Tax Credit, Credit for Other Dependents, or American Opportunity Credit was reduced or disallowed for any reason other than a math or clerical error, Form 8862 must be filed to claim any of the credits after the two- or ten-year prohibition period has elapsed.

Preparer penalties. If the IRS finds that a preparer did not meet all due diligence requirements, he or she can be fined:

- A $635 penalty for each failure to comply with the requirements.
- A minimum $1,000 penalty for preparing a client return on which the IRS finds any part of the taxes owed is due to an unreasonable position.
- A minimum $5,000 penalty for preparing a client return on which the IRS finds any part of the taxes owed is due to the preparer's reckless or intentional disregard of the rules or regulations.

A tax preparer's employer or employing firm can also be penalized if an employee fails to comply with the due diligence requirements.

A tax preparer who receives a return-related penalty can also face:

- Suspension or expulsion from e-filing.
- Other disciplinary action by the IRS Office of Professional Responsibility.
- Injunctions barring the preparer from preparing tax returns or imposing conditions on the tax returns he or she may prepare.

Adoption Expenses

Cross References

- Form 8839, *Qualified Adoption Expenses*
- IRC §23, *Adoption expenses*
- IRC §137, *Adoption assistance programs*

Related Topics

- Name, Address, Social Security Number, Tab 3
- Credits and AMT, page 14-3

Did You Know? Taxpayers who adopt children with special needs can qualify for the maximum credit with no expenses. See *Children With Special Needs,* page 11-4.

Adoption Credit and Exclusion

Form 8839, *Qualified Adoption Expenses,* is required to:

- Claim a credit for qualified adoption expenses or for the adoption of a child with special needs.
- Exclude employer-provided adoption benefits from income, box 12 (Code T), Form W-2.
- Claim a carryforward of an adoption credit from a prior year.

2024 maximum credit per child	$16,810
2024 maximum exclusion per child	$16,810
MAGI phaseout	$252,150 – $292,150
Unused credit carryforward	5 years

Credit and exclusion amount. A taxpayer can claim a credit of up to $16,810 and also exclude up to $16,810 of employer-provided benefits from income for expenses of adopting an eligible child. However, the same qualifying expenses cannot be used for both. Limits apply to the total spent over all years for each effort to adopt an eligible child. An attempt that leads to adoption and any unsuccessful attempt to adopt a different child is treated as one effort. Unmarried persons who adopt a child can divide each limit in any way they agree.

Unsuccessful adoption. Taxpayers, who paid qualified adoption expenses in an unsuccessful attempt to adopt a U.S. child, treat those expenses in the same manner as expenses paid for adoptions not final by the end of the year.

Foreign child. The adoption credit or exclusion may not be taken for a foreign child unless the adoption becomes final.

Married Filing Separately (MFS). Taxpayers who are married, but qualify to be considered unmarried and file as Head of Household, may be able to take the credit or exclusion if all of the following apply.

- The taxpayer lived apart from his or her spouse during the last six months of the year,
- The eligible child lived in the taxpayer's home more than half of the year, and
- The taxpayer provided over half the cost of keeping up the home.

Carryforward. A taxpayer filing as MFS may claim an adoption credit carryforward from a prior year, provided that, if the taxpayer was married in the year in which the qualified adoption expenses first became allowable for the credit, the taxpayer filed a joint return for that year.

Qualified expenses. Qualified adoption expenses are reasonable and necessary expenses directly related to, and for the principal purpose of, the legal adoption of an eligible child.

Qualified expenses include:	*Nonqualified expenses include expenses:*
• Adoption fees. • Attorney fees. • Court costs. • Travel expenses, meals and lodging, while away from home. • Re-adoption in state court.	• To adopt a spouse's child. • For surrogate parenting. • Paid or reimbursed by employer, governmental agency, or other. • Allowed as a credit or deduction under another tax provision. • That violate state or federal law.

Eligible child. An eligible child is an individual who is under age 18, or who is physically or mentally incapable of self-care.

U.S. child. A child who is a U.S. citizen or resident is a U.S. child.

Credit carryforward. Any unused credit is carried forward to the next five years or until used, whichever comes first.

When to Claim Adoption Credit and Exclusion

Domestic Adoption

Expenses paid by taxpayer in…	*Then take the credit in…*
Any year before the year the adoption becomes final.	The year after the year of the payment.
The year the adoption becomes final.	The year the adoption becomes final.
Any year after the year the adoption becomes final.	The year of the payment.
Employer-provided benefits under an adoption assistance program in…	***Then take the exclusion in…***
Any year.	The year of the payment.

2024 Qualified Expenses—Domestic Adoption

For an Adoption:	*Credit Can Be Taken for:*
Finalized in 2023	Expenses paid in 2024
Finalized in 2024	Expenses paid in 2023 and 2024
Unsuccessful in 2024	Expenses paid in 2023

Foreign adoptions. The credit or exclusion is taken in the later of the year the adoption was finalized or the year of payment of qualified expenses.

Children With Special Needs

A taxpayer adopting a U.S. child with special needs may exclude up to $16,810 from income under an employer's qualified adoption assistance program and claim a credit based on expenses up to $16,810 even if the taxpayer or employer did not pay any qualified adoption expenses. These dollar limits are reduced by any expenses claimed for the same child in a prior year.

Child with special needs defined. A child with special needs is a U.S. citizen or U.S. resident (or its possessions) determined by a state to be unlikely to be adopted unless adoption assistance is provided due to the child's age, ethnic background, membership in a minority or sibling group, medical condition, or a physical, mental, or emotional handicap.

Adoption credit for child with special needs. On line 5, Form 8839, $16,810 is entered as qualified adoption expenses (less amounts claimed in prior years) regardless of the actual amount the taxpayer paid.

Exclusion from income for adoption of child with special needs. If the taxpayer's employer has a written qualified adoption assistance program in place, the taxpayer may be eligible for an exclusion of up to $16,810 (less amounts excluded in prior years and amounts actually paid by the employer). Any excess exclusion computed according to this rule reduces wages. Enter as a negative number on line 1f, Form 1040. The exclusion is computed on Form 8839.

Example: Randy and Meredith are married with combined Form W-2 income of $100,000. They adopted a child with special needs, which was finalized during 2024. Randy's employer paid adoption assistance benefits in the amount of $5,000. The actual adoption expenses were less than the $16,810 maximum exclusion. The following amounts are reported on Form 8839.

Maximum exclusion	$16,810
Subtract employer-provided benefits	5,000
Excess exclusion (to line 1f, Form 1040)	($11,810)

Line 1a, Form 1040, reports taxable wages of $100,000.
Line 1f, Form 1040, reports a negative amount of ($11,810).

Randy and Meredith may also use $16,810 to compute the Adoption Credit regardless of how much the actual expenses were.

Child and Dependent Care Expenses

Cross References

- Form 2441, *Child and Dependent Care Expenses*
- IRS Pub. 503, *Child and Dependent Care Expenses*
- IRC §21, *Expenses for household and dependent care services necessary for gainful employment*
- IRC §129, *Dependent care assistance programs*

Related Topics

- Household Employees, page 14-2

Exclusion or Credit

Form 2441, *Child and Dependent Care Expenses* is required to:

- Exclude dependent care benefits received under an employer plan from income.
- Claim a credit for child and dependent care expenses.

The following chart shows the applicable percentages for 2024.

Child and Dependent Care Credit Percentages

If AGI is: over	*but not over*	*Percentage is:*	*If AGI is: over*	*but not over*	*Percentage is:*
$ 0	15,000	.35	$29,000	31,000	.27
15,000	17,000	.34	31,000	33,000	.26
17,000	19,000	.33	33,000	35,000	.25
19,000	21,000	.32	35,000	37,000	.24
21,000	23,000	.31	37,000	39,000	.23
23,000	25,000	.30	39,000	41,000	.22
25,000	27,000	.29	41,000	43,000	.21
27,000	29,000	.28	43,000	No limit	.20

Dollar limit is $3,000 ($6,000 if two or more qualifying persons).

Exclusion. Dependent care benefits are reported in box 10, Form W-2. The amount of benefits that can be excluded from income is the smallest of:

- $5,000 ($2,500 if MFS and not considered unmarried). See *Exclusion on Separate Returns,* next column.
- Qualified expenses incurred in 2024. It does not matter when the expenses were paid.
- Taxpayer's earned income (defined on page 11-6).
- Spouse's earned income (defined on page 11-6).

Excess benefits. If benefits received are more than the amount that can be excluded, the excess is included in taxable income on line 1e, Form 1040. Forfeited benefits and benefits an employer allows to be used during a grace period in 2025 are not taxable; subtract them on line 14, Form 2441. Dependent care benefits are not subject to FICA and Medicare tax even if excess benefits are included in taxable income.

Credit. The nonrefundable credit is 20–35% of the smallest of:
- $3,000 ($6,000 for two or more qualifying persons).
- Qualified expenses incurred and paid in 2024. Reduce expenses by dependent care benefits excluded from income.
- Taxpayer's earned income (defined on page 11-6).
- Spouse's earned income (defined on page 11-6).

See *Timing of payments,* page 11-6, for treatment of 2024 payments for care in 2023 or 2025.

Note: The $6,000 limit does not need to be divided equally among persons receiving care. For example, even if expenses are $6,000 for one child and $0 for a second child, the taxpayer can use $6,000 to calculate the credit as long as both are qualifying persons.

Reduced credit. Any dependent care benefits excluded from income reduce the maximum credit available.

Joint return test. Generally, a married couple must file a joint return in order to take the Credit for Child and Dependent Care Expenses.

An exception to the joint return test exists for married individuals who have lived apart the last six months of the year and are filing separate returns, if the taxpayer's home is the home of a qualifying person for more than half the year and the taxpayer pays more than half the cost of keeping up the home for the year. Taxpayers meeting this criteria are considered unmarried. Also see *Exclusion on Separate Returns,* next column.

Qualifying Person

Expenses must be paid for the care of a qualifying person.
- **Qualifying child.** The taxpayer's qualifying child is the taxpayer's son, daughter, stepchild, foster child, sibling, stepsibling, or a descendant of any of them, who is under age 13 and can be claimed as a dependent by the taxpayer.

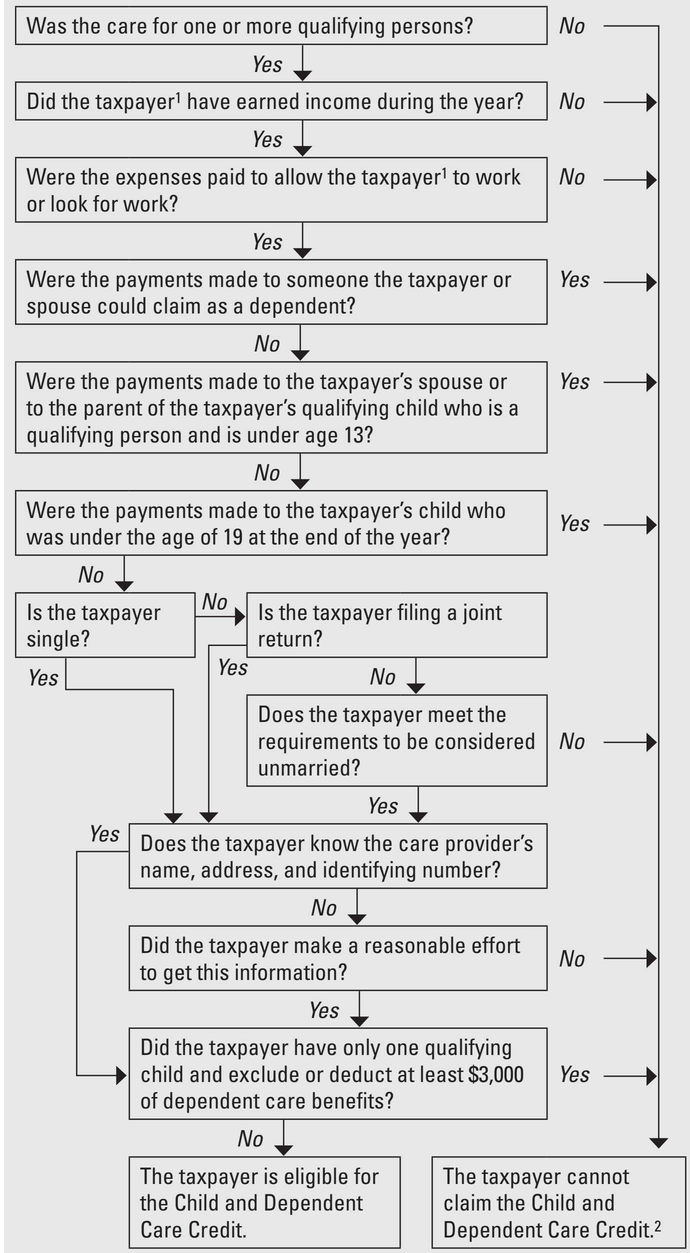
  Divorced or separated parents. Even if the taxpayer cannot claim a child as a dependent, the child is treated as the taxpayer's qualifying person if:
  - The child was under age 13 or was not physically or mentally able to care for himself or herself, and
  - The taxpayer was the child's custodial parent.

  Abode. The qualifying child must have lived with the taxpayer for more than half the year.

  Support. The qualifying child cannot have provided over half of his or her support during the year,

  Age. The qualifying child must be younger than the taxpayer claiming the qualifying child.
- **Disabled spouse.** A taxpayer's spouse who is disabled and could not care for himself or herself is a qualifying person.
- **Other qualifying person.** A qualifying person is any person who is disabled and not able to care for himself or herself that the taxpayer claimed as a dependent or could have claimed as a dependent except:
  - The person received $5,050 or more of gross income,
  - The person filed a joint return, or
  - The taxpayer (or spouse) could be claimed as a dependent.

Child and Dependent Care Credit Eligibility Chart



[1] This also applies to the taxpayer's spouse, unless the spouse was disabled or a full-time student.

[2] If the taxpayer had expenses that met the requirements for 2023, except that they were not paid until 2024, the taxpayer may be able to claim those expenses in 2024. See *Timing of payments,* page 11-6.

Persons qualifying for part of the year. A person's qualifying status is determined each day. For example, if a child reaches age 13 during the year, expenses for care provided up until that time can be counted.

Birth or death of qualifying person. A qualifying person who was born or died during the year is treated as having lived with the taxpayer for the entire year if the taxpayer's home was the qualifying person's home more than half the time he or she was alive during the year.

Exclusion on Separate Returns

Married taxpayers filing separately can exclude an employer's dependent care benefits from income. Unless the taxpayer qualifies to be considered unmarried, the exclusion is the smallest of:

continued on next page

• $2,500,
• Qualified expenses,
• The taxpayer's earned income, or
• The spouse's earned income.

Exclusion if considered unmarried. If a taxpayer meets the tests to be considered unmarried, the exclusion is the smallest of:
• $5,000,
• Qualified expenses, or
• The taxpayer's earned income. Enter the taxpayer's earned income rather than the spouse's on line 19, Form 2441.

See *Joint return test,* page 11-5.

Work-Related Expenses

Expenses must be for care provided so the taxpayer (and spouse if filing jointly) can work or actively look for work. No credit is allowed if a taxpayer (or spouse) is actively looking for work, does not find a job, and has no earned income for the year.

Work for part of a year. If the taxpayer (or spouse) meets the criteria for only part of the period covered by qualifying expenses, expenses are calculated for each day. If the taxpayer is employed or actively seeking employment, an absence of two weeks or less is considered a temporary absence, and the costs of care do not need to be allocated on a per-day basis.

Spouse who is a student. A taxpayer's spouse is deemed to be gainfully employed during each month that he or she is a full-time student at an educational institution. See *Spouse who was a student or disabled,* next column.

Payments to relatives. Qualifying expenses cannot be paid to the taxpayer's spouse, to the parent of the taxpayer's qualifying child under age 13, to the taxpayer's dependent, or to the taxpayer's child who is under age 19 at the end of the year (whether or not a dependent). Payments to other relatives, even if living with the taxpayer, qualify.

Medical expenses. Expenses that qualify as both medical deductions and dependent care can be deducted on Schedule A (Form 1040), *Itemized Deductions,* or used to claim a Child and Dependent Care Credit, but not both. Amounts excluded from income under employer plans cannot be claimed as medical itemized deductions.

Timing of payments. Expenses qualify for the credit in the year incurred or the year paid, whichever is later.

Prepaid expenses. Expenses cannot be claimed until the year care is provided. Include 2023 payments for care provided in 2024 as qualified expenses in 2024. Do not include 2024 payment of 2025 expenses until 2025.

Credit for prior year's expenses—2023 expenses paid in 2024. Calculate the 2024 credit without including these expenses. The taxpayer may increase the 2024 credit for expenses paid for 2023, but the calculation is based on gross income and dollar limits in 2023.

Example: In 2023, Doug's day care expenses for his son were $3,200. He paid $800 of the expenses in 2024. Doug's 2023 credit was based on expenses of $2,400. Since he used only $2,400 of his $3,000 limit, Doug can claim a credit for 2023 expenses paid in 2024 up to $600. Doug's AGI in 2023 was $50,000. The credit is $300 (50% of $600). Doug increases his 2024 credit on line 9, Form 2441, by $300 and enters "CPYE."

2024 expenses paid in 2025. These expenses cannot be used to calculate the 2024 credit. The taxpayer may be able to claim a credit for prior year's expenses in 2025.

Provider Identification

The provider's name, address, and taxpayer identification number must be reported on Form 2441.

Taxpayer identification number. Individual care providers must provide the taxpayer with his or her SSN or ITIN. If the care provider is an organization, then it must provide its EIN. If the care provider is a tax-exempt organization (such as a church or school), "tax-exempt" may be entered. If the taxpayer is living abroad, LAFCP (Living Abroad Foreign Care Provider) may be entered.

Due diligence. If the care provider information is incorrect or incomplete, the credit may not be allowed. However, if the taxpayer can show that he or she used due diligence in trying to supply the information, the credit can still be claimed. Due diligence is shown by getting and keeping the care provider's completed Form W-10, *Dependent Care Provider's Identification and Certification,* or any other source showing the SSN or EIN of the care provider. Care providers can be penalized for refusing to comply or providing incorrect information.

Child and Dependent Care Expenses

Qualified	*Not Qualified*
• Care outside the taxpayer's home for a qualifying person who regularly spends at least eight hours each day in the taxpayer's home. • Amounts paid for items other than care (food and schooling) if they are incidental to the care and cannot be separated from the total cost. • Nursery school, pre-school, or similar program below the level of kindergarten. • Before and after school care. • Day camps and similar programs even if they specialize in a particular activity. • Transportation provided by a childcare provider to or from a place that care is provided. • Household services, including cooks, maids, babysitters, or cleaners, if services were partly for the care of a qualifying person. • Employment taxes, meals, and extra lodging expenses for household employees.	• Schooling for a child in kindergarten or above. ***Clarification:*** The IRS has confirmed that kindergarten costs are educational and do not qualify for the credit. This includes costs paid for a full day of kindergarten at a private school in a district where public schools have half-day classes. Costs of pre-school do qualify even if the programs have some educational content. (Reg. §1.21-1) • Cost of an overnight camp. • Expenses reimbursed by a state social service agency not included in income. • Child support payments. • Transportation not provided by a care provider. • Taxpayer paid transportation costs for the care provider to come to the taxpayer's home. • Summer school or tutoring program.

Earned Income

Earned income includes any of the following.
• Wages, salaries, tips, and other taxable employee compensation.
• Net earnings from self-employment less the deductible portion of self-employment tax from line 15, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income.* Earned income is reduced by net loss from self-employment.
• Nontaxable combat pay, by election.

Combat pay election. A taxpayer can elect to include nontaxable combat pay in earned income when calculating the credit even if he or she chooses not to include it in earned income for the exclusion or deduction for child and dependent care benefits, and vice versa. Married taxpayers filing jointly who both received nontaxable combat pay each make their own election.

Unemployment compensation. Earned income does not include unemployment compensation.

Spouse who was a student or disabled. A spouse is treated as having earned income for any month (or part of a month) that he or she is a full-time student or unable to care for himself or herself. Monthly income is the higher of actual income, or $250 (if there is one qualifying person in the home), or $500 (more than one qualifying person). The rule applies to only one spouse for any one month. A full-time student is enrolled at and attending a school full-time for some part of each of five calendar months during the year. Schools do not include on-the-job training, correspondence schools, or schools offering courses only through the internet.

Child Tax Credit and Credit for Other Dependents

Cross References

- Schedule 8812 (Form 1040), *Credits for Qualifying Children and Other Dependents*
- IRC §24, *Child tax credit*

Related Topics

- Dependency Tests for 2024, Tab 3
- Children, College, and Family, Tab 12

Child Tax Credit

Due diligence. Paid preparers must meet due diligence requirements for returns claiming the Child Tax Credit. See *Due Diligence Requirements,* page 11-2.

Improper claims. If a taxpayer claims the Child Tax Credit, Credit for Other Dependents, or the Additional Child Tax Credit in a reckless or intentional disregard of the rules or commits fraud, then he or she will be subject to penalties. Penalties for tax preparers may also apply. See *Enforcement,* page 11-3.

Credit amount. The maximum nonrefundable Child Tax Credit is $2,000 for each qualifying child.

If any part of the Child Tax Credit is disallowed because tax is reduced to zero, the taxpayer may qualify for the refundable Additional Child Tax Credit. See *Additional Child Tax Credit,* next column.

AGI phaseout. The Child Tax Credit is reduced $50 for each $1,000 of modified AGI above:

- $400,000 for Married Filing Jointly
- $200,000 for all other filing statuses.

Modified AGI. AGI from line 11, Form 1040, plus excluded income from Puerto Rico, lines 45 and 50, Form 2555, (foreign income), and line 15, Form 4563 (residents of American Samoa).

Tax ID required. To claim the Child Tax Credit, Additional Child Tax Credit, or Credit for Other Dependents, the taxpayer (and spouse if filing jointly) must have a Social Security Number (SSN) or individual taxpayer identification number (ITIN) by the tax filing due date of the return (including extensions). Any child used to claim the Child Tax Credit or the Additional Child Tax Credit must also have an SSN valid for employment issued by the due date of the return (including extensions).

Note: If the child is a qualifying child for the Child Tax Credit, but does not have the required SSN, see *Credit for Other Dependents,* page 11-8.

Claiming the credit. This credit is claimed by checking the box in the *Dependents* section of page 1 of Form 1040 and completing Schedule 8812 (Form 1040), *Credits for Qualifying Children and Other Dependents.*

Qualifying Child

A child must meet all of the following eight requirements to be considered a qualifying child for the Child Tax Credit. The child:

1) Is the taxpayer's son, daughter, stepchild, foster child, sibling, stepsibling, half brother, half sister, or a descendent of any of them (e.g., grandchild, niece, nephew),
2) Lived with the taxpayer for more than half of the year,
3) Was under age 17 at the end of the year,
4) Did not provide over half of his or her own support during the year,
5) Is a U.S. citizen, U.S. national, or U.S. resident alien (child tax credits are not allowed for nonresident alien children residing in Canada or Mexico even if they qualify as dependents),
6) Is younger than the taxpayer claiming the child,
7) Does not file a joint tax return (or files jointly only to claim a refund of withheld income tax or estimated tax paid), and
8) Is claimed as a dependent of the taxpayer claiming the Child Tax Credit.

Disabled child. The definition of qualifying child for purposes of the Child Tax Credit is the same as a qualifying child for dependency purposes. However, an additional requirement for the Child Tax Credit is the child must be under age 17. An exception to the age test exists for dependency purposes if the child is permanently and totally disabled. That exception does not apply for purposes of the Child Tax Credit, meaning a child must be under age 17 regardless of any disability. [IRC §24(c)(1)]

Adopted child. An adopted child, including a child lawfully placed for legal adoption, is always treated as a taxpayer's own child. If the adopted child lived with the taxpayer all year as a member of the taxpayer's household, and the taxpayer is a U.S. citizen or U.S. national, the child meets the qualifications listed in (5), above.

Foster child. A foster child is a qualifying child if placed with the taxpayer by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Substantial presence. To be treated as a resident of the United States, a dependent child needs to meet the requirements of the substantial presence test. See *Substantial presence test,* page 14-10.

Exceptions to time lived with the taxpayer. See *Exceptions of Time Lived with Taxpayer,* Tab 3.

Qualifying child of more than one person. A special rule applies if the child is the qualifying child of more than one person. See *Single Parent Situations for 2024,* Tab 3, and *Qualifying Child of More Than One Person,* Tab 3.

Alternative minimum tax (AMT). The Child Tax Credit can be used to offset AMT.

Additional Child Tax Credit

Taxpayers may be able to claim the Additional Child Tax Credit if any portion of the regular Child Tax Credit was disallowed because tax was reduced to zero. The portion of the Child Tax Credit that is phased out because of AGI cannot be used to claim the Additional Child Tax Credit. To claim the Additional Child Tax Credit, file Schedule 8812 (Form 1040), *Credits for Qualifying Children and Other Dependents.*

Ineligible for Additional Child Tax Credit. Taxpayers filing Form 2555, *Foreign Earned Income,* to claim the foreign earned income exclusion, foreign housing exclusion, or foreign housing deduction, cannot claim the Additional Child Tax Credit.

Due diligence. Paid preparers must meet due diligence requirements for returns claiming the Additional Child Tax Credit. See *Due Diligence Requirements,* page 11-2.

Refund delays. Refunds for taxpayers claiming the Additional Child Tax Credit will not be issued before February 15. This applies to the entire refund, not just the portion associated with the credit. There is no provision for hardship claims before February 15.

Maximum Additional Child Tax Credit:
Taxpayers with one or two children. The lesser of:

1) The disallowed portion of the regular Child Tax Credit,
2) 15% of the taxpayer's earned income in excess of $2,500, or
3) $1,700 per child.

Taxpayers with three or more children. The lesser of:
1) The disallowed portion of the regular Child Tax Credit, or
2) The larger of:
   - 15% of earned income in excess of $2,500.
   - FICA and Medicare tax paid minus Earned Income Credit.
3) $1,700 per child.

Earned income. Earned income includes only taxable earned income and nontaxable combat pay.

Credit for Other Dependents

A $500 nonrefundable credit is available for dependents who are not qualifying children for the Child Tax Credit and each qualifying relative. The AGI limits for the Credit for Other Dependents are the same as those for the Child Tax Credit. A child over age 16 who otherwise qualifies as a dependent is also eligible. Dependents who are residents of Canada and Mexico do not qualify. The dependent must have a SSN, ITIN, or ATIN issued on or before the due date of the return (including extensions). Children who did not have a valid SSN before the tax filing date, will still qualify for the Credit for Other Dependents if they have an ITIN or ATIN issued on or before the date of the return (including extensions). This credit is claimed by checking the box in the *Dependents* section on the first page of Form 1040 and completing Schedule 8812 (Form 1040), *Credits for Qualifying Children and Other Dependents.*

Note: If a taxpayer applies for an ITIN on or before the due date of his or her return (including extensions) and the IRS issues an ITIN as a result of the application, the IRS will consider the ITIN issued on or before the due date of the return.

Credit for the Elderly or the Disabled

Cross References

- Schedule R (Form 1040), *Credit for the Elderly or the Disabled*
- IRS Pub. 524, *Credit for the Elderly or the Disabled*
- IRC §22, *Credit for the elderly and the permanently and totally disabled*

Related Topics

- Retirement, Social Security, and Medicare, Tab 13

Qualified individuals. Taxpayers age 65 or older, and taxpayers under age 65 who retired on permanent and total disability and receive taxable disability income, may qualify for a credit. For more information on eligibility requirements, see Pub. 524, *Credit for the Elderly or the Disabled.*

Income limits. A taxpayer is eligible for the credit if AGI and nontaxable pensions, annuities, or disability income are less than the limits, below.

Filing Status	*AGI Limit*	*Nontaxable Social Security and Pension Limit*
Single, HOH, QSS	$17,500	$5,000
MFJ, one spouse eligible	$20,000	$5,000
MFJ, both eligible	$25,000	$7,500
MFS, lived apart from spouse all year	$12,500	$3,750

Schedule R (Form 1040), *Credit for the Elderly or the Disabled.* The credit is computed on Schedule R (Form 1040). The credit rate is 15%. Limits, above, depend on filing status, age, and disability status.

Credit for Federal Tax Paid on Fuels

Cross References

- Form 720, *Quarterly Federal Excise Tax Return*
- Form 4136, *Credit for Federal Tax Paid on Fuels*
- Form 8849, *Claim for Refund of Excise Taxes*

Related Topics

- Business Deductions, Tab 8
- Business Credits, Tab 31

Credit for Federal Tax Paid on Fuels

Use Form 4136, *Credit for Federal Tax Paid on Fuels,* to claim a refundable credit for certain nontaxable uses (or sales) of fuel during the tax year. Form 4136 is also used to claim the Alternative Fuel Credit and a credit for blending a diesel-water fuel emulsion.

Instead of waiting to claim an annual credit on Form 4136, a taxpayer may be able to file:
- Form 8849, *Claim for Refund of Excise Taxes,* to claim a periodic refund, or
- Form 720, *Quarterly Federal Excise Tax Return,* to claim a credit against taxable fuel liability.

Alternative Fuel Mixture Credit. This credit cannot be claimed on Form 4136 and can only be claimed on Form 720.

Nontaxable uses of fuel. See Form 4136, *Credit for Federal Tax Paid on Fuels,* for the fuels that qualify for this credit and the rate to be used to calculate the credit. The credit is the rate for the fuel multiplied by the number of gallons for qualified use.

Example: Caroline owns a landscaping business. She uses power lawn mowers and chain saws in her business. The gasoline used in the power lawn mowers and chain saws qualifies as fuel used in an off-highway business use. Caroline needs to keep a log book recording the date and cost of fuel and also the gallons used. The gasoline used in Caroline's personal lawn mower at home does not qualify.

Income inclusion. A taxpayer must include in gross income the credit amount from Form 4136 if he or she took a deduction on his or her tax return that included the amount of the taxes and that deduction reduced his or her income tax liability. For more information see IRS Pub. 510, *Excise Taxes (Including Fuel Tax Credits and Refunds).*

Earned Income Credit

Cross References

- Schedule EIC (Form 1040), *Earned Income Credit*
- Form 8862, *Information to Claim Certain Credits After Disallowance*
- IRS Pub. 596, *Earned Income Credit (EIC)*
- IRC §32, *Earned income*

Related Topics

- 2024 Earned Income Credit (EIC) Table, page 2-15

Basics of the Earned Income Credit (EIC)

The EIC is a refundable credit for low-income earners. Taxpayers with investment income of more than $11,600 (2024) do not qualify. The EIC is not allowed for tax years of less than 12 months unless the short year is due to the death of a taxpayer.

Use the *2024 Earned Income Credit (EIC) Table,* page 2-15, to compute the credit.

Due diligence. Paid preparers must meet due diligence requirements for returns claiming the Earned Income Credit. See *Due Diligence Requirements,* page 11-2.

Improper claims. A taxpayer who recklessly or intentionally disregards the EIC rules cannot claim the EIC for the next two years. If the error was due to fraud, the EIC cannot be claimed for the next 10 years. Taxpayer and tax preparer penalties may be assessed. See *Enforcement,* page 11-3.

Refund delay. Refunds for taxpayers claiming the Earned Income Credit will not be issued before February 15. This applies to the entire refund, not just the portion associated with the credit. There is no provision for hardship claims before February 15.

Social Security Number (SSN) required. To claim the EIC the taxpayer (and spouse if filing jointly) must have a valid Social Security Number (SSN) by the due date of the return (including extensions). Any qualifying child listed on Schedule EIC (Form 1040) must also have a valid SSN. Adoption and individual taxpayer identification numbers (ATINs and ITINs) do not qualify.

The SSN is not valid if the Social Security card states "Not valid for employment." If the Social Security card states "Valid for work only with INS authorization" or "Valid for work only with DNS authorization," the SSN is valid for EIC, but only if the authorization is still valid.

Failure to meet qualifying child tax ID requirement. Taxpayers who have one or more qualifying children that do not meet the taxpayer identification number requirement are allowed to claim the Earned Income Credit under the no qualifying children rule.

Married Filing Separately. A taxpayer may claim the EIC if he or she is married, not filing a joint return, had a qualifying child who lived with the taxpayer for more than half of the year, and either of the following applies.

- The taxpayer lived apart from his or her spouse for the last six months of the year, or
- The taxpayer is legally separated (according to state law) under a written separation agreement or a decree of separate maintenance, and the taxpayer did not live in the same household as his or her spouse at the end of the year.

Earned Income Credit

	Income Range	Income Range for Maximum Credit	Maximum Credit
Married Filing Jointly			
No children	$0 – $25,511	$8,260 – $17,250	$632
One child	$0 – $56,004	$12,390 – $29,640	$4,213
Two children	$0 – $62,688	$17,400 – $29,640	$6,690
Three children	$0 – $66,819	$17,400 – $29,640	$7,830
Single, Head of Household, Qualifying Surviving Spouse			
No children	$0 – $18,591	$ 8,260 – $10,330	$632
One child	$0 – $49,084	$12,390 – $22,720	$4,213
Two children	$0 – $55,768	$17,400 – $22,720	$6,690
Three children	$0 – $59,899	$17,400 – $22,720	$7,830

continued in next column

Earned Income Credit continued

Taxpayers with more than $11,600 of investment income are ineligible for the Earned Income Credit. See *Investment Income Limit,* page 11-10.

Qualifying Child

For purposes of the Earned Income Credit, a child must meet all of the following four tests.

1) **Relationship test.** The child must be the taxpayer's son, daughter, stepchild, foster child, or a descendant of any of them (for example, a grandchild), or brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them (for example, niece or nephew).
2) **Age test.** The child must be under age 19 at the end of the year, and younger than the taxpayer (or spouse, if filing jointly); under age 24 at the end of the year, a student, and younger than the taxpayer (or spouse, if filing jointly); or permanently and totally disabled at any time during the year, regardless of age.
3) **Residency test.** The child must have lived with the taxpayer in the United States for more than half of the year. Residence in Puerto Rico or a U.S. possession, such as Guam, will not qualify. However, U.S. military personnel stationed outside the United States on extended active duty are considered to live in the United States during that duty period for purposes of the EIC. ***Exception:*** See *Exceptions of Time Lived with Taxpayer,* Tab 3.
4) **Joint return test.** The child cannot file a joint return for the year. ***Exception:*** The joint return test does not apply if the child and his or her spouse file a joint return only to claim a refund of income tax withheld or estimated tax paid.

Support test does not apply. The support test for dependents does not apply for purposes of the EIC. A child who meets all requirements can be a qualifying child even if the child provides over half of his or her own support.

No parent claims. If the parents of a child can claim the child as a qualifying child but no parent claims the child, no one else can claim the child unless that person's AGI is higher than the highest AGI of any of the child's parents who can claim the child.

Qualifying child of more than one person. Special rules apply if the child is the qualifying child of more than one person. See

Earned Income Credit Eligibility Chart

The taxpayer must meet all the rules in this column.		The taxpayer must meet all the rules in one of these two columns, whichever applies.	
Rules for Everyone		***Rules With a Qualifying Child***	***Rules Without a Qualifying Child***
1) The greater of AGI or earned income must be less than: • $18,591 ($25,511 for MFJ) with no qualifying children, • $49,084 ($56,004 for MFJ) with one qualifying child, • $55,768 ($62,688 for MFJ) with two qualifying children, or • $59,899 ($66,819 for MFJ) with three or more qualifying children. 2) The taxpayer (and spouse if MFJ) must have a valid SSN. Any qualifying child listed on Schedule EIC (Form 1040) must also have a valid SSN. See *Social Security Number (SSN) required,* above.	3) The taxpayer must meet certain requirements if separated from spouse and not filing a joint return. See *Married Filing Separately,* above. 4) The taxpayer must be a U.S. citizen or resident alien all year. A nonresident alien can claim the credit if married to a U.S. citizen or resident alien and the nonresident alien chooses to be treated as a resident for all of 2024 by filing a joint return. 5) The taxpayer cannot file Form 2555 (relating to foreign income). 6) Investment income must be $11,600 or less. See *Investment Income Limit,* page 11-10. 7) The taxpayer must have earned income. See *Earned Income,* page 11-10.	8) The child must meet the relationship, age, residency, and joint return tests. See *Qualifying Child,* above. 9) The qualifying child cannot be used by more than one person to claim the EIC. See *Qualifying Child of More Than One Person,* Tab 3. 10) The taxpayer cannot be a qualifying child of another person.	11) The taxpayer must be at least age 25 but under age 65. For MFJ, only one spouse needs to meet the age test. 12) The taxpayer cannot be the dependent of another person. 13) The taxpayer cannot be a qualifying child of another person. 14) The taxpayer must have lived in the United States more than half the year. United States does not include Puerto Rico or U.S. possessions, such as Guam. United States military personnel stationed outside the United States on extended active duty are considered to live in the United States for purposes of EIC.

Single Parent Situations for 2024, Tab 3, and *Qualifying Child of More Than One Person,* Tab 3.

Note: If the taxpayer's qualifying child is treated under the tiebreaker rules as the qualifying child of another person, he or she may be able to claim the EIC using the rules for taxpayers without a qualifying child.

Schedule EIC (Form 1040), *Earned Income Credit.* Schedule EIC must be completed and attached to Form 1040 if the taxpayer has a qualifying child and is claiming the EIC.

Investment Income Limit

The investment income limit for the Earned Income Credit is $11,600 (2024). If the taxpayer's investment income is more than $11,600, he or she cannot claim the credit.

Investment income is the total of interest income (taxable and nontaxable), dividends, nonbusiness capital gain income, and net income from rents, royalties, and other passive income. See Worksheet 1, *Investment Income,* in IRS Pub. 596, *Earned Income Credit (EIC),* for a description of how to calculate investment income for the EIC.

Earned Income

Earned income generally means taxable employee pay and net earnings from self-employment.

Wages. Earned income includes the amount from line 1z, Form 1040.

Medicaid waiver payments. Certain Medicaid waiver payments may be excluded from income under Notice 2014-7. The taxpayer may include these payments in earned income if he or she benefits from the inclusion.

Combat pay election. Taxpayers can elect to include nontaxable combat pay in earned income when calculating the EIC. The amount of nontaxable combat pay should be shown as Code Q, box 12, Form W-2.

If the election is made, all the taxpayer's nontaxable combat pay is included in earned income. If both spouses have combat pay, each spouse can make his or her own election.

Disability pay. If the taxpayer retired on disability, benefits under an employer's plan are earned income for the EIC until the taxpayer reaches minimum retirement age. Benefits should be reported to the taxpayer on Form W-2 and reported on line 1h, Form 1040. Beginning on the day the taxpayer reaches minimum retirement age, payments are taxed as pension and no longer qualify as earned income for EIC. Benefits should then be reported to the taxpayer on Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.* Payments under a disability insurance policy paid for by the taxpayer are not taxable income and are not earned income for EIC.

Example: John is 55 and is receiving disability payments from his employer. He is eligible to receive his pension at age 60. His disability income is taxable and considered earned income for EIC purposes. When he is 60, his income will be considered pension income and still taxable, but no longer considered earned income for EIC purposes.

Example: Henry is 50 and is receiving disability payments from an insurance policy he purchased through his payroll deductions while he was working. These payments are from insurance and not an employer's disability plan; therefore, they are not taxable and are not considered earned income for EIC purposes.

Self-employment. Earned income includes net profit from self-employment reduced by the deduction for one-half of SE tax.

Author's Comment: All allowable expenses must be deducted in computing self-employment income. Net earnings from self-employment are defined in IRC section 1402(a) as the gross income for the business "less the deductions allowed by this subtitle which are attrib-utable to such trade or business." The IRS looks closely at taxpayers who claim the EIC based on net earnings from self-employment with little or no reported expenses and will make appropriate adjustments or disregard the self-employment income altogether for purposes of computing EIC. The IRS cautions taxpayers to consider the 10-year disallowance of EIC in cases of fraud. (CCA 200022051)

Income that is not earned income. Do not include any of the following items in earned income when computing EIC.

- Interest and dividends.
- Pensions and annuities.
- Social Security and railroad retirement benefits.
- Alimony and child support.
- Welfare benefits.
- Workers' compensation benefits.
- Unemployment compensation.
- Nontaxable foster care payments.
- Veterans benefits, including VA rehabilitation payments.
- Nontaxable workfare payments.
- Nontaxable military pay. ***Exception:*** See *Combat pay election,* previous column.
- Earnings while an inmate, including amounts for work performed while in a work release program or while in a halfway house.

Community property. Generally, a married taxpayer living in a community property state must treat certain income earned by his or her spouse as belonging to the taxpayer. However, if a married taxpayer living in a community property state qualifies to file as Head of Household or Married Filing Separately, earned income for the EIC does not include the spouse's earned income, even though the taxpayer must include that amount in gross income. See *Married individuals considered unmarried,* Tab 3, and *Married Filing Separately,* page 11-9. The taxpayer's earned income includes the entire amount he or she earned, even if part of it is treated as belonging to the spouse under the taxpayer's state community property laws.

First-Time Homebuyer Credit

Cross References

- Form 5405, *Repayment of the First-Time Homebuyer Credit*
- IRC §36, *First-time homebuyer credit*

Related Topics

- Sale of Principal Residence, page 6-22

Repayment of First-Time Homebuyer Credit

For homes purchased in 2008 only, the First-Time Homebuyer Credit may need to be repaid.

Form 5405, *Repayment of the First-Time Homebuyer Credit.* Taxpayers who purchased their home in 2008 and disposed of it or ceased using it as a main home in 2024 must file Form 5405. This form reports the disposition or change of use and computes the amount of credit repayment, if any.

Taxpayers making an installment payment of the First-Time Homebuyer Credit may report the amount directly on line 10, Schedule 2 (Form 1040), *Additional Taxes,* without filing Form 5405.

Note: 2024 is the last year to file Form 5405.

Foreign Tax Credit

Cross References

- Schedule B (Form 1116), *Foreign Tax Carryover Reconciliation Schedule*
- Schedule C (Form 1116), *Foreign Tax Redeterminations*
- Form 1116, *Foreign Tax Credit*
- IRS Pub. 514, *Foreign Tax Credit for Individuals*
- IRC §901, *Taxes of foreign countries and of possessions of the United States*

Related Topics

- Taxes Paid, Tab 4
- Interest and Dividends (Schedule B), page 6-5
- Foreign Income, page 14-10
- Schedules K-2 and K-3 (Form 1120-S), Tab 19
- Schedules K-2 and K-3 (Form 1065), page 20-11

Tax Paid to a Foreign Country

A Foreign Tax Credit (FTC) can be claimed for tax paid to a foreign country on income that is also taxed by the United States. Credit can be claimed for income tax, war profits tax, excess profits tax, and taxes in lieu of income tax. Taxes paid to a foreign country, a political subdivision of a foreign country, and a U.S. possession qualify.

Mutual fund shareholder. A shareholder of a mutual fund or other regulated investment company (RIC) may be able to claim the FTC based on his or her share of foreign income taxes paid by the fund if it chooses to pass the credit on to its shareholders. A taxpayer should receive Form 1099-DIV, *Dividends and Distributions,* showing his or her share of the foreign income received and foreign taxes paid.

Partner or S corporation shareholder. A partner of a partnership or a shareholder in an S corporation can claim the FTC based on his or her proportionate share of the foreign income taxes paid or accrued by the partnership or S corporation as shown on the Schedule K-3 (Form 1065) or Schedule K-3 (Form 1120-S) received from the partnership or S corporation.

Beneficiary. A beneficiary of an estate or trust may be able to claim the FTC based on his or her proportionate share of foreign income taxes paid or accrued by the estate or trust as shown on the Schedule K-1 (Form 1041) received from the estate or trust. However, the tax must be imposed on income of the estate and not on income received by the decedent.

Form 1116, *Foreign Tax Credit*

The Foreign Tax Credit (FTC) is the lesser of foreign tax paid or U.S. tax allocated to foreign source income. U.S. tax is allocated to foreign income by dividing foreign income (after deductions) by income from all sources and multiplying U.S. tax by the result. Not all foreign taxes are eligible for the credit.

Foreign-source income. Foreign-source income generally includes, but is not limited to, the following.

- Compensation for services performed outside the United States.
- Interest income from a payer located outside the United States.
- Dividends from a corporation incorporated outside the United States.
- Subpart F income inclusions and IRC section 951A category income inclusions (see *Section 951A category income,* next column).
- Gain on the sale of non-depreciable personal property sold while maintaining a tax home outside the United States, if the taxpayer paid a tax of at least 10% of the gain to a foreign country.

Foreign source income generally does not include gain realized on the sale or exchange of personal property by a U.S. resident.

Categories of income. Use a separate Form 1116 to compute the FTC for each category of foreign-source income.

Section 951A category income. Section 951A category income includes any amount included in gross income (other than passive category income) that is otherwise referred to as global intangible low-taxed income (GILTI) and is included by U.S. shareholders of certain controlled foreign corporations (CFCs).

Foreign branch category income. Foreign branch category income consists of the business profits of U.S. persons that are attributable to one or more qualified business units (QBUs) in one or more foreign countries, and does not include any passive category income.

Passive category income. Passive category income consists of passive income and specified passive category income. Passive category income does not include gain from the sale of inventory or property held primarily for sale to customers in the ordinary course of a trade or business, gain from commodities hedging transactions, and active business gains or losses of producers, processors, merchants, or handlers of commodities. It may also not include dividends, interest, rents, or royalties received from a CFC in which the taxpayer is a U.S. shareholder who owns 10% or more of the total voting power or the total value of all classes of the corporation's stock.

Passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, excess of gains over losses from the sale of property that produces such income or of non-income-producing investment property, and excess of gains over losses from foreign currency or commodities transactions. Capital gains not related to the active conduct of a trade or business are also generally passive income.

Passive income does not include export financing interest, active business rents and royalties, or high-taxed income. High-taxed income is income if the foreign taxes paid on the income (after allocation of expenses) exceed the highest U.S. tax that can be imposed on the income. Passive income also does not include financial services income derived by a financial services entity (predominantly engaged in the active conduct of a banking, insurance, financing, or similar business for the tax year).

Specified passive category income. Dividends from a domestic international sales corporation (DISC) or former DISC to the extent they are treated as foreign source income, and certain distributions from a former foreign sales corporation (FSC) are specified passive category income.

General category income. General category income may include the following.

- Wages, salary, and overseas allowances of an individual as an employee.
- Income earned in the active conduct of a trade or business.
- Gains from the sale of inventory or depreciable property used in a trade or business.

Section 901(j) income. No credit is allowed for foreign taxes imposed by and paid or accrued to certain sanctioned countries. However, income derived from each sanctioned country is subject to a separate FTC limitation, therefore, use a separate Form 1116 for income derived from each sanctioned country. Sanctioned countries are those designated by the Secretary of State as countries that repeatedly provide support for acts of international terrorism, countries with which the United States does not have or does not conduct diplomatic relations, or countries whose governments are not recognized by the United States and are not otherwise eligible to purchase defense articles or services. For a list of these countries, see IRS Pub. 514, *Foreign Tax Credit for Individuals.*

Certain income re-sourced by treaty. If a sourcing rule in an applicable income tax treaty treats U.S. source income as foreign source, and the taxpayer elects to apply the treaty, the income will be treated as foreign source. This rule does not apply to income that is re-sourced by reason of the relief from double taxation rules in any U.S. income tax treaty that is solely applicable to U.S. citizens who are residents of the foreign treaty country.

Lump-sum distributions. A taxpayer can take a FTC for taxes paid or accrued on a foreign source lump-sum distribution from a pension plan. Special formulas may be used to compute a separate tax on a qualified lump-sum distribution for the year in which the distribution is received. For more information, see Pub. 575, *Pension and Annuity Income.*

Foreign Tax Credit (FTC) limit. The FTC is limited to U.S. tax liability multiplied by the fraction of foreign taxable income over total taxable income. The limit is computed for each separate foreign income category and treats all foreign income and expenses in each separate category as a single unit and limits the credit to the U.S. income tax on the taxable income in that category from all sources outside the United States.

Note: If a taxpayer elects to claim the FTC without filing Form 1116, the limit does not apply. See *Election to Claim FTC Without Filing Form 1116,* next column.

Carrybacks and carryovers. If qualified foreign taxes exceed the credit limit, the taxpayer may be able to carry over or carry back the excess to another tax year. However, if the taxpayer deducts qualified foreign taxes in a tax year, he or she cannot use a carryback or carryover in that year because the deduction and credit for qualified foreign taxes cannot be taken in the same tax year.

A taxpayer is allowed a 1-year carryback and a 10-year carryover of unused foreign taxes. This means that the taxpayer can treat the unused foreign tax of a tax year as though the tax were paid or accrued in the first preceding and 10 succeeding tax years up to the amount of any excess limit in those years. The unused foreign tax in each income category is the amount by which the qualified taxes paid or accrued are more than the limit for that category. The excess limit in each income category is the amount by which the limit is more than the qualified taxes paid or accrued for that category. Carrybacks or carryovers are computed separately for each separate limit income category.

The 1-year carryback and 10-year carryover do not apply to unused taxes in the section 951A category.

Schedule B (Form 1116), Foreign Tax Carryover Reconciliation Schedule. Use Schedule B (Form 1116) to reconcile prior year foreign tax carryover with current year foreign tax carryover. Taxpayers are therefore reporting running balances of their foreign tax carryovers showing all activity since the filing of their prior year income tax return.

Foreign tax redeterminations. If a taxpayer claims a credit for foreign taxes paid and receives a refund of all or part of those taxes in a later year, he or she must file an amended return reducing the taxes credited by the amount refunded. If a taxpayer claims the FTC based on foreign taxes accrued instead of foreign taxes paid, the FTC and U.S. tax liability must be redetermined in any of the following situations.

- Accrued taxes when paid differ from the amount claimed as a credit.
- The taxpayer does not pay the accrued taxes within 24 months after the close of the tax year to which they relate. If this applies, reduce the credit previously claimed by the amount of the unpaid taxes. The taxpayer will not be allowed a credit for the unpaid taxes until paid. When the taxpayer pays the accrued taxes, a new tax redetermination occurs and he or she must translate the taxes into U.S. dollars using the exchange rate as of the date they were paid. The FTC is allowed for the year to which the foreign tax relates.
- After paying the accrued taxes, the taxpayer receives a full or partial refund of them.
- For taxes taken into account when accrued but translated into dollars on the date of payment, the dollar value of the accrued tax differs from the dollar value of the tax paid because of fluctuations in the exchange rate between the date of accrual and the date of payment. However, no redetermination is required if the change in foreign tax liability for each foreign country is solely attributable to exchange rate fluctuation and is less than the smaller of $10,000, or 2% of the total dollar amount of the foreign tax initially accrued for that foreign country for the U.S. tax year. In this case, adjust U.S. tax in the tax year in which the accrued foreign taxes are paid.

If any of the above foreign tax redeterminations occur after the taxpayer files his or her tax return, and the foreign tax redeterminations change the amount of U.S. tax due for any tax year, the taxpayer must generally file Form 1040-X, *Amended U.S. Individual Income Tax Return,* or other amended return, to notify the IRS so that U.S. tax for the year or years affected can be redetermined.

Schedule C (Form 1116), Foreign Tax Redeterminations. In addition to filing an amended return with Form 1116 and attached statement for tax year(s) for which U.S. tax liability is changed as a result of the foreign tax redetermination, the taxpayer must file a separate Schedule C (Form 1116) with his or her current year tax return summarizing the foreign tax redeterminations that occurred that year that relate to prior tax years for each applicable separate category of income.

Note: If the taxpayer does not notify the IRS of a foreign tax refund or change in the dollar amount of foreign taxes paid or accrued, he or she will have to pay a penalty unless the failure to notify the IRS is due to reasonable cause and not due to willful neglect.

Credit reduction for failure to file other foreign reporting forms. Certain taxpayers who are officers, directors, or shareholders in certain foreign corporations or in companies with foreign holdings may have additional filing requirements that affect the FTC.

- U.S. shareholders who control a foreign corporation must file Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations.*
- U.S. partners who control a foreign partnership must file Form 8865, *Return of U.S. Persons With Respect to Certain Foreign Partnerships*.
- U.S. persons that operate a foreign branch or own a foreign disregarded entity must file Form 8858, *Information Return of U.S. Persons With Respect to Foreign Disregarded Entities and Foreign Branches.*

If Forms 5471, 8865, and 8858 are not filed as required, foreign taxes otherwise taken into account for the FTC are reduced by 10% and penalties up to $10,000 for each failure may be applied. The reduction in foreign taxes is reduced by any dollar penalty imposed.

Election to Claim FTC Without Filing Form 1116

Individuals may claim the FTC by entering the amount directly on line 1, Schedule 3 (Form 1040), *Additional Credits and Payments,* if all of the following conditions are met.

- All foreign source gross income is passive category income (see *Passive category income,* page 11-11),
- All the income and any foreign taxes paid on the income were reported to the taxpayer on a qualified payee statement such as Form 1099-DIV, Form 1099-INT, Schedule K-1 (Form 1041), Schedule K-3 (Form 1065), or Schedule K-3 (Form 1120-S), and
- The total creditable foreign taxes paid are not more than $300 ($600 if Married Filing Jointly).

This election is not available to estates or trusts. Unused credit cannot be carried back or carried over if this election is made, however, carryovers to and from other years are unaffected.

Election to Deduct Foreign Taxes

Taxpayers can choose to deduct foreign taxes instead of taking a credit. Individuals claim the deduction on Schedule A (Form 1040), *Itemized Deductions.* If a deduction is claimed, no foreign tax can be claimed as a credit. If a credit is claimed, foreign taxes that do not qualify for the credit can be deducted.

Mortgage Interest Credit

Cross References

- Form 8396, *Mortgage Interest Credit*
- Form 8828, *Recapture of Federal Mortgage Subsidy*
- IRC §25, *Interest on certain home mortgages*

Related Topics

- Home Mortgage Interest, Tab 4

Mortgage Interest Credit

A taxpayer may claim the Mortgage Interest Credit only if a qualified mortgage credit certificate (MCC) was issued by a state or local governmental unit or agency under a qualified mortgage credit certificate program. The home to which the certificate relates must be the taxpayer's main home and must be located in the jurisdiction of the governmental unit that issued the certificate. If interest on the mortgage was paid to a related person, the credit is not allowed.

Reduce the Schedule A (Form 1040), *Itemized Deductions,* deduction for mortgage interest by the amount of the credit. Unused credit may be carried forward three years.

Recapture. If the taxpayer sells the home within nine years, a portion of the credit may need to be recaptured. The recapture amount is computed on Form 8828, *Recapture of Federal Mortgage Subsidy.*

Premium Tax Credit

Cross References

- Form 1095-A, *Health Insurance Marketplace Statement*
- Form 8962, *Premium Tax Credit (PTC)*
- IRC §36B, *Refundable credit for coverage under a qualified health plan*

Related Topics

- Insurance Premiums, Tab 4
- Self-employed health insurance deduction, Tab 5

Premium Tax Credit (PTC)

The PTC is a refundable credit for certain people who enroll, or whose family member enrolls, in a qualified plan offered through a Health Insurance Marketplace (also known as an Exchange). Form 8962, *Premium Tax Credit (PTC),* must be filed to compute and claim the PTC on the taxpayer's tax return.

Advance payment of the Premium Tax Credit (APTC). The APTC is a payment made for coverage during the year to the taxpayer's insurance provider that pays for part or all of the premiums for the coverage of the taxpayer or an individual in the taxpayer's tax family. The APTC eligibility is based on the Marketplace's estimate of the PTC for which the taxpayer will be eligible. If APTC was paid for an individual in the taxpayers' tax family, Form 8962 must be filed to reconcile the APTC with the taxpayer's PTC. See *Reconciliation/Repayment of Advance Payments,* page 11-14.

Note: The Marketplace determines eligibility for the APTC using projections of income and number of individuals in the taxpayer's tax family when the taxpayer enrolled in a qualified health plan. If this information changed during the year and was not promptly reported to the Marketplace, the amount of the APTC paid may be substantially different from the amount of the PTC the taxpayer can claim on his or her tax return.

Who must file. Form 8962 must be filed if:

- The PTC is being claimed,
- The APTC was paid for the taxpayer or another individual in the taxpayer's tax family, or
- The APTC was paid for an individual the taxpayer told the Marketplace would be in his or her tax family and neither the taxpayer nor anyone else included that individual in a tax family.

Form 1095-A, *Health Insurance Marketplace Statement.* The Marketplace is required to issue Form 1095-A to the tax filer(s) identified in the enrollment application no later than January 31. Under certain circumstances, the Marketplace will provide Form 1095-A to one taxpayer, but another taxpayer will also need the information to complete Form 8962. The recipient of the Form 1095-A should provide a copy to other taxpayers as needed.

Who can claim the PTC. A taxpayer can take the PTC if, for at least one month of the year, all of the following requirements are met.

- For at least one month of the year, one or more individuals in the taxpayer's tax family:
  - Were enrolled in one or more qualified health plans offered through the Marketplace, and
  - For the same month(s), were not eligible for minimum essential health coverage (other than coverage in the individual market).
  - The portion of the enrollment premiums for the month(s) for which the taxpayer is responsible was paid by the due date of his or her tax return (not including extensions). However, if the taxpayer became eligible for the APTC because of a successful eligibility appeal and is retroactively enrolled in the plan, then the portion of the enrollment premium for which he or she is responsible must be paid on or before the 120th day following the date of the appeals decision.
- The taxpayer is an applicable taxpayer defined as follows:
  - Household income is at least 100% of the federal poverty line (FPL) for the taxpayer's family size,
  - No one can claim the taxpayer as a dependent for the tax year, and
  - If the taxpayer is married at the end of the year, files a joint tax return with his or her spouse.

Exception: A married taxpayer will satisfy the joint filing requirement for purposes of the PTC if the taxpayer is filing as MFS and:

- Is living apart from the spouse at the time the tax return is filed,
- Is unable to file a joint tax return because the taxpayer is a victim of domestic abuse or spousal abandonment,
- Certifies on his or her tax return that the taxpayer meets the criteria under the above two points, and
- Has not used this exception to take the PTC in each of 2021, 2022, and 2023.

The federal poverty lines can be found at http://aspe.hhs.gov/poverty-guidelines.

Note: A taxpayer is not entitled to the PTC for an individual for any period during which the individual is not lawfully present in the United States.

Did You Know? In certain circumstances, taxpayers whose income is less than 100% of the federal poverty line can still claim the Premium Tax Credit. See the instructions for Form 8962.

Qualified small employer health reimbursement arrangement (QSEHRA). Under a QSEHRA, an eligible employer can reimburse eligible employees for medical expenses, including premiums for Marketplace health insurance. If a taxpayer was provided a QSEHRA, the annual permitted benefit is reported in box 12, code FF, Form W-2. If the QSEHRA is considered affordable coverage for a month, no PTC is allowed for the month. If the QSEHRA is not considered affordable coverage for a month, the taxpayer may still be eligible for the PTC but must reduce the monthly PTC (but not below zero) by the monthly permitted benefit amount, which is the maximum QSEHRA benefit amount an eligible employee is allowed per month. (Notice 2017-67)

Self-employed taxpayers. No self-employed health insurance deduction is allowed for the portion of qualified health plan premiums which is equal to the amount of the PTC. [IRC §280C(g)]

The self-employed health insurance deduction for specified premiums is not to exceed the lesser of:
- The specified premiums less the PTC attributable to the specified premiums, or
- The sum of the specified premiums not paid through the APTC and the additional tax (if any) that is due to the taxpayer receiving advance payments in excess of the PTC allowed (if any) after applying the repayment limitation on the amount to be repaid.

There is a circular reference in the self-employed health insurance deduction calculation. Revenue Procedure 2014-41 provides an alternative computation that may be used.

Terms. See the instructions for Form 8962, *Premium Tax Credit (PTC),* for the definition of terms such as tax family, coverage family, household income, qualified health plan, and minimum essential coverage that may be helpful in calculating the PTC.

Reconciliation/Repayment of Advance Payments

Reconciliation. Any advance payment of the Premium Tax Credit (APTC) to the health plan provider will be reported on Form 1095-A. Each year the amount of APTC must be reconciled with the allowable PTC for the year of coverage.

If APTC…	*Then…*
Exceeds the PTC the taxpayer is entitled to…	The excess is treated as an increase in tax.
Is less than the PTC the taxpayer is entitled to…	The shortfall is treated as a refundable credit.

Applicable percentage. The applicable percentage refers to percentage of household income that a taxpayer must pay for health insurance before receiving the PTC. Within each income category, the percentage is a sliding scale between the initial percentage and the final percentage. If the applicable percentage is 0%, the taxpayer pays $0 of his or her household income for premiums and the PTC covers the entire cost of health insurance. If household income is higher than 400%, the taxpayer pays no more than 8.5% of his or her household income for the cost of health insurance after receiving the PTC.

Applicable Percentages—Premium Tax Credit

	Tax Years 2021 through 2025	
Household income percentage of federal poverty line (FPL):	*Initial %*	*Final %*
Up to 133%	0.00%	0.00%
133% up to 150%	0.00%	0.00%
150% up to 200%	0.00%	2.00%
200% up to 250%	2.00%	4.00%
250% up to 300%	4.00%	6.00%
300% up to 400%	6.00%	8.50%
Higher than 400%	8.50%	8.50%

Repayment. Any increase in tax due to the reconciliation is limited to the amounts in the following table.

Repayment Limitation—2024

If household income is:	*The repayment limitation is:*	
	For a filing status of—Single	*For any other filing status…*
Less than 200% FPL	$375	$750
At least 200% but less than 300% FPL	$950	$1,900
At least 300% but less than 400% FPL	$1,575	$3,150
400% FPL or more	No limitation	No limitation

Shared Policy Allocations

Special rules apply when an individual is enrolled by a taxpayer but not included in his or her tax family. The allocation percentage can be any amount between zero and 100% that is agreed upon by each taxpayer. If the taxpayers do not agree on an allocation percentage, then the allocation percentage is equal to the number of individuals enrolled by one taxpayer who are included in the tax family of the other taxpayer for the year divided by the total number of individuals enrolled in the same policy as the individual(s).

Example: Amy enrolls herself and her three children in a qualified plan. One of her children is properly claimed as a dependent by her ex-husband. If Amy and her ex-husband cannot agree on an allocation percentage, then the allocation percentage is 25% (1 divided by 4), with the number 1 representing the number of enrollees in Amy's health plan that she does not claim as a dependent, and 4 representing the total number of enrollees in Amy's health plan. 25% of Amy's PTC is allocated to her ex-husband's tax return, and 75% of the PTC is allocated to Amy's tax return.

For more information and examples on policy allocations, see the instructions for Form 8962, *Premium Tax Credit,* and IRS Pub. 974, *Premium Tax Credit (PTC).*

Residential Energy Credits

Cross References

- Form 5695, *Residential Energy Credits*
- IRC §25C, *Energy efficient home improvement credit*
- IRC §25D, *Residential clean energy credit*

Related Topics

- Credits and AMT, page 14-3
- Energy Efficient Home Credit, page 31-11,

Residential Energy Credits

Residential energy credits are divided into two main categories, energy efficient home improvements and residential clean energy property.

Timing of the credits. For purposes of both credits, costs are treated as being paid when the original installation of the item is completed, or, in the case of costs associated with the reconstruction of a taxpayer's home, when his or her original use of the home begins. For purposes of the residential clean energy credit only, costs connected with the construction of a home are treated as being paid when the original use of the constructed home begins.

Business use of home. If 20% or less of the home is used partly for business, both credits are allowed in full. If business use of the home is more than 20%, the credit is based on the share of expenses allocable to nonbusiness use. If a taxpayer uses a property solely for business purposes, he or she cannot claim either credit.

Residential Energy Credits Chart

Energy Efficient Home Improvement Credit

Credit Type	Eligible Property	Annual Credit Limit[1]	Applicable Costs	Maximum Credit	Principal Residence or Second Home	Existing Home	New Construction
Qualified Energy Efficiency Improve-ments	• Exterior doors.	$250 per door and $500 total.	Materials costs only.	Combined annual credit of $1,200. Excess credit does not carry over. No lifetime limit.	Principal residence only.	Yes	No
	• Exterior windows and skylights.	$600					
	• Insulation and air sealing materials or systems.	$1,200					
Residential Energy Property Expendi-tures	• Home energy audits.	$150	Cost of audit.				
	• Central air conditioners. • Natural gas, propane, or oil water heater. • Natural gas, propane, or oil furnaces and hot water boilers. • Electrical components needed to support residential energy property.	$600 per item	Materials and labor costs.		Either (but not rentals unless also used as a residence by the taxpayer).		
	• Heat pumps and biomass stoves and boilers.	$2,000		$2,000 per year			

Residential Clean Energy Credit

Credit Type	Eligible Property	Annual Credit Limit[2]	Applicable Costs	Maximum Credit	Principal Residence or Second Home	Existing Home	New Construction
Residential Clean Energy Credit	• Solar electric panels. • Solar water heaters. • Wind turbines. • Geothermal heat pumps. • Battery storage technology.	30%	Materials and labor costs.	No combined limit. Any credit amount that exceeds tax liability carries over to the following tax year.	Either (but not rentals unless also used as a residence by the taxpayer).	Yes	Yes
	• Fuel cell property.	The lesser of $500 per 0.5-kilowatt hour of capacity or 30% of the cost.			Principal residence only.		

[1] The credit amount for energy efficient home improvements is 30% of the applicable costs up to the annual credit limit.

[2] The credit for residential clean energy property is 30% of applicable costs for tax years 2023 through 2032. For tax year 2033, the credit rate is 26%. For tax year 2034, the credit rate is 22%.

Subsidies, rebates, and incentives. Subsidies, rebates, or other financial incentives may need to be subtracted from the qualified property expenses if they are considered a purchase price adjustment.

Public utility subsidies. Public utility subsidies for buying or installing clean energy property are subtracted from qualified expenses. This is true whether the subsidy comes directly to the taxpayer or to a contractor on the taxpayer's behalf. However, utility payments for clean energy the taxpayer sells back to the grid, such as net metering credits, do not affect qualified expenses.

Rebates. Rebates are subtracted from qualified expenses if all of the following apply:
- The rebate is based on the cost of the property,
- It comes from someone connected to the sale such as the manufacturer, distributor, seller, or installer, and
- It is not given as payment for services the taxpayer provides.

State energy efficiency incentives. State energy efficiency incentives are generally not subtracted from qualified costs unless they qualify as a rebate or purchase-price adjustment under federal income tax law.

Energy Efficient Home Improvement Credit

For tax years 2023 through 2032, a taxpayer who makes qualified energy-efficient improvements to his or her home may qualify for a tax credit of up to $3,200.

The credit equals 30% of certain qualified expenses, including:
- Qualified energy efficiency improvements installed during the year,
- Residential energy property expenses, and
- Home energy audits.

There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenses.

Maximum credit. The maximum credit a taxpayer can claim each year is:
- $1,200 for energy property costs and certain energy efficient home improvements, and
- $2,000 per year for qualified heat pumps, biomass stoves or biomass boilers.

The credit has no lifetime dollar limit. A taxpayer can claim the maximum annual credit every year that he or she makes eligible improvements.

Carryover of credit. The Energy Efficient Home Improvement Credit is nonrefundable and unused amounts cannot be carried forward.

Qualified taxpayers. A taxpayer may claim the Energy Efficient Home Improvement Credit for improvements to his or her main home. The home must be:
- Located in the United States, and
- An existing home that the taxpayer improves or adds onto, not a new home

In most cases, the home must be the taxpayer's primary residence. A taxpayer cannot claim the credit if he or she does not live in the home.

Qualified expenses and credit amounts. To qualify, home improvements must meet energy efficiency standards. They must be new systems and materials, not used. Some improvements have specific credit limits.

Building envelope components. Building envelope components must have an expected lifespan of at least five years. Qualified components include new:

- *Exterior doors.* The portion of the credit for exterior doors is limited to $250 per door and $500 total.
- *Exterior windows and skylights.* The portion of the credit for exterior windows and skylights is limited to $600 total.
- *Insulation and air sealing materials or systems.* These items do not have a specific credit limit, other than the maximum credit limit of $1,200.

Labor costs for installing building envelope components do not qualify for the credit.

Home energy audits. A home energy audit for a taxpayer's main home may qualify for a tax credit of up to $150.

In order to qualify, the home energy audit must:
- Include a written report and inspection that identifies the most significant and cost-effective energy efficiency improvements with respect to the home, including an estimate of the energy and cost savings with respect to such improvement, and
- Be conducted and prepared by a qualified home energy auditor.

New for 2024 *Qualified home energy auditor.* Beginning January 1, 2024, home energy audits must be performed by a qualified home energy auditor or under the supervision of a qualified home energy auditor. The auditor must be certified by a qualified certification program at the time of the audit. (Notice 2023-59)

Residential energy property. Qualified residential energy property qualifies for a credit up to $600 per item. Costs may include labor for installation.

Qualified property includes new:
- Central air conditioners,
- Natural gas, propane, or oil water heaters, and
- Natural gas, propane, or oil furnaces and hot water boilers.

Costs of electrical components needed to support residential energy property, including panelboards, sub-panelboards, branch circuits, and feeders, also qualify for the credit if they meet the National Electric Code and have a capacity of 200 amps or more.

Heat pumps and biomass stoves and boilers. Heat pumps and biomass stoves and boilers with a thermal efficiency rating of at least 75% qualify for a credit up to $2,000 per year. Costs may include labor for installation.

Qualified improvements include new:
- Electric or natural gas heat pumps,
- Electric or natural gas heat pump water heaters, and
- Biomass stoves and boilers.

Residential Clean Energy Credit

For tax years 2023 through 2034, a taxpayer who makes qualified expenditures for residential clean energy property may qualify for the Residential Clean Energy Credit. The credit is 30% (2024) of the costs of new, qualified clean energy property and has no annual or lifetime dollar limit except for credit limits for fuel cell property.

A taxpayer can claim the credit every year that he or she installs eligible property.

Credit limits for fuel cell property. Fuel cell property is limited to $500 for each half kilowatt of capacity. If more than one person lives in the home, the combined credit for all residents cannot exceed $1,667 for each half kilowatt of fuel cell capacity.

Carryover of credit. The Residential Clean Energy Credit is nonrefundable, but any unused amounts may be carried forward to the following year.

Qualified taxpayers. A taxpayer may claim the Residential Clean Energy Credit for improvements to his or her main home, whether he or she owns or rents it. The credit applies to new or existing homes located in the United States.

A taxpayer may be able to claim a credit for certain improvements made to a second home located in the United States that he or she lives in part-time and does not rent to others. A taxpayer cannot claim a credit for fuel cell property for a second home or for a home that is not located in the United States.

Qualified expenses. Qualified expenses include the costs of new clean energy property including:
- Solar electric panels,
- Solar water heaters,
- Wind turbines,
- Geothermal heat pumps,
- Fuel cells, and
- Battery storage technology.

Used (previously owned) clean energy property is not eligible.

Qualified expenses may include labor costs for onsite preparation, assembly, or original installation of the property and for piping or wiring to connect it to the home.

Traditional building components that primarily serve a roofing or structural function generally do not qualify. For example, roof trusses and traditional shingles that support solar panels do not qualify, but solar roofing tiles and solar shingles do because they generate clean energy.

Retirement Savings Contributions Credit

Cross References
- Form 8880, *Credit for Qualified Retirement Savings Contributions*
- IRS Pub. 590-A, *Contributions to Individual Retirement Arrangements (IRAs)*
- IRC §25B, *Elective deferrals and IRA contributions by certain individuals*

Related Topics
- Retirement, Social Security, and Medicare, Tab 13
- Rollovers and Transfers, Tab 29

Retirement Savings Contributions Credit (Saver's Credit)

A taxpayer may be eligible to claim a nonrefundable credit for contributions to an IRA or employer-sponsored retirement plan. In addition, contributions to an ABLE account by the designated beneficiary also qualify for the credit. See *Achieving a Better Life Experience (ABLE),* page 12-9.

Credit amount. Depending on modified AGI, the credit amount is either 10%, 20%, or 50% of eligible contributions. The maximum contribution amount that may qualify for the credit is $2,000 ($4,000 for MFJ), making the maximum credit amount $1,000 ($2,000 for MFJ). Use the following chart to calculate the credit.

Retirement Savings Contributions Credit Chart

Rate	MFJ	HOH	Single, QSS, MFS
50%	$0 – $46,000	$0 – $34,500	$0 – $23,000
20%	$46,001 – $50,000	$34,501 – $37,500	$23,001 – $25,000
10%	$50,001 – $76,500	$37,501 – $57,375	$25,001 – $38,250
0%	Over $76,500	Over $57,375	Over $38,250

Modified AGI. For most taxpayers, modified AGI is AGI from line 11, Form 1040. However, add to AGI any amounts excluded or deducted for the following.
- Foreign earned income,
- Foreign housing costs,
- Income for bona fide residents of American Samoa, or
- Income from Puerto Rico.

Ineligible taxpayers. The credit is not available if the taxpayer who made the qualified contributions (1) was born after January 1, 2007, (2) is claimed as a dependent on someone else's tax return, or (3) was a full-time student during any part of five calendar months during the year.

Form 8880, *Credit for Qualified Retirement Savings Contributions.* Use Form 8880 to compute the credit. The credit can be claimed in addition to any IRA deduction claimed on line 20, Schedule 1 (Form 1040), *Additional Income and Adjustments to Income.*

Eligible contributions. Contributions and deferrals include:
- Traditional and Roth IRA contributions.
- Elective deferrals to a 401(k), 403(b), governmental 457(b), SEP, SIMPLE, or federal Thrift Savings Plan (TSP).
- Voluntary employee contributions to a qualified retirement plan as defined in IRC section 4974(c), including the federal TSP.
- Contributions to a 501(c)(18)(D) plan.
- Contributions to an ABLE account by the designated beneficiary.

Contributions reduced. Reduce contributions by distributions received by the taxpayer, and spouse if filing jointly, received after 2021 and before the due date of the 2024 return (including extensions) from any of the following types of plans.
- Traditional or Roth IRAs (including myRAs), or ABLE accounts.
- 401(k), 403(b), governmental 457(b), 501(c)(18)(D), SEP, SIMPLE, or federal TSP.
- Qualified retirement plans as defined in IRC section 4974(c) (including the federal Thrift Savings Plan).

Do not reduce contributions by any of the following.
- Rollovers or trustee-to-trustee transfers.
- Distributions that are taxable as the result of an in-plan rollover to a designated Roth account.
- Distributions from an eligible retirement plan (other than a Roth IRA) rolled over or converted to a Roth IRA.
- Loans from a qualified employer plan treated as a distribution.
- Distributions of excess contributions or deferrals (and income allocable to such contributions or deferrals).
- Distributions of contributions made to an IRA during a tax year and returned (with any income allocable to such contributions) on or before the due date (including extensions) for that tax year.
- Distributions of dividends paid on stock held by an employee stock ownership plan (ESOP) under IRC section 404(k).
- Distributions from a military retirement plan (other than the federal Thrift Savings Plan).
- Distributions from an inherited IRA by a nonspousal beneficiary.

Generally, if filing a joint return, include both spouses' amounts in both columns on line 4, Form 8880. However, do not include the spouse's distributions with the taxpayer's distributions if the taxpayer and spouse did not file a joint return for the year the distribution was received.

Example: Tom received a distribution of $5,000 from a qualified retirement plan in 2024. His spouse received a distribution of $2,000 from a Roth IRA in 2022. Tom and his spouse file a joint return in 2024, but did not file a joint return in 2022. Tom would include $5,000 in column (a), line 4, Form 8880 and $7,000 in column (b), line 4, Form 8880.

Vehicle Credits

Cross References
- Schedule A (Form 8936), *Clean Vehicle Credit Amount*
- Form 8911, *Alternative Fuel Vehicle Refueling Property Credit*
- Form 8936, *Clean Vehicle Credits*
- IRC §25E, *Previously-owned clean vehicles*
- IRC §30B, *Alternative motor vehicle credit*
- IRC §30C, *Alternative fuel vehicle refueling property credit*
- IRC §30D, *Clean vehicle credit*
- Rev. Proc. 2022-42

Related Topics
- Credits and AMT, page 14-2
- Qualified Commercial Clean Vehicle Credit (Form 8936), page 31-16

Alternative Motor Vehicle Credit
Note: The Alternative Motor Vehicle Credit is expired for vehicles purchased after 2021. However, if a vehicle ceases to qualify for the credit, part or all of the credit may have to be recaptured. [IRC §30B(h)(8)]

Alternative Fuel Vehicle Refueling Property Credit
Alternative fuel vehicle refueling property placed in service during the tax year is eligible for a credit. Qualifying property is any property, other than buildings or structural components, used to store or dispense an alternative fuel (other than electricity) into the fuel tank of a motor vehicle propelled by the fuel, or used to recharge an electric vehicle. In addition, the following requirements must be met to qualify for the credit.
- The refueling property must be placed in service during the year,
- The original use of the property began with the taxpayer,
- The property is not used predominantly outside the United States,
- The property must be installed on property used as the taxpayer's main home (if not business or investment use property).
- The property must be located in an eligible census tract.

Eligible census tract. An eligible census tract is any population census tract that:
- Is a low-income community, as described in IRC section 45D(e), or
- Is not an urban area, as designated by the Secretary of Commerce.

Maximum Credit—Alternative Fuel Refueling Property

Personal-use property	*Depreciable property*
The smaller of: • 30% of the property's cost, or • $1,000.[1]	The smaller of: • 30% of the property's cost,[2] or • $100,000.

[1] The $1,000 limit is per item of property.
[2] Reduce property cost first by any Section 179 expense deduction claimed for the property.

Form 8911, *Alternative Fuel Vehicle Refueling Property Credit.* File Form 8911 to claim the credit. The personal portion of the credit is nonrefundable and flows to line 6j, Schedule 3, *Additional Credits and Payments.* The unused portion of the credit due to tax liability cannot be carried over. The business portion of the credit flows to Form 3800, *General Business Credit,* and reduces the taxpayer's depreciable basis in the vehicle.

Recapture. If the property ceases to qualify for the credit, part or all of the credit may have to be recaptured. [IRC §30C(e)(5)]

Clean Vehicle Tax Credits
Certain regulations for the clean vehicle tax credits apply to both the new and previously-owned clean vehicle tax credits. For information specific to new vehicles, see Clean Vehicle Credit, page 11-18. For information specific to previously-owned vehicles, see Previously-Owned Clean Vehicle Credit, page 11-18. For an updated list of frequently asked questions (FAQs), visit https://www.irs.gov/pub/taxpros/fs-2024-26.pdf.

New for 2024 **Electric vehicle final regulations.** The final regulations provide rules regarding critical mineral and battery component requirements for the new Clean Vehicle Credit. The final regulations finalize rules for taxpayers intending to transfer the new and previously-owned clean vehicle credits who are eligible to receive advance payments, as well as provides rules regarding the process for dealers to become eligible to receive advanced payments of the transferred credits. (Reg. §1.25E-1 through Reg. §1.25E-3, Reg. §1.30D-1 through Reg. §1.30D-6)

New for 2024 **Transfer of electric vehicle credits.** For vehicles placed in service after 2023, a taxpayer may be eligible to transfer the credit amount to the dealer at the time of sale and receive an immediate financial benefit in place of a tax credit claimed on his or her tax return. Form 8936, *Clean Vehicle Credits,* must be filed with a taxpayer's tax return to report the credit transfer for the year in which the vehicle was placed in service.

Note: If a taxpayer transfers credit to the dealer, but does not qualify for the credit due to MAGI exceeding the threshold, they will have to pay the credit back when filing their tax return. Dealers are not required to verify the buyer's eligibility at the time of the sale.

New for 2024 **Approval of electric vehicle credits.** Beginning January 1, 2024, Clean Vehicle Tax Credits must be initiated and approved at the time of the sale. Buyers are advised to obtain a copy of the IRS's confirmation that a "time-of-sale" report was submitted successfully by the dealer. See IRS Pub. 5900, *Important Information for Consumers Transferring Clean Vehicle Tax Credits.*

Modified adjusted gross income (MAGI) threshold. No credit is allowed if a taxpayer's MAGI exceeds the following amounts.

Filing Status	New clean vehicle	Previously-owned clean vehicle
MFJ or QSS	$300,000	$150,000
HOH	$225,000	$112,500
Single or MFS	$150,000	$ 75,000

Taxpayers may use their MAGI from the year they take delivery of the vehicle or the year before, whichever is less.

Look-up tools. The U.S. Department of Energy has developed online tools to determine if a vehicle purchased in 2024 qualifies for either the Clean Vehicle Credit or the Previously-Owned Vehicle Credit. For new vehicles, the tool can be found at www.fuel.economy.gov/feg/tax2023.shtml. For previously-owned vehicles, the tool can be found at www.fueleconomy.gov/feg/taxused.shtml.

Carryover of credits. The credits for new clean vehicles and previously-owned clean vehicles are nonrefundable and unused amounts cannot be carried forward.

Form 8936, *Clean Vehicle Credits.* A taxpayer uses Form 8936 and Schedule A (Form 8936), *Clean Vehicle Credit Amount,* to claim the Clean Vehicle Credit, Previously-Owned Clean Vehicle Credit, or Qualified Commercial Clean Vehicle Credit. For a new clean vehicle, Form 8936 divides the credit between business and investment use, if applicable, and personal use. The vehicle's year, make, model, and VIN must be entered on Schedule A (Form 8936).

Basis reduction. Taxpayers must reduce basis of each vehicle by the amount entered on Schedule A (Form 8936) for that vehicle.

Recapture of credit. If the vehicle no longer qualifies for the credit, the taxpayer may have to recapture all or part of the credit.

Clean Vehicle Credit

Taxpayers who purchase and place in service a new plug-in electric vehicle (EV) or fuel cell vehicle (FCV) may qualify for a Clean Vehicle Credit of up to $7,500.

Qualified taxpayers. To qualify for the credit, a taxpayer must:
- Purchase the vehicle for their own use or to lease to others (not for resale),
- Place the vehicle in service during the tax year,
- Use it primarily in the United States, and
- Must have a MAGI below threshold amount. See *Modified adjusted gross income (MAGI) threshold*, previous column.

Credit amount. For vehicles placed in service after April 17, 2023, the credit amount depends on the vehicle meeting critical minerals requirements and/or the battery components requirements. The credit amount is:
- $3,750 if the vehicle meets one of the two requirements.
- $7,500 if the vehicle meets both requirements.

Qualified vehicles. In order to qualify for the credit, new plug-in electric vehicles (EVs) or fuel cell vehicles (FCVs) must meet the following standards.
- Have a battery capacity of at least 7 kilowatt hours.
- Have a gross vehicle weight of less than 14,000 pounds.
- Undergo final assembly in North America,
- Meet critical mineral and battery component requirements if placed in service after April 17, 2023.
- EVs need to be made by a qualified manufacturer.
- The seller needs to report required information to the taxpayer at the time of sale and to the IRS.

Vehicle MSRP. Additionally, the vehicle's manufacturer suggested retail price (MSRP) cannot exceed:
- $80,000 for vans, sport utility vehicles, and pickup trucks.
- $55,000 for other vehicles.

MSRP is the retail price of the automobile suggested by the manufacturer, including manufacturer installed options, accessories, and trim. MSRP does not include destination fees. The MSRP is not necessarily the price the taxpayer paid.

Coordination with other credits. A vehicle claimed for the new Clean Vehicle Credit cannot also be used to claim the Qualified Commercial Clean Vehicle Credit. If the vehicle qualifies for both credits, the taxpayer may choose which credit to claim.

Previously-Owned Clean Vehicle Credit

Taxpayers who purchase a qualified used electric vehicle (EV) or fuel cell vehicle (FCV) may qualify for a credit of up to $4,000.

Qualified taxpayers. To qualify for the credit the taxpayer must:
- Purchase the vehicle for use (not for resale),
- Not be the original owner of the vehicle,
- Not be claimed as a dependent on another taxpayer's return,
- Not have claimed another used clean vehicle credit in the three years before the purchase date, and
- Must have a MAGI below threshold amount. See *Modified adjusted gross income (MAGI threshold),* previous column.

Credit amount. The Previously-Owned Clean Vehicle Credit equals 30% of the sale price up to a maximum credit of $4,000.

Qualified vehicles. In order to qualify for the credit, used plug-in electric vehicles (EVs) or fuel cell vehicles (FCVs) must meet the following standards.
- Have a sale price of $25,000 or less.
- Have a model year at least two years earlier than the calendar year when the taxpayer buys it. For example, a vehicle purchased in 2024 would need a model year of 2022 or older.
- Not have already been transferred after August 16, 2022, to a qualified buyer.
- Have a gross vehicle weight rating of less than 14,000 pounds.
- Be an eligible FCV or plug-in EV with a battery capacity of at least 7 kilowatt hours.
- Be for use primarily in the United States.

Additionally, the vehicle must be purchased from a dealer and for qualified used EVs, the dealer reports required information to the taxpayer at the time of sale and to the IRS.

~ End ~