

# Money for Life

February 2004

Dear Readers,

There is good news at tax time for working families raising children. Several tax credits are available to benefit families through reducing taxes owed and even possibly receiving a larger refund check. This month's newsletter focuses on these tax credits.



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## Child Tax Credit

The Child Tax Credit (CTC) is a federal tax credit for each child under age 17 claimed as a dependent on the worker's tax return. Congress made changes to the credit that has made it available to more low- and moderate-income working families and provided many families with a larger CTC than received in the past. This "additional CTC" is refundable, meaning some families can get the credit even if they owe no income tax.



To be eligible for the CTC refund, a single or married worker must:

- be able to claim an exemption for a dependent child under age 17 on his or her tax return;
- have taxable earned income above \$10,500; and
- have either a Social Security number or Individual Taxpayer Identification Number. To receive the Child Tax Credit, you must file Form 1040 or

1040A. The CTC is first used to reduce or eliminate any income tax a tax filer owes. If any of the CTC is remaining, the tax filer uses Form 8812 (Additional Child Tax Credit) to determine if they qualify for a CTC refund and, if so, the amount. This form must be attached to the tax return for a family to receive the CTC refund.

The CTC refund does not count as income in determining eligibility for any federal, state, or local program benefits. CTC refunds do not count toward resource limits in the month of receipt or the following month.

Beginning in July 2003, the IRS began mailing Advance Child Tax Credit tax refunds to families who claimed the CTC in 2002. The refunds were based on an increase in the maximum CTC amount for 2003 from \$600 per child to \$1,000 per child. When completing your taxes, you must reduce your Child Tax Credit by any advance payment you received in 2003.



The amount of your advance payment is shown on Notice 1319 mailed to you in 2003. If you do not have this notice, you can check the amount of your advance payment on the IRS web site or call them at 1-800-829-1040. If you filed a joint return for 2002, but for 2003 you are not filing a joint return (or a joint return with the same spouse), you are considered to have received one-half of the advance payment.

For more information, see IRS Publication 972, "Child Tax Credit."

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## Child and Dependent Care Credit

The Child and Dependent Care Credit is a tax benefit that helps families pay for child care (for children under the age of 13) they need in order to work or to look for work. The credit is also available to families that must pay for the care of a spouse or an adult dependent who is incapable of caring for himself or herself. In 2003 the amount of dependent care expenses that can be claimed for this credit has increased from \$2,400 per child to \$3,000 per child (up to \$6,000 for two or more children). Eligible families will receive a credit worth between 20% and 35% of these expenses, depending on their income.

Any kind of child or dependent care can qualify, including care at a center, a family day care home or a church, or care provided by a neighbor or a relative. Families must file Form 1040 and attach Form 2441 or Form 1040A and attach Schedule 2.

## Earned Income Credit

Earned Income Credit (EIC) is a special tax benefit for working families earning low or moderate incomes. Workers who qualify can get back some or all of the federal income tax that was taken out of their pay during the year. They may also get cash back from the IRS.

Income qualifications are:

- Workers with two or more qualifying children and family income of up to \$33,692 (\$34,692 if married)
- Workers with only one qualifying child and family income of up to \$29,666 (\$30,666 if married)

Children must have lived with the worker for more than half of the year, be under age 19, or under age 24 if they are full-time students. Totally and permanently disabled children of any age may also qualify.

Form 1040 or 1040A must be filed and Schedule EIC attached. A correct name and Social Security number must be provided. Workers don't have to calculate their own EIC; if they choose, the IRS will do it for them.

Through the Advance EIC, workers can get part of their EIC in their paychecks throughout the year. Advance payments are not taxable income. The advance payment procedure has built-in protections against overpayment. Workers who choose advance payment can get about half of the EIC amount during the year and the rest as a refund when they file their tax return.

For more information about any of these tax credits, contact the IRS at 1-800-TAX-1040 or at [www.irs.gov](http://www.irs.gov)



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