

Form 2441

To claim the child and dependent care credit, complete lines 27 through 31 below.

27 Enter \$3,000 (\$6,000 if two or more qualifying persons)	27		
28 Form 1040 and 1040NR filers: Add lines 24 and 25. Form 1040A filers: Enter the amount from line 25	28		
29 Subtract line 28 from line 27. If zero or less, stop. You cannot take the credit. Exception: If you paid 2015 expenses in 2016, see the instructions for line 9	29		
30 Complete line 2 on the front of this form. Do not include in column (c) any benefits shown on line 28 above. Then, add the amounts in column (c) and enter the total here.	30		
31 Enter the smaller of line 29 or 30. Also, enter this amount on line 3 on the front of this form and complete lines 4 through 11	31		

Form 2441 (2016)

Tests To Claim the Credit

- To be able to claim the credit for child and dependent care expenses, the client must use Form 1040, Form 1040A, or Form 1040NR
- Meet all the following tests
 - The care must be for one or more qualifying persons who are identified on Form 2441
 - The client and /or spouse if filing jointly, must have earned income during the year
 - Exception: Rule for student-spouse or spouse not able to care for self under Earned Income Test

Tests To Claim the Credit

- The client must pay child and dependent care expenses so the client and or spouse if filing jointly, can work or look for work
- The client must pay for child and dependent care to someone whom they cannot claim as a dependent
- If the clients makes payments to their child, he or she cannot be a dependent and must be age 19 or older by the end of the year

Tests To Claim the Credit

- They cannot make payments to:
 - The spouse, or
 - The parent of the qualifying person if the qualifying person is a child and under age 13

Filing Status

- The filing status may be single, head of household, or qualifying widow(er) with dependent child
- If the client is married, they must file a joint return, unless an exception applies
- The client must identify the care provider on the tax return

Form W-2 Box 10

- If the client excludes or deducts dependent care benefits provided by a dependent care benefit plan, the total amount that they can exclude or deduct must be less than the dollar limit for qualifying expenses
- Generally, \$3,000 if one qualifying person was cared for or \$6,000 if two or more qualifying persons were cared for
- If two or more qualifying persons were cared for, the amount excludible or deductible will always be less than the dollar limit, since the total amount an individual can exclude or deduct is limited to \$5,000

Dependent Defined

- A dependent is a person, other than the client and spouse, for whom the client can claim an exemption
- To be a dependent, a person must be a qualifying child or a qualifying relative

Qualifying Child

- To be a qualifying child, a child must live with the client for more than half the year and meet other requirements
- Physically or mentally not able to care for oneself
 - Persons who cannot dress, clean, or feed themselves because of physical or mental problems are considered not able to care for themselves
 - Also, persons who must have constant attention to prevent them from injuring themselves or others are considered not able to care for themselves

**Qualifying Child
Person Qualifying for Part of Year**

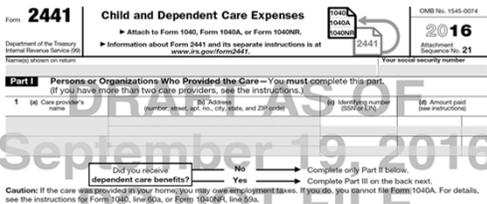
- A person's status as qualifying is determined each day
- For example, if the person for whom the client pays child and dependent care expenses no longer qualifies on September 16, count only those expenses through September 15
- They still may be limited under Dollar Limit

Birth or Death of Otherwise Qualifying Person

- In determining whether a person is a qualifying person, a person who was born or died in 2016 is treated as having lived with the client for more than half of 2016 if the home was the person's home more than half the time he or she was alive in 2016

Taxpayer Identification Number

- The client must include on the return the name and taxpayer identification number (generally the social security number) of the qualifying person(s)
- If the correct information is not shown, the credit may be reduced or disallowed



ITIN

- If the qualifying person is a nonresident or resident alien who does not have and cannot get a social security number (SSN), use that person's ITIN
- The ITIN is entered wherever an SSN is requested on a tax return
- If the alien does not have an ITIN, he or she must apply for one
 - Form W-7, Application for IRS Individual Taxpayer Identification Number
- An ITIN is for tax use only
- It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law

ITIN
<ul style="list-style-type: none">• Beginning in 2016, the IRS will deactivate an ITIN where the middle numbers are 78 or 79• ITIN Holders will need to renew

Adoption Taxpayer Identification Number (ATIN)
<ul style="list-style-type: none">• If the qualifying person is a child who was placed in the client's home for adoption and for whom they do not have an SSN, the client must get an ATIN for the child• File Form W-7A, Application for Taxpayer Identification Number for Pending U.S. Adoptions

Child of Divorced or Separated Parents or Parents Living Apart
<ul style="list-style-type: none">• Even if the client cannot claim the child as a dependent, he or she is treated as a qualifying person if:<ul style="list-style-type: none">– The child was under age 13 or was not physically or mentally able to care for himself or herself– The child received over half of his or her support during the calendar year from one or both parents<ul style="list-style-type: none">• Who are divorced or legally separated under a decree of divorce or separate maintenance• Are separated under a written separation agreement, or• Lived apart at all times during the last 6 months of the calendar year• The child was in the custody of one or both parents for more than half the year, and• The client was the child's custodial parent

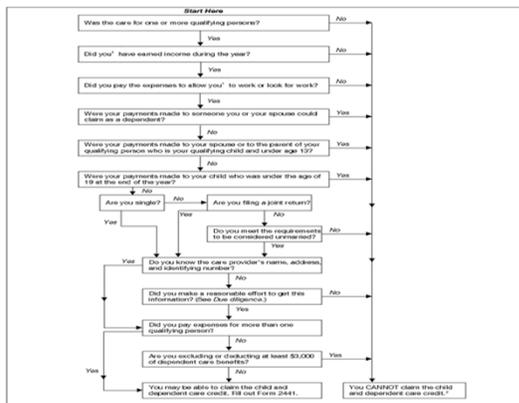
Custodial Parent

- The custodial parent is the parent with whom the child lived for the greater number of nights in 2016
- If the child was with each parent for an equal number of nights, the custodial parent is the parent with the higher adjusted gross income
 - Reminder about the exception for the parent who works at night

Non-Custodial Parent

- The noncustodial parent cannot treat the child as a qualifying person even if that parent is entitled to claim the child as a dependent under the special rules for a child of divorced or separated parents

Figure A. Can You Claim the Credit?



Earned Income Test

- To claim the credit, the client and spouse if filing jointly, must have earned income during the year

Earned Income

- Earned income includes wages, salaries, tips, other taxable employee compensation, and net earnings from self-employment
- A net loss from self-employment reduces earned income
- Earned income also includes strike benefits and any disability pay the client reports as wages
- Generally, only taxable compensation is included

Earned Income

- Foreign earned income and Medicaid waiver payments the client excludes from income are not included
- However, the client can opt to include nontaxable combat pay in earned income
- If the clients are filing a joint return and both received nontaxable combat pay, each make their own election

The Choice

- The client can choose to include nontaxable combat pay in earned income when figuring the credit for child and dependent care expenses, even if they choose not to include it in earned income for the earned income credit or the exclusion or deduction for dependent care benefits

Members of Certain Religious Faiths Opposed to Social Security

- Certain persons who are members of certain religious faiths are opposed to participation in Social Security Act programs and have an IRS-approved form that exempts certain income from social security and Medicare taxes
- These forms are:
 - Form 4361, Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners, and
 - Form 4029, Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits, for use by members of recognized religious groups

Form 4361

- Whether or not the client has approved Form 4361, amounts received for performing ministerial duties as an employee are earned income
- This includes wages, salaries, tips, and other taxable employee compensation
- However, amounts received for ministerial duties, but not as an employee, do not count as earned income
 - Examples include fees for performing marriages and honoraria for delivering speeches
- Any amount received for work that is not related to the ministerial duties is earned income

Form 4029

- Whether or not the client has an approved Form 4029, all wages, salaries, tips, and other taxable employee compensation are earned income
- However, amounts received as a self-employed individual do not count as earned income

What is Not Earned Income?

- Earned income does not include:
 - Amounts reported on Form 1040, line 7 excluded as foreign earned income on Form 2555, line 43 or Form 2555-EZ, line 18,
 - Medicaid waiver payments the client excludes from income
 - Pensions and annuities
 - Social security and railroad retirement benefits
 - Workers' compensation
 - Interest and dividends
 - Unemployment compensation
 - Scholarships or fellowship grants, except for those reported on Form W-2 and paid to you for teaching or other services
 - Nontaxable workfare payments
 - Child support payments received
 - Income of a nonresident alien that is not effectively connected with a U.S. trade or business or
 - Any amount received for work while an inmate in a penal institution

Rule for Student-Spouse or Spouse not Able to Care for Self

- The spouse is treated as having earned income for any month that he or she is:
 - A full-time student, or
 - Physically or mentally not able to care for himself or herself
 - The spouse also must live with the client for more than half the year
- If the clients are filing a joint return, this rule also applies
- They can be treated as having earned income for any month the individual is a full-time student or not able to care for themselves
- This rule applies to only one spouse for any one month
- If, in the same month, both spouses do not work and are either full-time students or not physically or mentally able to care for yourselves, only one of them can be treated as having earned income in that month

Full-time Student

- The client is a full-time student if they are enrolled at a school for the number of hours or classes that the school considers full time
- They must have been a full-time student for some part of each of 5 calendar months during the year
- The months need not be consecutive

School

- The term "school" includes high schools, colleges, universities, and technical, trade, and mechanical schools
- A school does not include an on-the-job training course, correspondence school, or school offering courses only through the Internet

Work-Related Expense Test

- Child and dependent care expenses must be work-related to qualify for the credit
- Expenses are considered work-related only if both of the following are true:
 - They allow the couple/individual, to work or look for work
 - They are for a qualifying person's care

Working or Looking for Work

- If married, generally both spouses must work or look for work
- One spouse is treated as working during any month he or she is a full-time student or is not physically or mentally able to care for himself or herself
- The work can be for others or in a business or partnership
- It can be either full time or part time
- Work also includes actively looking for work
- However, if they do not find a job and have no earned income for the year, they cannot take this credit

Non-Work Related

- An expense is not considered work-related merely because the client incurred the expense while working
 - The purpose of the expense must be to allow the client or spouse to work
 - Whether the expenses allowed the client to work or look for work depends on the facts
- Example 1
 - The cost of a babysitter while the client and spouse go out to eat is not normally a work-related expense
- Example 2
 - The client works during the day
 - The spouse works at night and sleeps during the day
 - The client pays care of their 5-year-old child during the hours when the client is working and the spouse is sleeping
 - The expenses are considered work-related

Volunteer Work.

- For this purpose, the client is not considered to be working if they do unpaid volunteer work or volunteer work for a nominal salary

Work for Part of Year

- If the client works or actively looks for work during only part of the period covered by the expenses, then the tax preparer must figure expenses for each day
- For example, if the client worked all year and pays care expenses of \$250 a month (\$3,000 for the year), all the expenses are work related
- However, if they work or look for work for only 2 months and 15 days during the year and pay expenses of \$250 a month, the work-related expenses are limited to \$625 (2½ months × \$250)

Temporary Absence from Work

- The client does not have to figure expenses for each day during a short, temporary absence from work, such as for vacation or a minor illness, if they have to pay for care anyway
- Instead, they can figure the credit including the expenses paid for the period of absence
- An absence of 2 weeks or less is a short, temporary absence
- An absence of more than 2 weeks may be considered a short, temporary absence, depending on the circumstances

Example

- The client pays a nanny to care for the client's 2-year-old son and 4-year-old daughter so the client can work
- The client becomes ill and misses 4 months of work but receive sick pay
- The client continues to pay the nanny to care for the children while ill
- The absence is not a short, temporary absence, and the expenses are not considered work-related

Part-time Work

- If the client works part-time, they generally must figure the expenses for each day
- However, if the client had to pay for care weekly, monthly, or in another way that includes both days worked and days not worked, figure the credit including the expenses paid for days they did not work
- Any day when the client work at least 1 hour is a day of work

Example 1

- The client works 3 days a week
- While at work, his/her 6-year-old child attends a dependent care center, which complies with all state and local regulations
- The client pays the center \$150 for any 3 days a week or \$250 for 5 days a week
- The child attends the center 5 days a week
- The work-related expenses are limited to \$150 a week

Example

- The facts are the same except the center does not offer a 3-day option
- The entire \$250 weekly fee may be a work-related expense

Care of a Qualifying Person
<ul style="list-style-type: none"> • To be work-related, the expenses must be to provide care for a qualifying person • The cost of a paid care provider may be an expense for the care of a qualifying person even if another care provider is available at no cost • Expenses are for the care of a qualifying person only if their main purpose is the person's well being and protection • Expenses for household services qualify if part of the services is for the care of qualifying persons

Expenses Not for Care
<ul style="list-style-type: none"> • Expenses for care do not include amounts paid for food, lodging, clothing, education, and entertainment • However, the client can include small amounts paid for these items if they are incidental to and cannot be separated from the cost of caring for the qualifying person • Child support payments are not for care and do not qualify for the credit

Education
<ul style="list-style-type: none"> • Expenses for a child in nursery school, preschool, or similar programs for children below the level of kindergarten are expenses for care • Expenses to attend kindergarten or a higher grade are not expenses for care <ul style="list-style-type: none"> – Do not use these expenses to figure the credit • However, expenses for before-or after-school care of a child in kindergarten or a higher grade may be expenses for care • Summer school and tutoring programs are not for care

Dependent Care Center
<ul style="list-style-type: none">• You can count care provided outside the home by a dependent care center only if the center complies with all state and local regulations that apply to these centers• A dependent care center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment, or grant for providing services for any of those persons, even if the center is not run for profit

Camp
<ul style="list-style-type: none">• The cost of sending a child to an overnight camp is not considered a work-related expense• The cost of sending a child to a day camp may be a work-related expense, even if the camp specializes in a particular activity, such as computers or soccer.

Transportation
<ul style="list-style-type: none">• If a care provider takes a qualifying person to or from a place where care is provided, that transportation is for the care of the qualifying person• This includes transportation by bus, subway, taxi, or private car• However, transportation not provided by a care provider is not for the care of a qualifying person• Also, if the client pays the transportation cost for the care provider to come to the home, that expense is not for care of a qualifying person

Fees and Deposits

- Fees paid to an agency to get the services of a care provider, deposits paid to an agency or preschool, application fees, and other indirect expenses are work-related expenses if you have to pay them to get care, even though they are not directly for care
- However, a forfeited deposit is not for the care of a qualifying person if care is not provided
 - Example 1
- The client pays a fee to an agency to get the services of the nanny who cares for your 2-year-old daughter while the client works
- The fee paid is a work-related expense
 - Example 2
- The client placed a deposit with a preschool to reserve a place for a 3-year-old child
- Later the client sent the child to a different preschool and forfeited the deposit
- The forfeited deposit is not for care and so is not a work-related expense

Household Services

- Expenses paid for household services meet the work-related expense test if they are at least partly for the well-being and protection of a qualifying person
- Definition
 - Household services are ordinary and usual services done in and around the home that are necessary to run the home
 - They include the services of a housekeeper, maid, or cook
- However, they do not include the services of a chauffeur, bartender, or gardener

Housekeeper

- The term housekeeper refers to any household employee whose services include the care of a qualifying person
- Expenses partly work-related
 - If part of an expense is work-related (for either household services or the care of a qualifying person) and part is for other purposes, the client must divide the expense
 - To figure the credit, count only the part that is work-related
 - However, it is not necessary to divide the expense if only a small part is for other purposes

Example

- The client pays a housekeeper to care for a 9-year-old and 15-year-old children so the client can work
- The housekeeper spends most of the time doing normal household work and spends 30 minutes a day driving the client to and from work
 - The client does not have to divide the expenses
 - They can treat the entire expense of the housekeeper as work-related because the time spent driving is minimal
 - Nor does the client have to divide the expenses between the two children, even though the expenses are partly for the 15-year-old child who is not a qualifying person, because the expense is also partly for the care of your 9-year-old child, who is a qualifying person
 - However, the dollar limit is based on one qualifying person, not two

Meals and Lodging Provided for Housekeeper

- If the client has expenses for meals that the housekeeper eats in the home because of his or her employment, count these as work-related expenses
- If the client has extra expenses for providing lodging in the home to the housekeeper, count these as work-related expenses also
- Example:
 - To provide lodging to the housekeeper, the client moves to an apartment with an extra bedroom
 - The taxpayer can count the extra rent and utility expenses for the housekeeper's bedroom as work-related
 - However, if the housekeeper moves into an existing bedroom in the home, count only the extra utility expenses as work-related

Taxes Paid on Wages

- The taxes paid on wages for qualifying child and dependent care services are work-related expenses
- Employment Taxes for Household Employers,

Payments to Relatives or Dependents

- The client can count work-related payments they make to relatives who are not dependents, even if they live in the home
- However, do not count any amounts paid to:
 - A dependent for whom an exemption can be claimed
 - The client’s child who was under age 19 at the end of the year, even if he or she is not a dependent
 - A person who was the client’s spouse any time during the year, or
 - The parent of the qualifying person if the qualifying person is the client’s child and under age 13

Joint Return Test

- Generally, married couples must file a joint return to take the credit
- However, if the client is legally separated or living apart from the spouse, they may be able to file a another return and still take the credit
- Legally separated
 - The client is not considered married if they are legally separated from the spouse under a decree of divorce or separate maintenance
 - They may be eligible to take the credit on a return using head of household filing status

Joint Return Test Married and Living Apart

- The client is considered married and is eligible to take the credit if all the following apply:
 - They file a return apart from the spouse
 - The home is the home of a qualifying person for more than half the year
 - They pay more than half the cost of keeping up your home for the year
 - The spouse does not live in the home for the last 6 months of the year

**Joint Return Test
Not Legally Separated**

- The client may also be able to claim the child and dependent care credit even though they are not legally separated and they file a separate return

Amy

- Amy separated from her spouse in March
- She is not separated under a decree of divorce or separate maintenance agreement and uses the married filing separate filing status
- Amy maintains a home for herself and Sam, her disabled brother
- Sam is permanently and totally disabled and unable to care for himself
- Because Sam earns \$5,600 in interest income Amy cannot claim him as a dependent (his gross income is greater than the exemption amount, \$4,050)
- And, because Amy is not able to claim Sam as a dependent and she is still married as of the end of the year, she cannot use the head of household filing status

Amy

- Amy's filing status is married filing separately and Sam qualifies as a qualifying person for the child and dependent care credit
- Because of the following facts Amy is able to claim the credit for child and dependent care expenses even though Amy uses the married filing separate filing status:
 - Amy did not live with her spouse for the last six months of the year
 - She has maintained a home for herself and Sam (a qualifying individual) since she separated from her spouse in March
 - She maintains her own household and provides more than half of the cost of maintaining that home for her and Sam, and
 - Amy pays an adult daycare center to care for Sam to allow her to work

<h3>Dean</h3>
<ul style="list-style-type: none"> • Dean separated from his spouse in April • He is not separated under a decree of divorce or separate maintenance agreement • He and his spouse have not lived together since April and Dean maintains his own home and provides more than half the cost of maintaining that home for himself and his daughter, Nicole, who is permanently and totally disabled • Because Nicole is married and files a joint return with her husband, who is away in the military, Dean cannot claim Nicole as a dependent and therefore cannot use the head of household filing status

<h3>Dean</h3>
<ul style="list-style-type: none"> • Dean's filing status is married filing separately and Nicole qualifies as a qualifying person for the child and dependent care credit • Because of the following facts Dean is able to claim the credit for child and dependent care expenses even though he uses the married filing separate filing status: <ul style="list-style-type: none"> – Dean did not live with his spouse for the last six months of the year – He has maintained a home for himself and Nicole (a qualifying individual) since he separated from his spouse in April – He maintains his own household and provides more than half of the cost of maintaining that home for him and Nicole, and – Dean pays a daycare provider to care for Nicole to allow him to work

<h3>Costs of Keeping up a Home</h3>
<ul style="list-style-type: none"> • The costs of keeping up a home normally include property taxes, mortgage interest, rent, utility charges, home repairs, insurance on the home, and food eaten at home • The costs of keeping up a home do not include payments for clothing, education, medical treatment, vacations, life insurance, transportation, or mortgage principal • They also do not include the purchase, permanent improvement, or replacement of property • For example, a client cannot include the cost of replacing a water heater <ul style="list-style-type: none"> – However, the client can include the cost of repairing a water heater

Death of Spouse

- If the spouse dies during the year and the client does not remarry before the end of the year, they generally must file a joint return to take the credit
- If you do remarry before the end of the year, the credit can be claimed on the deceased spouse's own return

Provider Identification Test

- The client must identify all persons or organizations that provide care for the child or dependent
- Use Form 2441, Part I, to show the information
- If the client does not have any care providers and is filing Form 2441 only to report taxable income in Part III, enter "none" in line 1, column (a)

Form 2441

Form 2441 **Child and Dependent Care Expenses** OMB No. 1545-0074

Department of the Treasury Internal Revenue Service (98) 2016 Attachment Sequence No. 21

▶ Attach to Form 1040, Form 1040A, or Form 1040NR. ▶ Information about Form 2441 and its separate instructions is at www.irs.gov/form2441.

Name(s) shown on return Your social security number

Part I **Persons or Organizations Who Provided the Care**—You must complete this part. (If you have more than two care providers, see the instructions.)

1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN, EIN, etc.)	(d) Amount paid (see instructions)
<p>Did you receive dependent care benefits? <input type="checkbox"/> No <input type="checkbox"/> Yes</p> <p>→ Complete only Part II below. → Complete Part III on the back next.</p>				

Caution: If the care was provided in your home, you may owe employment taxes. If you do, you cannot file Form 1040A. For details, see the instructions for Form 1040, line 30a, or Form 1040NR, line 30a.

Information Needed
<ul style="list-style-type: none">• To identify the care provider, the client must provide the provider's• Name,• Address, and• Taxpayer identification number• If the care provider is an individual, the taxpayer identification number is his or her social security number or individual taxpayer identification number• If the care provider is an organization, then it is the employer identification number (EIN)

Tax-Exempt Provider
<ul style="list-style-type: none">• The client does not have to show the taxpayer identification number if the care provider is a tax-exempt organization (such as a church or school)• In this case, enter "Tax-Exempt" in the space where Form 2441 asks for the number

Due Diligence
<ul style="list-style-type: none">• If the client cannot provide all of the information or the information is incorrect, they must be able to show that they used due diligence in trying to furnish the necessary information• If the care provider information provided to the client is incorrect or incomplete, the credit may not be allowed• However, if they can show that they used due diligence in trying to supply the information, they can still claim the credit• They can show due diligence by getting and keeping the provider's completed Form W-10 or one of the other sources of information just listed• Care providers can be penalized if they do not provide this information or they provide incorrect information

Getting the Information
<ul style="list-style-type: none">• Use Form W-10, Dependent Care Provider's Identification and Certification, to request the required information from the care provider• The client can also get the information from one of the other sources listed in the instructions for Form W-10, including:<ul style="list-style-type: none">• A copy of the provider's social security card,• A copy of the provider's completed Form W-4, Employee's Withholding Allowance Certificate, if he or she is a household employee,

Getting the Information
<ul style="list-style-type: none">• A copy of the statement furnished by the employer if the provider is on the employer's dependent care plan, or• A letter or invoice from the provider if it shows the necessary information.• The client should keep this information with their tax records• Do not send Form W-10 (or other document containing this information) to the Internal Revenue Service

Provider Refusal
<ul style="list-style-type: none">• If the provider refuses to give the identifying information, the client should report on Form 2441 whatever information they have (such as the name and address)• Enter "See Attached Statement" in the columns calling for the information not available• Then attach a statement explaining that the client requested the information from the care provider, but the provider did not provide the information• Be sure to write the client's name and social security number on this statement• The statement will show that they used due diligence in trying to furnish the necessary information.

U.S. Citizens and Resident Aliens Living Abroad

- If the client is living abroad, the care provider may not have, and may not be required to get, a U.S. taxpayer identification number (for example, an SSN or an EIN)
- If so, enter "LAFCP" (Living Abroad Foreign Care Provider) in the space for the care provider's taxpayer identification number

How To Figure the Credit

- The credit is a percentage of the work-related expenses
- Your expenses are subject to the earned income limit and the dollar limit
- The percentage is based on your adjusted gross income

Figuring Total Work-Related Expenses

- To figure the credit for 2016 work-related expenses, count only those the client paid by December 31, 2016

Expenses Prepaid in an Earlier Year

- If the client paid for services before they are provided, they can count the prepaid expenses only in the year the care is received
- Claim the expenses for the later year as if they were actually paid in that later year

Expenses not Paid Until the Following Year

- If the client had expenses in 2016 that they did not pay until 2017, they cannot count them when figuring the 2016 credit
- The client may be able to claim a credit for them on the 2017 return

Example Expenses Reimbursed

- If a state social services agency pays a nontaxable amount to reimburse the client for some of the child and dependent care expenses, they cannot count the expenses that are reimbursed as work-related expenses
 - The client paid work-related expenses of \$3,000
 - They are reimbursed \$2,000 by a state social services agency
 - They can use only \$1,000 to figure the credit

Medical Expenses

- Some expenses for the care of qualifying persons who are not able to care for themselves may qualify as work-related expenses and also as medical expenses
- The client can use them either way, but they cannot use the same expenses to claim both a credit and a medical expense deduction
- If the client uses these expenses to figure the credit and they are more than the earned income limit or the dollar limit, they can add the excess to the medical expenses
- However, if you use your total expenses to figure your medical expense deduction, you cannot use any part of them to figure your credit

Medical Expenses

- If the client uses these expenses to figure the credit and they are more than the earned income limit or the dollar limit, they can add the excess to the medical expenses
- However, if they use the total expenses to figure the medical expense deduction, they cannot use any part of them to figure the credit

Dependent Care Benefits

- If the client receive dependent care benefits, the dollar limit for purposes of the credit may be reduced
- But, even if they cannot take the credit, they may be able to take an exclusion or deduction for the dependent care benefits

Dependent Care Benefits

- Dependent care benefits include:
 - Amounts the client’s employer paid directly to either the client or the care provider for the care of the qualifying person while they work,
 - The fair market value of care in a daycare facility provided or sponsored by your employer, and
 - Pre-tax contributions made under a dependent care flexible spending arrangement (FSA)

Pre-tax Contributions Made Under a Dependent Care Flexible Spending Arrangement

- The client’s salary may have been reduced to pay for these benefits
- If they received benefits as an employee, they should be shown in box 10 of the Form W-2, Wage and Tax Statement
- Benefits received as a partner should be shown in box 13 of the Schedule K-1 (Form 1065) with code O
- Enter the amount of these benefits on Form 2441, Part III, line 12

2016 Form W-2

22222		Valid <input type="checkbox"/>	Employer's social security number	For Official Use Only OMB No. 1545-0046
b Employer identification number (EIN)		1 Wages, tips, other compensation		2 Federal income tax withheld
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld	5 Medicare wages and tips
		6 Medicare taxes and tips	7 Social security tips	8 Allocated tips
d Control number		9	10 Dependent care benefits	
e Employer's first name and initial		Last name	11 Nonqualified plans	
			12a See instructions for box 12	
f Employer's address and ZIP code		13		
16 State		17 State income tax	18 Local wages, tips, etc.	19 Local income tax
Employer's state ID number		20	20 Locality name	

W-2 Wage and Tax Statement 2016
 Form W-2 to the Social Security Administration; photocopies are not acceptable.
 Department of the Treasury - Internal Revenue Service
 For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.
 Do Not Cut, Fold, or Staple Forms on This Page

Form 1065 K-1

Part II Information About the Partner		9e	17
E Partner's identifying number		Net long-term capital gain (loss)	Alternative minimum tax (AMT) for
F Partner's name, address, city, state, and ZIP code		9c	
		Collectibles (28%) gain (loss)	
		9d	
		Unrecaptured section 1250 gain	
		10	
		Net section 1231 gain (loss)	18
			Tax-exempt income and nondeductible expenses
G <input type="checkbox"/> General partner or LLC member/manager <input type="checkbox"/> Limited partner or other LLC member		11	
H <input type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner		Other income (loss)	
I What type of entity is this partner? If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>			19
J Partner's share of profit, loss, and capital (see instructions)		12	Distributions
Beginning Ending		Section 179 deduction	
Profit % %		13	
Loss % %		Other deductions	20
Capital % %			Other information
K Partner's share of liabilities at year end:		14	
Nonrecourse \$		Self-employment earnings (loss)	
Qualified nonrecourse financing \$			
Recourse \$			

Exclusion or Deduction

- If the employer provides dependent care benefits under a qualified plan, the client may be able to exclude these benefits from income
- The employer can tell the client whether the benefit plan qualifies
- To claim the exclusion, the client must complete Part III of Form 2441
- Form 1040-EZ cannot be used

Exclusion or Deduction

- If the client is self-employed and receive benefits from a qualified dependent care benefit plan, the client is treated as both employer and employee
- Therefore, the client would not get an exclusion from wages
- Instead, the client would get a deduction on Form 1040, Schedule C, line 14; Schedule E, line 19 or 28; or Schedule F, line 15 (Employee Benefit Program)
- To claim the deduction, then the client must use Form 2441

Exclusion or Deduction

- The amount you can exclude or deduct is limited to the smallest of:
 - The total amount of dependent care benefits received during the year,
 - The total amount of qualified expenses incurred during the year,
 - Earned income,
 - Spouse's earned income, or
 - \$5,000 (\$2,500 if married filing separately)
- The definition of earned income for the exclusion or deduction is the same as the definition used when figuring the credit except that earned income for the exclusion or deduction does not include any dependent care benefits received

Non-Taxable Combat Pay

- The client can choose to include nontaxable combat pay in earned income when figuring the exclusion or deduction, even if they choose not to include it in earned income for the earned income credit

Statement for Employee

- The employer must give the client a Form W-2 (or similar statement), showing in Box 10 the total amount of dependent care benefits provided during the year under a qualified plan
- The employer will also include any dependent care benefits over \$5,000 in wages shown on the Form W-2 in Box 1

The image shows a 2016 Form W-2 Wage and Tax Statement. An arrow points to Box 10, 'Dependent care benefits', which is highlighted in grey. The form includes fields for year, employer's social security number, wages, taxes, and other information.

Effect of Exclusion on Credit

- If the client excludes dependent care benefits from income, the amount of the excluded benefits:
 - Is not included in your work-related expenses, and
 - Reduces the dollar limit
- Earned Income Limit
 - The amount of work-related expenses used to figure the credit cannot be more than:
 - Earned income for the year, if they are single at the end of the year, or
 - The smaller of the client’s or the spouse’s earned income for the year if married at the end of the year
 - Use the spouse’s earned income for the entire year, even if married for only part of the year

Example

- The client remarried on December 3
- The earned income for the year was \$18,000
- The new spouses earned income for the year was \$2,000
- The client paid work-related expenses of \$3,000 for the care of a 5-year-old child and qualified to claim the credit
- The amount of expenses used to figure the credit cannot be more than \$2,000 (the smaller of the client’s earned income or that of the spouse)

Separated Spouse

- If the client is legally separated or married and living apart from the spouse they are not considered married for purposes of the earned income limit
- Use only the client’s income in figuring the earned income limit

Surviving Spouse

- If a spouse died during the year and the client files a joint return as a surviving spouse, they may, but are not required to, take into account the earned income of the spouse who died during the year

Community Property Laws

- Disregard community property laws when figuring earned income for this credit

Self-employment Earnings

- If the client is self-employed, include the net earnings in earned income
- For purposes of the child and dependent care credit, net earnings from self-employment generally means the amount from Schedule SE (either Section A or Section B), line 3, minus any deduction for self-employment tax on Form 1040 or Form 1040NR, line 27
- Include self-employment earnings in earned income, even if they are less than \$400 and the client did not file Schedule SE

Clergy or Church Employee

- If the client is a member of the clergy or a church employee and received church employee income of \$108.28 or more, subtract any deduction claimed on Form 1040 line 27, from the total of the amounts shown on Schedule SE, Section B, lines 3, 4b, and 5a

Form 1040, Schedule SE

Schedule SE (Form 1040) 2016 Attachment Sequence No. 17 Page 2

Name of person with self-employment income (as shown on Form 1040 or Form 1040NE) Social security number of person with self-employment income ▶

Section B — Long Schedule SE

Part I — Self-Employment Tax

Note. If your only income subject to self-employment tax is church employee income, see instructions. Also see instructions for the definition of church employee income.

A If you are a minister, member of a religious order, or Christian Science practitioner and you filed Form 4361, but you had \$400 or more of other net earnings from self-employment, check here and continue with Part I

1a Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A. <small>Note.</small> Skip lines 1a and 1b if you use the farm optional method (see instructions).	1a	
1b If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code 2.	1b	
2 Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-ES), box 9, code J1. <small>Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report. Note.</small> Skip this line if you use the nonfarm optional method (see instructions).	2	
3 Combine lines 1a, 1b, and 2.	3	
4a If line 3 is more than zero, multiply line 3 by 92.35% (0.9235). Otherwise, enter amount from line 3. <small>Note.</small> If line 4a is less than \$400 due to Conservation Reserve Program payments on line 1b, see instructions.	4a	
4b If you elect one or both of the optional methods, enter the total of lines 15 and 17 here.	4b	
4c Combine lines 4a and 4b. If less than \$400, stop; you do not owe self-employment tax.	4c	
5a Enter your church employee income from Form W-2. See instructions for definition of church employee income.	5a	
5b Multiply line 5a by 92.35% (0.9235). If less than \$100, enter -0-	5b	
6 Add lines 4c and 5b.	6	

Statutory Employee

- If the client files Schedule C (Form 1040) or C-EZ (Form 1040) to report income as a statutory employee, also include as earned income the amount from line 1 of that Schedule C (Form 1040) or C-EZ (Form 1040)
- Net loss
 - The client must reduce earned income by any net loss from self-employment

Spouse is a Student or Not Able to Care for Self

- The spouse who is either a full-time student or not able to care for himself or herself is treated as having earned income
- His or her earned income for each month is considered to be at least \$250 if there is one qualifying person in the home, or at least \$500 if there are two or more

Spouse Works

- If the spouse works during that month, use the higher of \$250 (or \$500) or his or her actual earned income for that month

Spouse Qualifies for Part of Month

- If the spouse is a full-time student or not able to care for himself or herself for only part of a month, the full \$250 (or \$500) still applies for that month
- These rules also apply if the client is a student or not able to care for themselves and filing a joint return
- For each month or part of a month they are a student or not able to care for yourself, the earned income is considered to be at least \$250 (or \$500)
- If the also work during that month, use the higher of \$250 (or \$500) or the actual earned income for that month

Both Spouses Qualify

- If, in the same month, both spouses are either full-time students or not able to care for yourselves, only one spouse can be considered to have this earned income of \$250 (or \$500) for that month

Optional Method if Earnings are Low or a Net Loss

- If the client's net earnings from self-employment are low or they have a net loss, they may be able to figure the net earnings by using an optional method instead of the regular method to calculate self-employment tax
- If they use an optional method to figure net earnings for self-employment tax purposes, include those net earnings in the earned income for this credit
- In this case, subtract any deduction claimed on Form 1040, line 27, from the total of the amounts on Schedule SE, Section B, lines 3 and 4b, to figure net earnings

Dollar Limit

- There is a dollar limit on the amount of work-related expenses that can be used to figure the credit
- This limit is \$3,000 for one qualifying person, or \$6,000 for two or more qualifying persons
- If the client paid work-related expenses for the care of two or more qualifying persons, the applicable dollar limit is \$6,000
- This limit does not need to be divided equally among them
- For example, if the work-related expenses for the care of one qualifying person are \$3,200 and the work-related expenses for another qualifying person are \$2,800, the client can use the total, \$6,000, when figuring the credit

Yearly Limit

- The dollar limit is a yearly limit
- The amount of the dollar limit remains the same no matter how long, during the year, the client had a qualifying person in the household
- Use the \$3,000 limit if the client paid work-related expenses for the care of one qualifying person at any time during the year
- Use \$6,000 if the client paid work-related expenses for the care of more than one qualifying person at any time during the year

Examples

- Example 1
 - The client pays \$500 a month for after-school care for a son
 - He turned 13 on May 1 and is no longer a qualifying person
 - The client can use the \$2,000 of expenses for his care January through April to figure the credit because it is not more than the \$3,000 yearly limit
- Example 2 .
 - In July of this year, to permit the spouse to begin a new job, the client enrolls a 3-year-old daughter in a nursery school that provides preschool childcare
 - The client paid \$300 per month for the childcare
 - They can use the full \$1,800 paid ($\300×6 months) as qualified expenses because it is not more than the \$3,000 yearly limit

How To Claim the Credit

- To claim the credit, file Form 1040, Form 1040A, or Form 1040NR
- Form 2441 must be completed
- Enter the credit on your Form 1040, line 49; Form 1040A, line 31; or Form 1040NR, line 47

Form 1040

The image shows a portion of the 2016 Form 1040, specifically the 'Tax and Credits' section. The form is titled 'Form 1040 (2016)' and 'Page 2'. The section includes lines 38 through 56. A white arrow points to line 48, 'Foreign tax credit, Attach Form 1116 if required'. Other lines include 'Standard Deduction for', 'Exemptions', 'Taxable income', 'Tax', 'Alternative minimum tax', 'Capital gain tax', 'Add lines 44, 45, and 46', 'Foreign tax credit', 'Credit for child and dependent care expenses', 'Education credits', 'Retirement savings contributions credit', 'Child tax credit', 'Residential energy credits', 'Qualifying tuition expenses', and 'Add lines 48 through 54. These are your total credits. Subtract line 55 from line 47. If line 55 is more than line 47, enter -0-'. The form is partially obscured by a large 'ASO' watermark.

Employment Taxes for Household Employers

- If the client pays someone to come to the home and care for a dependent or spouse, they may be a household employer
- If the client is a household employer, they will need an employer identification number (EIN) and may have to pay employment taxes
- If the individuals who works in the home are self-employed, the client is not liable for any of the taxes
 - Self-employed persons who are in business for themselves are not household employees
- Usually, the client is not a household employer if the person who cares for the dependent or spouse does so at his or her home or place of business

Employment Taxes for Household Employers

- If the client uses a placement agency that exercises control over what work is done and how it will be done by a babysitter or companion who works in the home, the worker is not an employee
- This control could include providing rules of conduct and appearance and requiring regular reports
- In this case, the client does not have to pay employment taxes
- But, if an agency merely gives a list of sitters and the client hires one from that list, and pay the sitter directly, the sitter may be an employee

If the Client Has a Household Employee, They May be Subject to:

- Social security and Medicare taxes,
- Federal unemployment tax, and
- Federal income tax withholding.
- Social security and Medicare taxes are generally withheld from the employee's pay and matched by the employer
- Federal unemployment (FUTA) tax is paid by the employer only and provides for payments of unemployment compensation to workers who have lost their jobs
- Federal income tax is withheld from the employee's total pay if the employee asks the client to do so and the client agrees

Example

Form 2441 Child and Dependent Care Expenses
 Department of the Treasury Internal Revenue Service (IRS)
 OMB No. 1545-0074
2016
 Attachment Sequence No. 21

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.
 ▶ Information about Form 2441 and its separate instructions is at www.irs.gov/form2441.

Form 2441
 Taxpayer 1
 Your social security number

Part I Persons or Organizations Who Provided the Care—You must complete this part. (If you have more than two care providers, see the instructions.)

1 (a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)
Local Day Care	123 Main Street Anytown, Iowa 50000	55-555555	8340

Did you receive dependent care benefits? No Yes → Complete only Part II below.
 → Complete Part III on the back next.

Caution: If the care was provided in your home, you may owe employment taxes. If you do, you cannot file Form 1040A. For details, see the instructions for Form 1040, line 50a, or Form 1040NR, line 50a.

Example

Part III Credit for Child and Dependent Care Expenses

2 Information about your qualifying person(s). If you have more than two qualifying persons, see the instructions.

First	Last	(b) Qualifying person's social security number	(c) Qualified expenses for the person listed in column (a)
Byrre	Rabbin	55-55-5555	3000

3 Add the amounts in column (c) of line 2. Do not enter more than \$3,000 for one qualifying person or \$6,000 for two or more persons. If you completed Part III, enter the amount from line 31 **3** 3000

4 Enter your earned income. See instructions **4** 44001

5 If married filing jointly, enter your spouse's earned income (if you or your spouse was a student or was disabled, see the instructions); all others, enter the amount from line 4 **5** 47003

6 Enter the smallest of line 3, 4, or 5 **6** 3000

7 Enter the amount from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 **7** 7

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7

If line 7 is:			If line 7 is:		
Over	But not over	Decimal amount is	Over	But not over	Decimal amount is
\$0—15,000	15,000—17,000	.35	\$20,000—31,000	31,000—33,000	.27
17,000—19,000	19,000—21,000	.32	33,000—35,000	35,000—37,000	.26
19,000—21,000	21,000—23,000	.30	37,000—39,000	39,000—41,000	.24
21,000—23,000	23,000—25,000	.28	41,000—43,000	43,000—No limit	.23
23,000—25,000	25,000—27,000	.26			
27,000—29,000		.24			

9 Multiply line 6 by the decimal amount on line 8. If you paid 2015 expenses in 2016, see the instructions **9** 600

10 Tax liability limit. Enter the amount from the Credit Limit Worksheet in the instructions. **10** 600

11 Credit for child and dependent care expenses. Enter the smaller of line 9 or line 10 here and on Form 1040, line 48; Form 1040A, line 31; or Form 1040NR, line 47 **11** 600

Fall Tax Schools

- Though they are named the Farm and Urban Tax Schools the schools cover more than farm issues
- Common return issues for all kinds of returns are covered
- All kinds of business entities
- Problematic issues
- Sometimes we even get into to issues that you many encounter only once or twice a year or tax season
- The Tax Schools are a blend of diverse topics of interest to all tax professionals
- This year: New instructors with diverse backgrounds
- Your adventure awaits at Iowa State's Center for Agricultural Law and Taxation

Farm and Urban Tax Schools 2016

- November 2, 2016 to December 13, 2016
- 8 Locations in Iowa and Online Webinar
- Save the Date for the 2016 Annual Farm and Urban Income Tax Schools
- The program is intended for tax professionals and is designed to provide up-to-date training on current tax law and regulations
 - November 2-3: Maquoketa
 - November 7-8: Red Oak
 - November 9-10: Sheldon
 - November 14-15: Mason City
 - November 17-18: Ottumwa
 - November 21-22: Waterloo
 - December 5-6: Denison
 - December 12-13: Ames and Live Webinar

Winter Webinars

- Miscellaneous Income
- Tax law Update: New Developments
- Monthly Ethics Classes

Beginning Tax Preparers Class

- CALT is working on offering a basic class for NEW tax preparers this fall in October
- The week long webinar will cover the basics an individual needs to know such as:
 - Education Credits
- Other issues a first or second year preparer needs to know as well as a refresher for others who need to brush up on issues
- The class will be a week long or more and will be offered at a special rate

The Scoop

- Throughout the filing season two Scoops will be held on Scoop Dates
 - 8:00 – 8:30 am Central time
 - 12:00 – 12:30 Central time
- This assists with accommodating our west coast practitioners
- The same information will be shared at both sessions
- You have the option of registering for whatever session suits your schedule
- <https://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

Future Scoop Dates

- October 19, 2016
- November 16, 2016
- December 14, 2016
- <http://www.calt.iastate.edu/calendar-node-field-seminar-date/month>

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