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## TAX TUESDAY – TAX CREDITS

For the next few weeks until the tax filing deadline of April 18, 2023, PA FINANCIAL, CPA is launching this series known as “tax Tuesday” in order to inform our clients and readers of all things taxes. Today’s topic is tax credits – there are many tax credits both individuals and businesses can use as shown on the IRS’s website, however, this article will describe the most common tax credits. What are tax credits and how are tax credits different than deductions? According to the IRS, tax “credits can reduce the amount of tax you owe or increase your tax refund” whereas a “deductions can reduce the amount of your income before you calculate the tax you owe.” In other words, one dollar in tax credit is one dollar saved on your taxes whereas one dollar in deduction only reduces your taxable income.

There are five categories of Credits for Individuals including Family and Dependent Credits, Income and Savings Credits, Homeowner Credits, Electric Vehicle Credits and Health Care Credits. The following Family and Dependent Credits will be discussed - *Child Tax Credit, Dependent Care Credit, Earned Income Tax Credit, Education Tax Credit and Adoption Credit.*

The Child Tax Credit for 2022 is \$2,000 for each dependent and in order to receive the credit, the child or dependent must generally be under the age of 17, be your son, daughter, stepchild, eligible foster child, brother, sister, stepbrother, stepsister, half-brother, half-sister, be a U.S. citizen, U.S. national or U.S. resident alien. In addition, the dependent cannot provide more than half of their own financial support during the year, he or she has lived with you for more than half the year and the dependent cannot file a joint return with their spouse for the tax year. The entire amount of \$2,000 can be claimed for each dependent for single taxpayers with income up to \$200,000 and the amount increases to \$400,000 for taxpayers filing jointly.

The Child and Dependent Care Credit can be claimed for expenses paid to someone to take care of your child in order for the taxpayer (or the taxpayers spouse if filing jointly) to work or to look for work. As with all things taxes, the eligibility requirements stipulate that the taxpayer (and spouse if filing jointly) must live in the United States for more than half the year and that the dependent is under the age of 13. The credit is also available regardless of any age, if the dependent is not capable of “self-care.” The maximum amount that can be claimed for 2022 is \$3,000 for one child or \$6,000 for two or more qualifying dependents.

The Earned Income Tax Credit is to provide families with low to moderate income with a tax break. According to the IRS, the amount of credit may change if the taxpayer has children, other dependents or are disabled. For 2022, earned income has to be under \$59,187, investment income is below \$10,300 and the taxpayer is a US citizen or a resident alien with a valid social security number.

There are two types of Education Credits - the American opportunity tax credit (AOTC) and the Lifetime learning credit (LLC). These credits are beneficial as they lower the cost of higher education and while there are difference between AOTC and LLC as well as other requirements, the taxpayer must meet the following three criteria to claim the credit:

- You, your dependent or a third party pays qualified education expenses for higher education.
- An eligible student must be enrolled at an eligible educational institution.
- The eligible student is yourself, your spouse or a dependent you list on your tax return.

Taxpayers who are eligible to claim both education credits can choose either credits, however, the taxpayer cannot choose both credits for the same year. In addition, the taxpayer and the student must have a valid social security number and the taxpayer must be a resident in order to claim the AOTC. Both AOTC and LLC credits can only be claimed for 2022 if modified adjusted gross income is not more than \$180,000 for married taxpayers filing jointly and \$90,000 for single, head of household or a qualified widower.

The Adoption Credit is for qualified expenses incurred to adopt a child during the tax year. These expenses includes adoption fees, court costs and attorney fees, travel expenses and other expenses directly related to legal adoption. The maximum amount that can be claimed for adoption expenses in 2022 is \$14,890 however the taxpayer's modified adjusted gross income (MAGI) is subject to certain dollar limitations. MAGI phase-out for 2022 begins at \$223,410 and ends at \$263,410, meaning the credit will not be affected and can be claimed for MAGI below \$223,410 but if MAGI is or exceeds \$263,410, the credit is phased out and will be zero.

Some or all of the Tax Credits may apply depending on your individual situation or circumstances. We always recommend and encourage taxpayers to consult with your Tax Advisor, if required. **PA Financial, CPA** will continue to highlight and explain other tax benefits for individual taxpayers. If there's a specific topic you would like us to discuss, particularly for this "Tax Tuesday" series please visit our website: [www.pafinancials.com](http://www.pafinancials.com) or send email inquiry to: [Philip@pafinancials.com](mailto:Philip@pafinancials.com).