

Chapter 9: Income Tax Credits

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Corrections were made to this workbook through January of 2011. No subsequent modifications were made.

This chapter contains a basic overview of income tax credits available on Form 1040, *U.S. Individual Income Tax Return*. The information provided is not intended to be all-inclusive. Under each credit heading is a section that includes references to the Internal Revenue Code (IRC) section and the form or schedule where more information may be found.

The chapter is divided into three sections. The first section separates individual tax credits into subsections based on whether the credit is nonrefundable, partially refundable, or fully refundable. The second section briefly covers the general business credits, and the third section contains a chart summarizing each credit by name, the form or schedule used to compute the credit, the applicable code section, and attributes such as whether the credit is refundable and whether there is any applicable carryback/carryforward period.

INDIVIDUAL TAX CREDITS: NONREFUNDABLE CREDITS

Nonrefundable credits are limited to the amount of tax shown on the taxpayer's return. The IRS stipulates the order by which nonrefundable credits reduce the taxpayer's tax. Nonrefundable personal credits are claimed in this order.

1. Foreign tax credit
2. Child and dependent care credit
3. Education credits (portion refundable)
4. Retirement savings contributions credit
5. Child tax credit (portion refundable)
6. Credit for the elderly or permanently disabled
7. Interest on certain home mortgages
8. Residential energy credits
9. Qualified plug-in electric vehicle credit
10. Alternative motor vehicle credit
11. Qualified plug-in electric drive motor vehicle credit
12. Alternative fuel vehicle refueling property credit
13. Credit for prior-year minimum tax credit (portion refundable)
14. Credit for holders of tax credit bonds

Some nonrefundable credits can be carried back or forward to other tax years.

2010 Workbook

Form 1040 (2010)

Page **2**

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	
39a	Check <input type="checkbox"/> You were born before January 2, 1946, <input type="checkbox"/> Blind. } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1946, <input type="checkbox"/> Blind. } checked ▶ 39a		
b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 35 and check here ▶ 39b <input type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see page 35)	40	
41	Subtract line 40 from line 38	41	
42	Exemptions. Multiply \$3,650 by the number on line 6d.	42	
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	
44	Tax (see page 37). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	44	
45	Alternative minimum tax (see page 40). Attach Form 6251	45	
46	Add lines 44 and 45	46	
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Education credits from Form 8863, line 23	49	
50	Retirement savings contributions credit. Attach Form 8880	50	
51	Child tax credit (see page 42)	51	
52	Residential energy credits. Attach Form 5695	52	
53	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53	
54	Add lines 47 through 53. These are your total credits	54	
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	
57	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	57	
58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	
59	a <input type="checkbox"/> Form(s) W-2, box 9 b <input type="checkbox"/> Schedule H c <input type="checkbox"/> Form 5405, line 16	59	
60	Add lines 55 through 59. This is your total tax	60	

Payments

If you have a qualifying child, attach Schedule EIC.

61	Federal income tax withheld from Forms W-2 and 1099	61	
62	2010 estimated tax payments and amount applied from 2009 return	62	
63	Making work pay credit. Attach Schedule M	63	
64a	Earned income credit (EIC)	64a	
b	Nontaxable combat pay election 64b		
65	Additional child tax credit. Attach Form 8812	65	
66	American opportunity credit from Form 8863, line 14	66	
67	First-time homebuyer credit from Form 5405, line 10	67	
68	Amount paid with request for extension to file (see page 72)	68	
69	Excess social security and tier 1 RRTA tax withheld (see page 72)	69	
70	Credit for federal tax on fuels. Attach Form 4136	70	
71	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	71	
72	Add lines 61, 62, 63, 64a, and 65 through 71. These are your total payments	72	

Refund

Direct deposit? See page 73 and fill in 74b, 74c, and 74d, or Form 8888.

73	If line 72 is more than line 60, subtract line 60 from line 72. This is the amount you overpaid	73	
74a	Amount of line 73 you want refunded to you . If Form 8888 is attached, check here <input type="checkbox"/>	74a	
b	Routing number	c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
d	Account number		
75	Amount of line 73 you want applied to your 2011 estimated tax	75	

Amount You Owe

76	Amount you owe. Subtract line 72 from line 60. For details on how to pay, see page 74	76	
77	Estimated tax penalty (see page 74)	77	

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see page 75)? ☐ **Yes.** Complete the following. ☐ **No**

Designee's name ▶	Phone no. ▶	Personal identification number (PIN) ▶
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Sign Here

Joint return? See page 15. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶	Firm's EIN ▶			
Firm's address ▶	Phone no.			

Form **1040** (2010)

FOREIGN TAX CREDIT

Reference. IRC §901; Form 1116, *Foreign Tax Credit*, and Form 8689, *Allocation of Individual Income Tax to the U.S. Virgin Islands*.

Purpose. The foreign tax credit reduces double taxation on foreign-source income by allowing taxpayers to take an income tax credit (subject to limitations) for taxes paid to a foreign entity on the same income taxed by the United States.

Eligibility Criteria. This credit is available to qualified taxpayers who pay or accrue eligible foreign taxes to qualified foreign entities.

Qualified Taxpayers. The foreign tax credit is available to U.S. citizens and resident aliens. Generally, nonresident aliens cannot claim the foreign tax credit. However, the following nonresident aliens are eligible for the credit.

- Full-year residents of Puerto Rico
- Nonresident aliens who pay or accrue tax on foreign-source income effectively connected to a U.S. trade or business, unless the tax is due to the foreign entity based on income derived from U.S. sources

Eligible Foreign Taxes. The credit can be computed on income, war profits, and excess profits taxes paid to a qualified foreign entity or U.S. possession. U.S. citizens living in certain treaty countries may also claim foreign income tax paid on certain items of U.S. income. Further details on the relationship between the foreign tax credit and tax treaty countries can be found in IRS Pub. 514, *Foreign Tax Credit for Individuals*.

The following taxes are **ineligible** for the foreign tax credit.

1. Foreign taxes that the taxpayer paid but that were not legally owed, including taxes eligible to be refunded to the taxpayer
2. Foreign taxes paid to countries designated by the U.S. Secretary of State as repeated supporters of terrorism, and countries that are either not recognized by the U.S. or with which the U.S. does not have diplomatic relations
3. Foreign taxes withheld from corporate dividends when the taxpayer has not held the stock for at least 16 days within the 31-day period beginning 15 days before the ex-dividend date¹
4. Foreign taxes withheld on a dividend to the extent the taxpayer must make related payments on similar or related property (e.g., the taxpayer is obligated to pay someone else an amount equal to the dividends received)
5. Foreign taxes withheld on nondividend income or gain from property not held for at least 16 days within the 31-day period beginning 15 days before the right to receive the payment arises²
6. Foreign taxes withheld on nondividend income or gain from property to the extent the taxpayer must make related payments on positions in similar or related property
7. Payments of foreign tax that are returned to the taxpayer in the form of a subsidy
8. Taxes paid or accrued to a foreign entity in connection with the purchase or sale of oil or gas extracted in that country, if the taxpayer does not have an economic interest in the oil or gas, and the purchase price or sales price is different from the FMV of the oil or gas at the time of the purchase or sale
9. Foreign taxes paid or accrued on income for which the taxpayer is claiming an exclusion on Form 8873, *Extraterritorial Income Exclusion*³

¹. See IRC §901(k)(3) for holding requirement for preferred stocks.

². See IRC §901(l).

³. See IRC §943(d) exception for certain withholding taxes.

Qualified Foreign Entities. Qualified foreign entities include foreign countries (unless otherwise prohibited) or U.S. possessions. This includes any political subdivision, agency, or instrumentality of the foreign country or possession.

Mechanics. Taxpayers generally complete Form 1116, *Foreign Tax Credit*, to claim this credit. However, taxpayers seeking a credit for taxes paid to the U.S. Virgin Islands must use Form 8689, *Allocation of Individual Income Tax to the U.S. Virgin Islands*.

Election to Forgo Filing Form 1116. Taxpayers, other than estates or trusts, who received only passive foreign source income and who paid foreign tax of less than \$300 for the year (\$600 for MFJ), can elect to bypass Form 1116 and report the amount of foreign tax paid directly on Form 1040, *U.S. Individual Income Tax Return*. To qualify for this election, the amount of foreign tax paid must be reported on a qualified payee statement, such as Form 1099-DIV, *Dividends and Distributions*; Form 1099-INT, *Interest Income*; or an appropriate Schedule K-1 from a pass-through entity.

In lieu of a credit, taxpayers may elect to claim any qualified foreign tax paid as an itemized deduction on Form 1040, Schedule A, *Itemized Deductions*. Generally, a taxpayer cannot claim both a credit and a deduction in the same year. See the instructions for Form 1116 for exceptions to this rule.

The foreign tax credit is nonrefundable. However, taxpayers filing Form 1116 may carry any unused credit back one year and forward for 10 years. This carryback/carryforward provision is not available to taxpayers who elect to claim the credit directly on Form 1040.

Computation. Computation of the foreign tax credit can be complex. For comprehensive information on computing this credit, refer to the Form 1116 instructions or IRS Pub. 514.

Note. See pages 353–360 in the 2008 *University of Illinois Federal Tax Workbook* for a thorough discussion of the foreign tax credit. This can be found on the accompanying CD.

CHILD AND DEPENDENT CARE CREDIT

Reference. IRC §21; Form 2441, *Child and Dependent Care Expenses*.

Purpose. The child and dependent care credit compensates certain parents and caregivers with a partial credit for costs incurred in providing care for qualifying individuals while they work or are looking for work.

Eligibility Criteria. To obtain this credit, a taxpayer must have paid qualifying expenses to care for a qualifying individual while working or looking for work. Married taxpayers generally must file a joint return to claim the child and dependent care credit. However, married taxpayers do not have to file jointly if legally separated under a decree of separate maintenance. Married taxpayers that qualify for the head-of-household (HoH) filing status may also claim the credit.

A **qualifying individual** is:

1. A qualifying child under the age of 13 who can be claimed as the taxpayer's dependent (see exception for divorced/separated parents),
2. A spouse who is mentally or physically incapable of self-care and who resided with the taxpayer for more than half the year, or
3. An individual who is mentally or physically incapable of self-care and who resided with the taxpayer for more than half the year, and who:
 - a. Was the taxpayer's dependent, or
 - b. Would have qualified as the taxpayer's dependent, except that:
 - The individual had 2010 gross income in excess of \$3,650,
 - The individual filed a joint tax return, or
 - The taxpayer or the taxpayer's spouse was claimed as a dependent on another return.

IRS Pub. 503, *Child and Dependent Care Expenses*, defines the term **mentally or physically incapable of self-care** as a qualifying individual who cannot dress, clean, or feed himself, or an individual who requires constant supervision to prevent injury to self or others.

Exception for Divorced/Separated Parents. If the noncustodial parent claims the qualifying child (under age 13 or incapable of self-care) as a dependent, the **custodial** parent may claim the child and dependent care credit **if** the qualifying child:

- Received over half his support from one or both parents 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 six months of the calendar year;
- Was in the custody of one or both parents for more than half the year; **and**
- Spent the greater part of the year with the custodial parent.

Note. The noncustodial parent **cannot** claim the child and dependent care credit if the child qualifies the custodial parent for the credit.⁴

Qualifying expenses include costs incurred for household services or care of a qualifying individual while the taxpayer was working or looking for work. If the taxpayer was married, both spouses must have been working or looking for work. An exception applies if one spouse was attending school or was disabled and the other spouse was working or looking for work. (See the Computation portion of this section.)

Amounts paid to the following individuals are **not** qualifying expenses:

- The taxpayer's spouse
- The taxpayers' dependent
- The taxpayer/spouse's nondependent son, daughter, stepchild, or eligible foster child under age 19 at the close of the taxable year
- The parent of a qualifying individual under age 13.

Expenses paid to care for a child up to the day the child turns 13 qualify for the credit. This means the credit may be claimed for a child who is 13 by the end of the tax year, as long as only the expenses incurred while the child was under age 13 are computed for the credit.

The term **working or looking for work** means earning income or seeking a paying position. Amounts paid for daycare while performing volunteer work do not qualify.

Mechanics. Taxpayers are required to provide identification numbers for all qualifying individuals. The identification number can be a social security number (SSN), an adoption taxpayer identification number (ATIN), or an individual taxpayer identification number (ITIN).

Additionally, the taxpayer must provide the provider's name, address, and taxpayer identification number (TIN). The words "tax exempt" can be used in place of the TIN for qualifying providers, such as churches or schools.

Taxpayers must show **due diligence** in providing the required information. Form W-10, *Dependent Care Provider's Identification and Certification*, can be used to gather the required information. If a provider refuses to comply with the request for information, the taxpayer should complete Form 2441, *Child and Dependent Care Expenses*, as much as possible and enter "See Attached Statement" in the missing fields. The attached statement should detail the taxpayer's attempts to obtain the missing information.

⁴ IRC §21(e)(5).

Prepaid expenses are claimed in the year the service is provided. Expenses paid in a year following the year they were incurred are claimed in the year they were paid. The credit for these expenses is computed separately.⁵

Note. Taxpayers who pay providers to come to their homes may be required to pay employment taxes for household employees. Refer to the instructions for Form 1040, Schedule H, *Household Employment Taxes*, or IRS Pub. 926, *Household Employer's Tax Guide*, for more information.

Computation. The child and dependent care credit is based on a percentage of qualifying expenses, subject to certain limitations. An earned income limit and a dollar limit are based on the amount of qualifying expenses.

Earned Income Limitation. The child and dependent care credit cannot exceed the taxpayer's earned income. Married taxpayers must use the **lower** of the taxpayer's or the spouse's earned income to compute the credit.

Unemployment payments, income earned during incarceration in a penal institution, and nontaxable income such as workers' compensation do **not** qualify as earned income for this credit. However, a taxpayer can elect to include nontaxable combat pay as earned income. Income from strike benefits and disability pay reported as wages **qualify** as earned income.

Earned income must be reduced by any loss from self-employment (SE); however, self-employed taxpayers with low earnings or a net loss who compute their SE tax using the optional method may base their credit on the optional earnings amount.⁶ Self-employed individuals must reduce their net earnings by the amount deducted for one-half of the SE tax.

If married and **either** (but not both) the taxpayer or the taxpayer's spouse is a full-time student or incapable of self-care, the nonworking spouse is deemed to have earned \$250 per month for purposes of computing the credit. This amount increases to \$500 per month if there are two or more qualifying individuals for whom qualifying expenses are paid. If the disabled/student taxpayer or spouse works part time, the higher of \$250 (\$500) or the actual amount earned for the month is used to compute the credit.

Dollar Limitation. The credit is limited further by a cap on the dollar amount of qualifying expenses. The maximum amount of expenses on which the credit can be computed is \$3,000 for one qualifying individual and \$6,000 for two or more qualifying individuals.

Taxpayers who exclude dependent care benefits from their wages must reduce their dollar limit by the amount of the exclusion.⁷ Taxpayers cannot exclude more than \$5,000 (\$2,500 if married filing separately) of dependent care benefits per year.

Percentage. Once the earned income and dollar limitations are applied, the credit is based on the amount of qualifying expenses multiplied by a sliding-scale percentage. This percentage ranges from 20% to 35%, depending on the adjusted gross income (AGI) shown on the return. The higher the income is, the lower the credit. Taxpayers with an AGI over \$43,000 receive a maximum credit of 20% of the limited qualifying expenses, whereas taxpayers with an AGI of \$15,000 or less receive the maximum 35% credit, limited to their tax liability.

⁵. See IRS Pub. 503, *Child and Dependent Care Expenses*, for more details.

⁶. Refer to IRS Pub. 334, *Tax Guide for Small Business*, for details on the optional method.

⁷. Taxpayers must complete Form 2441, *Child and Dependent Care Expenses*, Part III, to claim the dependent care benefit exclusion.

2010 Workbook

Example 1. Andy and Sandy are married and they file a joint return. They have two dependent children under age 13. Sandy works full time and earned \$100,000 in 2010. Andy was a full-time student for the whole year. He worked summers only and made \$400 in June, \$600 in July, and \$1,000 in August. They paid \$7,500 in qualified childcare in 2010 and had no dependent-care benefits. Their 2010 AGI is \$120,000.

Question. How much is their 2010 child and dependent care credit?

Answer. Their credit amount is \$1,200. Since Andy was a full-time student, he is deemed to have earned \$4,500 ($\500×9) for the nine months he had no earnings. He is also deemed to have earned \$500 for June, since it is the greater of \$500 (the deemed amount for two qualifying children) and the \$400 he earned that month. His total earned income for the purposes of this credit is \$6,600 ($\$4,500 + \$500 + \$600 + \$1,000$).

Andy's income would be used to calculate the earned income limitation, since it is the lesser of Sandy's \$100,000 income and his \$6,600 earnings. However, the qualified expenses would be limited further to \$6,000 for two children. Because they paid at least \$6,000 in childcare expenses and had no exclusions for dependent-care benefits, and because their AGI is over \$43,000, their credit would be \$1,200 ($\$6,000 \times 20\%$).

Form **2441** **Child and Dependent Care Expenses**

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to Form 1040, Form 1040A, or Form 1040NR.
▶ See separate instructions.

OMB No. 1545-0074
2010
Attachment Sequence No. **21**

Name(s) shown on return
Andy & Sandy

Your social security number

Part I **Persons or Organizations Who Provided the Care—You must complete this part.**

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	6,000																																																						
4	Enter your earned income . See instructions	4	6,600																																																						
5	If married filing jointly, enter your spouse's earned income (if your spouse was a student or was disabled, see the instructions); all others , enter the amount from line 4	5	100,000																																																						
6	Enter the smallest of line 3, 4, or 5	6	6,000																																																						
7	Enter the amount from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37.	7	120,000																																																						
8	Enter on line 8 the decimal amount shown below that applies to the amount on line 7	8	X . 20																																																						
<p>If line 7 is:</p> <table border="1"> <thead> <tr> <th>Over</th> <th>But not over</th> <th>Decimal amount is</th> </tr> </thead> <tbody> <tr><td>\$0—15,000</td><td></td><td>.35</td></tr> <tr><td>15,000—17,000</td><td></td><td>.34</td></tr> <tr><td>17,000—19,000</td><td></td><td>.33</td></tr> <tr><td>19,000—21,000</td><td></td><td>.32</td></tr> <tr><td>21,000—23,000</td><td></td><td>.31</td></tr> <tr><td>23,000—25,000</td><td></td><td>.30</td></tr> <tr><td>25,000—27,000</td><td></td><td>.29</td></tr> <tr><td>27,000—29,000</td><td></td><td>.28</td></tr> </tbody> </table>		Over	But not over	Decimal amount is	\$0—15,000		.35	15,000—17,000		.34	17,000—19,000		.33	19,000—21,000		.32	21,000—23,000		.31	23,000—25,000		.30	25,000—27,000		.29	27,000—29,000		.28	<p>If line 7 is:</p> <table border="1"> <thead> <tr> <th>Over</th> <th>But not over</th> <th>Decimal amount is</th> </tr> </thead> <tbody> <tr><td>\$29,000—31,000</td><td></td><td>.27</td></tr> <tr><td>31,000—33,000</td><td></td><td>.26</td></tr> <tr><td>33,000—35,000</td><td></td><td>.25</td></tr> <tr><td>35,000—37,000</td><td></td><td>.24</td></tr> <tr><td>37,000—39,000</td><td></td><td>.23</td></tr> <tr><td>39,000—41,000</td><td></td><td>.22</td></tr> <tr><td>41,000—43,000</td><td></td><td>.21</td></tr> <tr><td>43,000—No limit</td><td></td><td>.20</td></tr> </tbody> </table>		Over	But not over	Decimal amount is	\$29,000—31,000		.27	31,000—33,000		.26	33,000—35,000		.25	35,000—37,000		.24	37,000—39,000		.23	39,000—41,000		.22	41,000—43,000		.21	43,000—No limit		.20
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9	Multiply line 6 by the decimal amount on line 8. If you paid 2009 expenses in 2010, see the instructions	9	1,200																																																						

Enter the amount from the Credit

EDUCATION CREDITS

For information on education credits, see the Partially Refundable Credits section later in this chapter.

CREDIT FOR QUALIFIED RETIREMENT SAVINGS CONTRIBUTIONS

Source. IRC §25B; Form 8880, *Credit for Qualified Retirement Savings Contributions*.

Purpose. The retirement savings contribution credit is an income tax credit that rewards certain low to moderate income taxpayers for voluntarily contributing to their qualified retirement plans.

Eligibility Criteria. To be eligible to take the retirement savings contribution credit, taxpayers must have voluntarily contributed to a qualified retirement plan and cannot have income in excess of designated AGI limitations. Dependents, full-time students, and taxpayers younger than age 18 cannot claim the credit.

Qualified Retirement Plans. Only voluntary/elective contributions made to the following types of plans can be used to compute this credit.

- Traditional or Roth IRAs
- IRC §401(k)
- IRC §403(b)
- IRC §457
- SEP
- SIMPLE
- IRC §501(c)(18)(D)⁸
- Qualified retirement plans, such as the federal Thrift Savings Plan (voluntary employee contributions only)⁹

Note. Qualified contributions generally can be found on Form W-2, *Wage and Tax Statement*, in box 12. Illinois Municipal Retirement Fund (IMRF) employee contributions are mandatory and, therefore, are not reported in box 12 of the Form W-2 and are not eligible for this credit.

Income Limitations. Income limitations differ based on the taxpayer's filing status. Taxpayers with 2010 AGIs in **excess** of the following amounts cannot claim the retirement savings contribution credit.

- Married filing jointly — \$55,500
- Head of household — \$41,625
- All other filing statuses — \$27,750

⁸ IRC §501(c)(18) includes trusts created before June 25, 1959, forming part of a plan providing for the payment of benefits under a pension plan funded only by contributions of employees.

⁹ Contributions designated under IRC §414(h)(2) are treated as employer contributions and do not qualify for the retirement savings contribution credit.

Mechanics. Eligible taxpayers must reduce their current year qualified contributions by an amount equal to the aggregate distributions received from any qualified plan¹⁰ during a “testing period,” which includes the:

- Current taxable year,
- Two years preceding the current taxable year, and
- A period after the calendar end of the current taxable year and before the extended due date for filing the current taxable year’s return.

Distributions received as a result of a plan loan, or from transfers, rollovers, conversions, excess contributions, dividends earned on certain employer securities, distributions returned before the due date of the return, and military pensions do not reduce current year qualified contributions.¹¹

Married taxpayers who file jointly also must reduce their qualified contributions by the aggregate amount of any distributions their spouses receive during the testing period. However, each spouse computes their qualified contribution amount separately and should only include the spouses’ distributions from years during which they filed joint returns.

The qualified contribution amount eligible for the credit, after reductions for any “testing period” distributions, is limited to \$2,000 per taxpayer (i.e., \$2,000 **each** for married taxpayers).

Computation. The retirement savings contribution credit is computed on a sliding scale, which ranges from 10 to 50% of the taxpayer’s (and, if married, the taxpayer’s spouse’s) qualified annual contribution(s). This percentage is based on the taxpayer’s filing status and AGI.

The following percentage rates and income limits apply for tax year 2010:

Filing Status	50%	20%	10%
Married filing jointly	Up to \$33,500	\$33,501–\$36,000	\$36,001–\$55,500
Head of household	Up to \$25,125	25,126–\$27,000	27,001–\$41,625
All others	Up to \$16,750	16,751–\$18,000	18,001–\$27,750

Example 2. Ricky and Lucy are married, with a 2010 AGI of \$55,000. They file a joint 2010 return. In 2010, Ricky contributed \$5,000 to his Roth IRA. Lucy elected to defer \$2,800 to her 401(k) plan. In 2008, Ricky was single and withdrew \$3,500 from his IRC §457 plan. The couple made no other withdrawals from qualified plans during the testing period.

Question. How much is Ricky and Lucy’s 2010 retirement savings contribution credit?

Answer. The credit amount is **\$350**. Ricky’s credit is \$150, computed on his \$5,000 Roth IRA contribution reduced by his \$3,500 qualified plan distribution from 2008 and then multiplied by the 10% credit rate applicable to his MFJ filing status and \$55,000 AGI $((\$5,000 - \$3,500) \times 10\%)$.

Lucy’s credit is \$200, computed on her 2010 contribution of \$2,800, limited to \$2,000 and then multiplied by the applicable 10% rate. Lucy does not reduce her contribution by Ricky’s 2008 distribution because they did not file jointly in 2008. Their Form 8880 follows.

¹⁰. Traditional or Roth IRAs; §401(k), §403(b), §457, §501(c)(18)(D), SEP or SIMPLE plans; and qualified retirement plans as defined in IRC §4974(c), including the federal Thrift Savings Plan.

¹¹. IRC §25B(d)(2)(C).

2010 Workbook

For Example 2

Form 8880 Department of the Treasury Internal Revenue Service	Credit for Qualified Retirement Savings Contributions ▶ Attach to Form 1040, Form 1040A, or Form 1040NR. ▶ See instructions on back.	OMB No. 1545-0074 2010 Attachment Sequence No. 54																								
Name(s) shown on return Ricky & Lucy		Your social security number 555-55-1955																								
<p>CAUTION You cannot take this credit if either of the following applies.</p> <ul style="list-style-type: none"> The amount on Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 is more than \$27,750 (\$41,625 if head of household; \$55,500 if married filing jointly). The person(s) who made the qualified contribution or elective deferral (a) was born after January 1, 1993, (b) is claimed as a dependent on someone else's 2010 tax return, or (c) was a student (see instructions). 																										
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 5%;"></th> <th style="width: 45%;">(a) You</th> <th style="width: 50%;">(b) Your spouse</th> </tr> </thead> <tbody> <tr> <td>1</td> <td style="text-align: right;">5,000</td> <td style="text-align: right;">0</td> </tr> <tr> <td>2</td> <td style="text-align: right;">0</td> <td style="text-align: right;">2,800</td> </tr> <tr> <td>3</td> <td style="text-align: right;">5,000</td> <td style="text-align: right;">2,800</td> </tr> <tr> <td>4</td> <td style="text-align: right;">3,500</td> <td style="text-align: right;">0</td> </tr> <tr> <td>5</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">2,800</td> </tr> <tr> <td>6</td> <td style="text-align: right;">1,500</td> <td style="text-align: right;">2,000</td> </tr> <tr> <td>7</td> <td colspan="2" style="text-align: right;">3,500</td> </tr> </tbody> </table>			(a) You	(b) Your spouse	1	5,000	0	2	0	2,800	3	5,000	2,800	4	3,500	0	5	1,500	2,800	6	1,500	2,000	7	3,500		
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Example 3. Use the same facts as **Example 2**, except Ricky and Lucy were married and filed jointly in 2008.

Question. How much is their 2010 retirement savings contribution credit?

Answer. The credit is **\$150**. Since Lucy is required to reduce her 2010 qualified plan contribution of \$2,800 by the amount of Ricky's 2008 distribution of \$3,500, she is not eligible for a credit in 2010. Ricky's credit is computed the same as in **Example 2**.

CHILD TAX CREDIT/ADDITIONAL CHILD TAX CREDIT

For information on child tax credits, see the Partially Refundable Credits section later in this chapter.

CREDIT FOR THE ELDERLY OR THE DISABLED

Reference. IRC §22; Form 1040, Schedule R, *Credit for the Elderly or the Disabled*.

Purpose. The elderly or disabled credit reduces income tax for low-income seniors and disabled individuals.

Eligibility Criteria. To qualify, a taxpayer must be age 65 or older, **or** retired on permanent and total disability with taxable disability income. However, taxpayers with either AGI or nontaxable pensions over the following amounts are **ineligible** for the credit.

Filing Status	AGI	Nontaxable Pension Limit ^a
Single, HoH, QW/W	\$17,500	\$5,000
MFJ: one eligible	25,000	7,500
MFJ: both eligible	20,000	5,000
MFS: lived apart all year	12,500	3,750

^a Nontaxable pensions include social security, railroad retirement, and Veterans Administration benefits.

Note. While the purpose of this credit seems noble, in reality the credit seldom applies. Because the income limitations of this credit are so low and the standard deduction and exemption amounts are now so high, eligible taxpayers seldom have a tax against which to apply this nonrefundable credit.

MORTGAGE INTEREST CREDIT

Reference. IRC §25; Form 8396, *Mortgage Interest Credit*.

Purpose. The mortgage interest credit provides added home ownership incentives to certain homebuyers by granting an income tax credit equal to a percentage of their annual qualified mortgage interest paid.

Eligibility Criteria. To claim this credit, taxpayers must hold a mortgage credit certificate (MCC) issued under a program by a state or political subdivision authorized to issue qualified residential mortgage bonds. As an example, in Illinois the Illinois Housing Development Authority administers the I-Loan certificate program.

Certificates issued by the Federal Housing Administration, Department of Veterans Affairs, and the Farmers Home Administration do not qualify for this credit, nor do Homestead Staff Exemption Certificates.

The mortgage underlying the MCC must be for the taxpayer's principal residence located in the same jurisdiction as the governmental unit that issued the certificate.

Mechanics and Computation. Certificate credit rates range from 10% to 50%. For certificate rates of 20% or less, the credit equals the amount of interest paid multiplied by the certificate rate. For certificate rates in excess of 20%, the credit equals the amount of interest paid multiplied by the certificate rate, limited to \$2,000.

Qualified taxpayers also may claim the home-mortgage interest deduction on interest amounts in excess of the credit claimed.

A credit in excess of the taxpayer's liability may be carried forward three years. This credit is subject to recapture if the taxpayer sells his qualified home within nine years. This recapture amount is computed on Form 8828, *Recapture of Federal Mortgage Subsidy*.

Note. See pages 144–149 in the 2009 *University of Illinois Federal Tax Workbook* for a thorough discussion of this credit. This can be found on the accompanying CD.

RESIDENTIAL ENERGY CREDITS

Reference. IRC §§25C and 25D; Form 5695, *Residential Energy Credits*.

Purpose. Residential energy credits provide taxpayers with a “rebate” in the form of a tax credit on certain amounts spent to improve the energy efficiency of their principal residences. These current energy credits are in effect for 2009 and 2010 only.

Eligibility Criteria. To be eligible for the residential energy credits, taxpayers must make qualified energy-saving improvements to their principal residences, which must be located in the United States. The improvements must consist of new components that are expected to remain in use for at least five years and must meet established criteria for energy efficiency.¹²

Qualified energy-saving improvements are divided into two categories: nonbusiness energy property improvements and residential energy-efficient property.

¹² The instructions for Form 5695, *Residential Energy Credits*, contain a list of current energy-efficiency criteria. Although not all Energy Star certified products qualify for the credit, the Energy Star website (www.energystar.gov) also contains helpful information about the residential energy credits.

Nonbusiness energy property improvements are broken down into two subcategories: qualified energy-efficiency improvements and residential energy property.

1. Taxpayers compute the credit for **qualified energy-efficiency improvements** on the cost of the following building envelope components, **without** including any costs for installation.
 - a. Any insulation material or system specifically and primarily designed to reduce a home's heat loss or gain
 - b. Exterior windows (including certain storm windows and skylights)
 - c. Exterior doors (including certain storm doors)
 - d. Any metal roof with appropriate pigmented coatings, or asphalt roof with appropriate cooling granules, designed specifically and primarily to reduce heat gain and meeting or exceeding the Energy Star program requirements in effect at the time of purchase or installation
2. Taxpayers compute the credit for **residential energy property** on the cost of the following energy-saving components, **including** the labor costs for onsite preparation, assembly, and/or installation.
 - a. Certain electric heat pump water heaters; electric heat pumps; central air conditioners; natural gas, propane, or oil water heaters; and stoves that use biomass fuel
 - b. Qualified natural gas, propane, or oil furnaces; and qualified natural gas, propane, or oil hot water boilers
 - c. Certain main air circulating fans used in natural gas, propane, or oil furnaces

The current energy credit adds **biomass fuel burning stoves** to the list of qualified nonbusiness energy property improvements. To qualify, a stove must burn a plant-derived fuel available on a renewable or recurring basis. This includes agricultural crops, wood and wood waste products, plants, grasses, residues, and fibers. The stove must have a thermal efficiency rating of at least 75%.

Residential energy-efficient property includes qualified solar electric property, solar water-heating property, small wind energy property, geothermal heat pump property, and fuel cell property. The qualified costs of residential energy-efficient property improvements include both purchase and labor costs properly allocable to the onsite preparation, assembly, or original installation of the property and for piping or wiring to connect such property to the taxpayer's home.

Mechanics and Computation. The nonbusiness energy property credit equals 30% of the qualified costs. However, the taxpayer's aggregate 2009 and 2010 credits for nonbusiness energy property cannot exceed \$1,500. These credits **cannot** be claimed for costs related to new construction and if unused **cannot** be carried forward.

The residential energy-efficient property credit equals 30% of the qualified costs. There is no maximum credit limit for residential energy-efficient property, with the exception of fuel cell property. The credit for qualified fuel cell property is limited to \$500 for each one-half kilowatt of the property's capacity. These credits **can** be claimed for costs related to new construction and **can** be carried forward.

If more than 20% of an item's use is for business or investment purposes, the qualified cost must be prorated and only the portion of the cost allocable to nonbusiness use can be used to compute the credit.

Note. Residential energy credits were covered extensively in the 2009 *University of Illinois Federal Tax Workbook* in the New Legislation chapter. This can be found on the accompanying CD.

QUALIFIED PLUG-IN ELECTRIC VEHICLE CREDIT

Reference. IRC §30; Form 8834, *Qualified Plug-In Electric and Electric Vehicle Credit*, Part I.

Eligibility Criteria. The ARRA¹³ created a tax credit for electric vehicles purchased after February 17, 2009, and before January 1, 2012. Qualified vehicles must be acquired for use or lease and not for resale and be used predominantly in the United States. The taxpayer claiming the credit must be the first to use the vehicle.

This credit covers vehicles commonly referred to as **neighborhood vehicles**, such as motor scooters. The following two types of vehicles qualify for this credit:

1. Low-speed vehicles propelled to a significant extent by a rechargeable battery with a capacity of at least 4-kilowatt hours
2. Two- or three-wheeled vehicles propelled to a significant extent by a rechargeable battery with a capacity of at least 2.5-kilowatt hours

A low-speed vehicle is defined as a vehicle that:

1. Has at least four wheels;
2. Is manufactured primarily for use on public streets, roads, and highways (not including a vehicle operated exclusively on a rail or rails);
3. Is not manufactured primarily for off-road use, such as primarily for use on a golf course;
4. Can obtain a speed of more than 20 miles per hour but not more than 25 miles per hour travelling one mile on a paved level surface; and
5. Has a gross vehicle weight rating of less than 3,000 pounds.

Mechanics and Computation. For personal-use vehicles, the amount of this credit is 10% of the cost of the vehicle, up to a maximum credit of \$2,500. A vehicle that qualifies for the plug-in electric drive vehicle credit cannot be used to claim the qualified plug-in electric vehicle credit.¹⁴ This credit applies against the alternative minimum tax credit and is subject to recapture if the vehicle ceases to be eligible for the credit.

ALTERNATIVE MOTOR VEHICLE CREDIT

Reference. IRC §30B; Form 8910, *Alternative Motor Vehicle Credit*.

Eligibility Criteria. To qualify for the alternative motor vehicle credit, the taxpayer must be the first owner¹⁵ of the qualified vehicle, and the vehicle must have been placed in use during the tax year. Additionally, the vehicle must be used primarily in the United States and not have been purchased for resale.

An alternative motor vehicle must have at least four wheels and fall into one of the following categories:¹⁶

- Lean-burn technology vehicles
- Qualified hybrid vehicles weighing 8,500 lbs. or less
- Qualified alternative fuel vehicles
- Qualified fuel cell vehicles
- Qualified plug-in electric drive motor vehicles¹⁷

¹³ American Recovery and Reinvestment Act of 2009, P.L. 111-5.

¹⁴ For more information, see IR-2009-44 and Notice 2009-58.

¹⁵ Taxpayers who sell an alternative motor vehicle to a tax-exempt organization, governmental unit, or a foreign person or entity for use as described in IRC §50(b)(3) or (4) can claim the credit, but only if the amount of the tentative credit is disclosed to the purchaser.

¹⁶ These categories are described in the instructions for Form 8910, *Alternative Motor Vehicle Credit*.

¹⁷ This applies to certain costs of converting a motor vehicle to a qualified plug-in electric drive motor vehicle that is placed in service after February 17, 2009, and before 2012. If a vehicle qualifies for the Form 8936, *Qualified Plug-In Electric Drive Motor Vehicle Credit*, the vehicle does not qualify for the alternative motor vehicle credit.

Mechanics and Computation. Manufacturers or domestic distributors of foreign-built vehicles generally provide certification that a specific make, model, and model-year vehicle qualifies for this credit. The certification also specifies the amount of credit for which the vehicle qualifies.

However, Congress imposed a limit on the number of qualified hybrid and lean-burn technology vehicles eligible for this credit. Once the vehicle manufacturer or domestic distributor sells 60,000 vehicles to retailers for use in the United States, the credit begins to phase out. The IRS publishes a notice when this limit has been reached.¹⁸

Taxpayers may have to recapture part or all of any credit claimed if the vehicle ceases to be qualified for the credit (for example, if the vehicle is used outside of the country).¹⁹ The alternative motor vehicle credit can be applied against the alternative minimum tax.

QUALIFIED PLUG-IN ELECTRIC DRIVE MOTOR VEHICLE CREDIT

Reference. IRC §30D; Form 8936, *Qualified Plug-In Electric Drive Motor Vehicle Credit*.

Eligibility Criteria. The ARRA modified this credit for qualified plug-in electric drive vehicles acquired on or after January 1, 2010. A vehicle is considered “acquired” when title to that vehicle passes under state law. Beginning in 2010, a vehicle that qualifies for a credit under IRC §30 does not qualify for the credit under IRC §30D.

To qualify for the qualified plug-in electric drive motor vehicle credit, vehicles must meet all of the following criteria:

- Be newly purchased
- Have four or more wheels
- Have a gross vehicle weight less than 14,000 pounds
- Propelled by a battery with at least 4-kilowatt hours that can be recharged from an external source of electricity

Mechanics and Computation. The qualified plug-in electric vehicle credit equals the sum of:

- \$2,500, plus
- \$417 for a vehicle that is propelled by a battery with at least 5-kilowatt hours of capacity, plus
- An additional \$417 for each kilowatt hour of battery capacity in excess of 5-kilowatt hours.

The portion of the credit determined by battery capacity cannot exceed \$5,000, which limits the total allowable credit to \$7,500 per qualified vehicle.

This new credit phases out in a manner similar to that of hybrid vehicles. The full amount of the credit reduces for a specific vehicle after the manufacturer has sold at least 200,000 vehicles.²⁰ This credit is subject to recapture if the vehicle ceases to be eligible for the credit.

ALTERNATIVE FUEL VEHICLE REFUELING PROPERTY CREDIT

Reference. IRC §30C; Form 8911, *Alternative Fuel Vehicle Refueling Property Credit*.

Eligibility Criteria. Qualified alternative fuel vehicle refueling property includes storage or dispensing units used to deliver alternative fuels into tanks of motor vehicles propelled by such fuel. Qualified property does not include any buildings or structural components of buildings.

¹⁸ See IRS Notice 2010-42 as an example of the phaseout for vehicles sold by Volkswagen Group of America.

¹⁹ See IRC §30B(h)(8).

²⁰ See IRS Notice 2009-89 for details on manufacturers’ certifications and phaseout reductions.

A qualified storage or dispensing unit must be located at the place where the fuel is delivered into the vehicle's tank. If the taxpayer is using the alternative fuel vehicle refueling property for personal use (i.e., not for business or investment use), the qualified property must be installed at the taxpayer's principal residence.

To qualify for this credit, the taxpayer must be the first to use the property, the property must be used in the United States, and it must be placed into service during the tax year.

Alternative fuels are defined as follows:

1. Any fuel of which at least 85% of the volume consists of one or more of the following fuels.
 - Ethanol
 - Natural gas
 - Compressed natural gas
 - Liquefied natural gas
 - Liquefied petroleum gas
 - Hydrogen
2. Any mixture blending at least 20% of the volume of biodiesel, determined without regard to any kerosene, with two or more of the following:
 - Biodiesel
 - Diesel fuel
 - Kerosene
3. Electricity

Mechanics and Computation. Any portion of the credit attributable to business or investment property is treated as a general business credit. Any credit not attributable to depreciable property is treated as a personal credit.

The ARRA temporarily increased the credit for alternative fuel vehicle refueling property placed in service in 2009 and 2010. For personal use property, the increased credit is the lesser of 50% of the property's cost or \$2,000. For business use property, the credit is generally the lesser of 50% of the property's cost or \$50,000; however, the credit is capped at \$200,000 for hydrogen-refueling property.

Taxpayers may have to recapture part or all of any credit claimed if the property ceases to be qualified for the credit. This credit ends on December 31, 2010 for all property other than hydrogen-refueling property, for which the credit extends until the end of 2014.

PRIOR YEAR MINIMUM TAX CREDIT

For information on the prior year minimum tax credit, see the Partially Refundable Credits section later in this chapter.

CREDIT TO HOLDERS OF TAX CREDIT BONDS

Reference. IRC §54A; Form 8912, *Credit to Holders of Tax Credit Bonds*.

Purpose. Holders of tax credit bonds generally do not receive interest payments from the bond issuers. Instead, these bondholders claim an annual income tax credit in lieu of periodic interest payments via Form 8912, *Credit to Holders of Tax Credit Bonds*.

Eligibility Criteria. Taxpayers who hold the following bonds are eligible to claim a tax credit equal to a deemed amount of interest reported for each bond.

- Clean renewable energy bond
- Gulf tax credit bond
- Midwestern tax credit bond
- Qualified forestry conservation bond
- New clean renewable energy bond
- Qualified energy conservation bond
- Qualified zone academy bond
- Qualified school construction bond

Build America bond holders receive **both** taxable interest payments and a corresponding tax credit.

Observation. Many brokerage firms are recommending the purchase of Build America Bonds. See page 443 of the 2009 *University of Illinois Federal Tax Workbook* for information on claiming the Form 8912 nonrefundable credit for 35% of the interest paid to Build America bondholders. This can be found on the accompanying CD.

INDIVIDUAL TAX CREDITS: PARTIALLY REFUNDABLE CREDITS

EDUCATION CREDITS

Reference. IRC §25A; Form 8863, *Education Credits (American Opportunity, Hope, and Lifetime Learning Credits)*.

Purpose. Education credits offset the cost of higher learning for taxpayers, their spouses, and dependents. The ARRA significantly changed the education credits starting in 2009, most notably by introducing the American opportunity credit (AOC) and increasing the income limitations for eligibility for the Hope and lifetime learning credits.

The AOC applies to the first four years of undergraduate study and grants taxpayers a credit for 100% of the first \$2,000 of qualified expenses and 25% of the next \$2,000. Qualified expenses include tuition, fees, and course-related books, supplies, and equipment, which **do not** have to be purchased directly from the school (unlike the Hope and lifetime learning credits). **The AOC applies to qualifying expenses paid in 2009 and 2010 for academic periods beginning in 2009 or 2010 only.**

The Hope and lifetime learning credits are nonrefundable. However, 40% of the American opportunity credit is refundable. The remaining 60% is nonrefundable.

Note. The American opportunity credit was covered extensively in the 2009 *University of Illinois Federal Tax Workbook* on pages 150–154 and 420. This can be found on the accompanying CD. Additional information can also be found in IRS Pub. 970, *Tax Benefits for Education*.

CHILD TAX CREDIT/ADDITIONAL CHILD TAX CREDIT

Reference. IRC §24; Form 8812, *Additional Child Tax Credit*.

Purpose. The nonrefundable child tax credit (CTC) helps offset the cost of childrearing for qualified families with children under the age of 17. The refundable additional child tax credit (ACTC) helps families with no income tax liability receive an additional tax credit.

Eligibility Criteria. To qualify for both the CTC and the ACTC in 2010, a taxpayer must have a qualifying child that meets **all** of the following six conditions.

1. The child must be related to the taxpayer as a son, daughter, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of these relatives.
2. The child must be under age 17 at the end of 2010.
3. The child cannot provide over half of his or her own support for 2010.
4. The child must have lived with the taxpayer for more than half of 2010.²¹
5. The taxpayer must claim the child as a dependent on his return.
6. The child must be a U.S. citizen, a U.S. national, or a resident of the United States.

Taxpayers must meet earned income requirements to qualify for the ACTC. For tax years 2009 and 2010, this minimum earned income amount is \$3,000. The ARRA reduced this amount from the previous \$8,500 threshold, which now allows more taxpayers to qualify for the ACTC and increases the amount of this refundable credit.

Mechanics and Computation. The CTC equals \$1,000 per qualified child, limited to the taxpayer's tax liability. The 2010 credit is phased out for taxpayers with MAGI²² in excess of the following amounts.

- Married filing jointly: \$110,000
- Single, qualifying widow/widower, or head of household: \$75,000
- Married filing separately: \$55,000

The ACTC applies to taxpayers with qualifying children who do not receive their full CTC because the amount of their CTC exceeds their tax liabilities. Taxpayers with three or more qualifying children can qualify for an increased ACTC to help offset some of their social security tax.

Note. The child tax credit and additional child tax credit are covered extensively in the 2009 *University of Illinois Federal Tax Workbook* starting on page 417. This can be found on the accompanying CD.

PRIOR YEAR MINIMUM TAX CREDIT

Reference. IRC §53; Form 8801, *Credit for Prior Year Minimum Tax — Individuals, Estates, and Trusts*.

Purpose. Alternative minimum tax (AMT) is caused by two types of adjustment and preference items: deferral items and exclusion items. Deferral items generally are timing issues, such as depreciation or incentive stock options that are treated differently for regular tax and AMT purposes. In other words, the deferral item that generated the AMT is not a constant, as opposed to exclusion items such as the standard deduction, which are available to the taxpayer year after year.

The prior year minimum tax credit prevents the double taxation of income arising from deferral items, which otherwise might be taxed first under AMT and later under regular tax.

²¹ For exceptions to this residency rule, see the instructions for Form 8812, *Additional Child Tax Credit*.

²² For purposes of the child tax credit, MAGI means AGI increased by any foreign income exclusions under IRC §§911, 931, and 933.

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Eligibility Criteria. To qualify for the minimum tax credit, the taxpayer must have a prior-year AMT caused by deferral items. The credit is divided into two subparts: the refundable credit and the nonrefundable credit.

Nonrefundable Portion. A taxpayer may claim a nonrefundable credit for prior year minimum tax against his 2010 regular tax if the taxpayer:

- Had a 2009 AMT liability arising from deferral item adjustments or preferences, or
- Is carrying forward a minimum tax credit from 2009.

Refundable Portion. The refundable credit applies to any unused minimum tax credit carryforward from 2006 or earlier years.

Mechanics and Computation. AMT is computed under an alternate, or parallel set of tax rules. To calculate the prior year minimum tax credit, the AMT must be recomputed under yet another set of alternative rules — the AMT rules without regard to deferral items. The computation of this credit is beyond the scope of this chapter. For more information, refer to the instructions for Form 8801, *Credit for Prior Year Minimum Tax — Individuals, Estates, and Trusts*.

Note. For more information about the prior year minimum tax credit, see page 403 in the 2009 *University of Illinois Federal Tax Workbook*. This can be found on the accompanying CD.

INDIVIDUAL TAX CREDITS: REFUNDABLE CREDITS

EARNED INCOME CREDIT

Reference. IRC §32; Schedule EIC, *Earned Income Credit*.

Purpose. The earned income credit (EIC) provides a refundable tax credit to subsidize taxpayers with low to moderate earned income.

Eligibility Criteria. The rules for computing eligibility for the EIC are incredibly complex. Qualifications vary depending on whether or not the taxpayer has a qualifying child. However, all EIC recipients must satisfy these seven rules.

1. The taxpayer's 2010 AGI must be **less than** the following applicable amounts.
 - \$43,352 (\$48,362 if MFJ) with three or more qualifying children
 - \$40,363 (\$45,373 if MFJ) with two qualifying children
 - \$35,535 (\$40,545 if MFJ) with one qualifying child
 - \$13,460 (\$18,470 if MFJ) with no qualifying children

Note. The taxpayer's **earned income** may not exceed the AGI thresholds listed in Rule #1.

2. The taxpayer must have a valid SSN. If married, the taxpayer's spouse also must have a valid SSN. An SSN issued on a social security card that is stamped "Not valid for employment" is not considered a valid SSN.
3. The taxpayer's filing status cannot be MFS.
4. The taxpayer must be a U.S. citizen. Alternatively, the taxpayer may be a resident alien for the **entire** year. If a couple files MFJ and only one spouse is a U.S. citizen or full-year resident, this requirement is satisfied if the other spouse elects to be treated as a U.S. resident and the couple is taxed by the United States on their worldwide income.

5. The taxpayer cannot file either Form 2555, *Foreign Earned Income*, or Form 2555-EZ, *Foreign Earned Income Exclusion*.
6. The investment income on the taxpayer's return cannot be more than \$3,100. Investment income commonly includes taxable interest and dividends, nontaxable interest, and net income from capital gains. However, it also can include income from the rental of personal property, royalty income, and passive-activity income. Form 1040 filers with investment income should complete the investment income worksheet in IRS Pub. 596, *Earned Income Credit (EIC)*.
7. The taxpayer must have earned income. If a taxpayer is filing a joint return, this rule is satisfied if at least one spouse has earned income. For purposes of the EIC, earned income includes taxable wages, salaries, and tips; net SE income; and gross income received as a statutory employee.²³ Taxpayers can elect to include nontaxable combat pay in the calculation of earned income.

Rules for Taxpayers with at Least One Qualifying Child. Taxpayers with at least one qualifying child must satisfy all of the following additional requirements to be eligible to receive EIC.

1. Each qualifying child must meet the tests (defined later) for relationship, age, residency, and joint return.
2. A qualifying child cannot be used to claim EIC on more than one tax return. If the child qualifies more than one taxpayer during the tax year, **and the taxpayers cannot agree** who will claim the child, tiebreaker rules apply.
3. The taxpayer claiming the EIC cannot be the qualifying child of another person.
4. The qualifying child must have a valid SSN.²⁴

The EIC qualifying child rules for relationship, age, residency, and joint return are defined as follows:

1. **Relationship.** A child meets the relationship test if the child is related to the taxpayer in any of the following ways:
 - a. Son, daughter, stepchild, foster child, or a descendent of any of these relatives
 - b. Brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendent of any of these relatives

An **adopted child** is treated as the taxpayer's own child if the child was lawfully placed with the taxpayer for legal adoption. A **foster child** must be placed with the taxpayer by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

2. **Age.** A qualifying child must be under age 19, or under age 24 and a qualified full-time student at least some part of each of any five calendar months during the tax year. The child's age is determined as of the end of the tax year and the child cannot be older than the taxpayer. An individual who is permanently and totally disabled at any time during the tax year satisfies this requirement regardless of the individual's age, or the age of the taxpayer.
3. **Residency.** The qualifying child must live in the United States with the taxpayer for more than half of the tax year. Exceptions apply for children who were born or died during the year, kidnapped children, military personnel stationed outside the United States on extended active duty, and qualified temporary absences.
4. **Joint Return.** A qualifying child cannot file a joint return for the year he is claimed for EIC, unless the joint return is filed only to claim a refund. To claim EIC for a married child, the taxpayer must be able to claim an exemption for the child, or in the case of divorced or separated parents, the taxpayer must have released the exemption to the noncustodial spouse.

²³ Special rules exist for taxpayers who have requested exemption from social security and Medicare taxes. See IRS Pub. 596, *Earned Income Credit (EIC)*, for details.

²⁴ If a qualifying child was born and died during the year, the taxpayer can attach a copy of the child's birth and death certificates (or hospital records showing a live birth) in lieu of a valid SSN.

Tiebreaker Rules. The following rules apply in cases in which a child qualifies more than one taxpayer for EIC, but only if the **taxpayers cannot agree on who claims the child**.

1. If only one of the taxpayers is the child's parent, the child is treated as the qualifying child of the parent.
2. If the parents do not file a joint return but both parents can claim the child as a qualifying child, the child is treated as the qualifying child of the parent with whom the child lived for the longer period of time during the year. If the child lived with each parent for the same amount of time, the IRS treats the child as the qualifying child of the parent who had the higher AGI for the year.

Note. This tiebreaker rule satisfies disputes over children who lived with both of the unmarried parents for some or all of the year. However, if the parents live apart, but share joint custody of the child and claim that the child lives with each of them equally during the year, it would imply that the child did not live with either parent for more than half the year and therefore would not be a qualifying child for either parent. (See residency requirement.)

The following rules apply in cases in which a child qualifies more than one taxpayer for EIC, **but neither parent claims the credit**. These tests are mandatory:

3. If no parent can claim the child as a qualifying child, the qualified taxpayer with the highest AGI for the year can claim the child for EIC.
4. If a parent can claim the child as a qualifying child but no parent does so, the child is treated as the qualifying child of the qualifying taxpayer who had the highest AGI for the year, but only if that person's AGI is higher than the highest AGI of any of the child's parents who can claim the child. If the child's parents file a joint return, this rule can be applied by treating the parents' total AGI as divided evenly between them.

Special Rule for Divorced or Separated Parents Who Live Apart. If a custodial parent releases the dependency exemption for a qualifying child to the noncustodial parent, the custodial parent still retains the qualifying child for EIC purposes. However, if the child qualifies another taxpayer for the credit, the custodial parent can agree to allow the other taxpayer to claim the child for the EIC. **The noncustodial parent cannot claim the EIC if the residency requirement is not satisfied.**

Rules for Taxpayers without a Qualifying Child. Taxpayers without a qualifying child must satisfy **all** of the following additional requirements to be eligible to receive the EIC.

1. The taxpayer must be at least age 25, but under age 65, at the end of the tax year (or at the time of death). Only one spouse must satisfy the age test if the couple files jointly, and it does not have to be the spouse with the earned income.
2. The taxpayer, or the taxpayer's spouse if filing jointly, cannot be **qualified** to be claimed as a dependent on another taxpayer's return. This rule applies regardless of whether the other taxpayer actually claims the dependency allowance.
3. The taxpayer, or the taxpayer's spouse if filing jointly, cannot be the qualifying child of another person. (See previous qualifying child rules.)
4. The taxpayer must live in the United States for more than half the year. Military personnel stationed outside the United States on extended active duty are considered to live in the United States while on duty.

Note. Extensive coverage of tax issues related to the dependency exemption, including the definition of "qualifying child," can be found in Chapter 2, Dependency Exemption Issues, in the 2009 *University of Illinois Federal Tax Workbook*. This can be found on the accompanying CD.

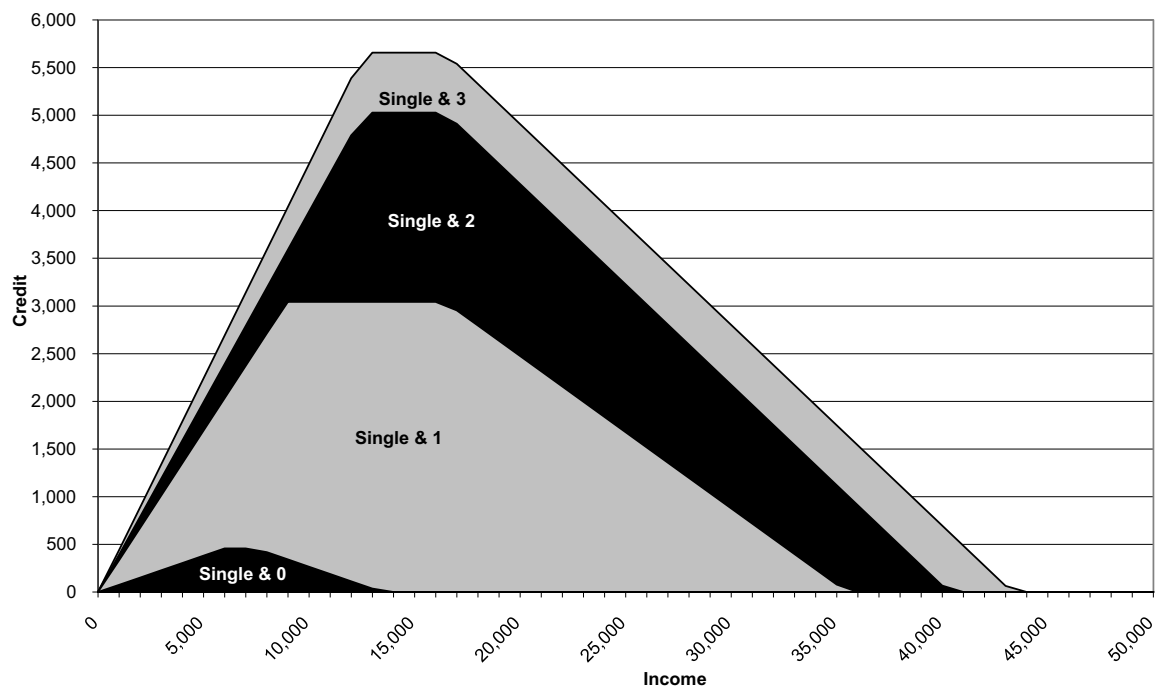
2010 Workbook

Mechanics and Computation. The amount of a taxpayer's EIC is based on qualifying income and the number of qualifying children claimed on the return. The ARRA temporarily increased EIC amounts for taxpayers with three or more qualifying children. This change applies only to tax years 2009 and 2010.

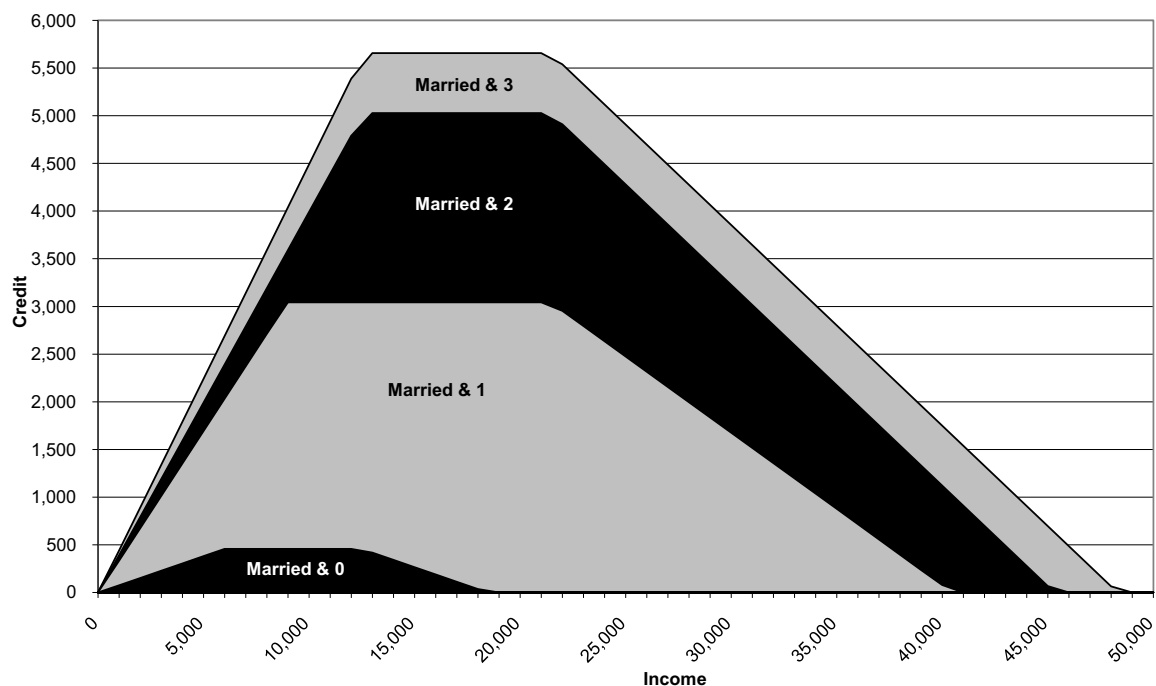
Qualifying income is computed on the EIC worksheet included with the instructions for the relevant form in the 1040 series.

The amount of EIC a taxpayer receives is illustrated in the following graphs. Initially, the lower the taxpayer's qualifying income, the lower the credit. The credit builds to a plateau level around the middle of the applicable income range for the taxpayer's number of qualifying children, then it starts decreasing until the income range phases out.

2010 Earned Income Tax Credit: Single



2010 Earned Income Tax Credit: Married



2010 Workbook

The maximum amount of EIC a taxpayer can receive in 2010 is as follows.

- \$5,666 with three or more qualifying children
- \$5,036 with two qualifying children
- \$3,050 with one qualifying child
- \$457 with no qualifying children

For years prior to 2011, eligible taxpayers could request **advance EIC payments** from their employers. The maximum amount employers can advance qualified employees in 2010 is \$1,830. Advance EIC payments are reported on Form W-2, box 9. For taxable years beginning after December 31, 2010, the advance EIC payment option is eliminated.

Due Diligence Requirement. Eligibility requirements for the EIC are very complex and, as the above amounts indicate, the credit can be quite substantial. Combined with the myriad situations that taxpayers present with nontraditional living arrangements, computation of the EIC is fraught with fraud and error. A 2008 Treasury Inspector General for Tax Administration (TIGTA) memorandum reports the IRS annually pays out from **\$10 to \$12 billion in erroneous EIC payments**.²⁵

Note. A thorough update of EIC due-diligence requirements can be found in Chapter 5, Individual Taxpayer Problems, of this workbook, and in Chapter 8, IRS Update, of the 2008 *University of Illinois Federal Tax Workbook*. This can be found on the accompanying CD.

To reduce the number of erroneous EIC claims, paid tax preparers must meet the the following due-diligence requirements:

1. Complete an eligibility checklist for each EIC recipient based on information provided by the taxpayer. Preparers may use Form 8867, *Paid Preparer's Earned Income Credit Checklist*, or an equivalent form to satisfy this requirement. The preparer retains this form; it is not submitted to the IRS.
2. Accurately compute the credit.
3. Exhibit informed knowledge of the EIC eligibility criteria and expend reasonable effort to ensure the accuracy of information obtained from the taxpayer. For example, a preparer should:
 - a. Evaluate information received from clients;
 - b. Apply a consistency and reasonableness standard to the information;
 - c. Ask additional questions if the information appears incorrect, inconsistent, or incomplete; and
 - d. Document and retain the record of inquiries made and client responses.
4. Retain records related to the taxpayer's eligibility (Form 8867 or equivalent), the computation of the credit (EIC worksheet), the identity of the person providing the information, and how and when the information was obtained. These records must be kept for three years after the June 30th following the date the return or claim was presented for signature.

Tax preparers who fail to comply with the due-diligence requirements are subject to a penalty of \$100 per failure.²⁶

²⁵ Treasury Inspector General for Tax Administration, *The Earned Income Tax Credit Program Has Made Advances; However, Alternatives to Traditional Compliance Methods Are Needed to Stop Billions of Dollars in Erroneous Payments*, Reference Number: 2009-40-024 (2008).

²⁶ See Treas. Reg. §1.6695-2 for additional information.

FIRST-TIME HOMEBUYER CREDIT

Reference. IRC §36; Form 5405, *First-Time Homebuyer Credit and Repayment of the Credit*.

Purpose. The first-time homebuyer credit was introduced to stimulate home sales by granting a credit to first-time homebuyers. This credit has undergone three revisions since it was first introduced in 2008. It was extended to qualified long-time resident buyers who purchased a new principal residence between November 6, 2009, and April 30, 2010, or were under contract to purchase by April 30, 2010 and who closed before October 1, 2010.²⁷

Note. The first-time homebuyer credit is covered in detail in Chapter 4, Tax Aspects of Home Ownership.

MAKING WORK PAY AND GOVERNMENT RETIREE CREDITS

Reference. IRC §36A; Form 1040, Schedule M, *Making Work Pay and Government Retiree Credits*.

Purpose. These credits were introduced by the ARRA to provide payments to certain working individuals and retirees. The making work pay credit (MWPC) was intended to offset the reduced withholding that resulted from lower withholding rates in 2009 and 2010. The withholding rates were lowered as an economic stimulus, to create more spendable income.

The government retiree credit was a one-time \$250 credit for 2009 to put government retirees on par with recipients of social security, supplemental security income, railroad retirement, or veterans' benefits who received a \$250 economic recovery payment in 2009.

Eligibility Criteria. The MWPC is available to 2009 and 2010 taxpayers with earned income, whose AGI is less than \$95,000 (\$190,000 if MFJ). The government retiree credit was available to 2009 taxpayers who did not receive social security benefits, but instead received a pension or annuity payment from the U.S. government or any U.S. state or local government or agency.

Mechanics and Computation. The MWPC provides working taxpayers with a refundable credit of up to \$400. Married taxpayers can receive a credit of up to \$800. This credit is not available to dependents or taxpayers with no earned income.

The credit is equal to 6.2% of the taxpayer's earned income, not to exceed \$400 (\$800 if MFJ). The credit begins to phase out for taxpayers with MAGI over \$75,000 (\$150,000 if MFJ).

Taxpayers had to reduce their 2009 MWPC by the amount of any economic recovery payment received. Similarly, the 2009 government retiree credit had to be reduced by the amount of any economic recovery payment received.

Note. Additional information about the MWPC can be found in the 2009 *University of Illinois Federal Tax Workbook* on pages 414–416. This can be found on the accompanying CD.

Note. The IRS has identified numerous errors in processing 2009 returns related to the MWPC, and a project has been initiated to study these issues.

²⁷ A 1-year extension applies to members of the uniformed services or foreign service and employees of the intelligence community.

ADOPTION CREDIT

Reference. IRC §36C; Form 8839, *Qualified Adoption Expenses*.

Purpose. The adoption credit subsidizes the expenses of adoptive parents and encourages the adoption of special-needs individuals. It is separate and distinct from the employer-provided adoption assistance exclusion, although both the credit and the exclusion are computed on the same form.

Eligibility Criteria. To be eligible for this credit, a taxpayer must have paid reasonable and necessary expenses to adopt an eligible individual. Eligible individuals include children under the age of 18 or individuals physically or mentally incapable of self-care. **Qualified expenses** include adoption fees, court costs, attorney fees, travel expenses (including meals and lodging), and re-adoption expenses for foreign children.

However, expenses that violate state or federal laws do not qualify for the credit. Additional **ineligible expenses** include surrogate costs; costs associated with adopting a spouse's child; costs covered under any federal, state, or local program; costs allowed as a credit or deduction under any other federal income tax rule; and costs reimbursed under an employee plan or paid by any other person or organization.

Income Limitations. The 2010 credit begins phasing out for taxpayers with MAGI over \$182,520 and phases out completely at \$222,520. Income must be modified by adding back any foreign-earnings exclusion. Income limitations are adjusted annually for inflation.

Mechanics and Computation. The 2010 adoption credit provides up to \$13,170 of tax relief per qualified adoption. The credit is calculated dollar for dollar of qualified expenses paid, up to the annual limit, except for special-needs individuals (see below).

The timing of the credit depends on whether the adoptee is considered a foreign child. A **foreign child** is one who was not a citizen or resident of the United States or its possessions at the time adoption proceedings were initiated. A credit cannot be claimed for foreign adoptions **unless and until the adoption becomes final**. All expenses paid in prior years are treated as paid in the year the adoption is finalized. All expenses paid in years **after** the adoption becomes final are taken as a credit in the **year of payment**.

For **domestic adoptions**, expenses paid prior to the year that the adoption becomes final are taken as a credit in the year **following** the year that they are paid. Expenses paid in the year that the adoption becomes final or in any subsequent year are taken as a credit in the year that they are paid.

A taxpayer who adopts a **special-needs individual** qualifies for the maximum credit amount regardless of whether the taxpayer incurred any expenses for the adoption. A special-needs individual must meet **all** the following conditions:

1. The individual must be a citizen or a resident of the United States or its possessions at the time the adoption begins.
2. A state or District of Columbia agency must determine that the individual cannot be returned to the parents' home.
3. The state must have determined that it is reasonable to assume the individual will not be adopted without assistance. Factors to be considered include the following.
 - a. Age
 - b. Ethnic background
 - c. Membership in a sibling group
 - d. Physical, mental, or emotional handicaps

Note. The adoption credit was made refundable for years beginning after December 31, 2009, by the Patient Protection and Affordable Care Act (PPACA). For more information about the changes to the adoption credit, see Chapter 12, New Legislation.

BUSINESS CREDITS

This section lists the general business credits allowed on Form 1040, followed by a brief synopsis of a few key credits.

FORM 3800, GENERAL BUSINESS CREDIT

In order to claim a general business credit derived solely from a pass-through entity, the taxpayer may report the corresponding credit directly on Form 3800, *General Business Credit*. In all other cases, the taxpayer must file Form 3800 as well as the relevant forms from the following list.

- Form 8931, *Agricultural Chemicals Security Credit*
- Form 6478, *Alcohol and Cellulosic Biofuel Fuels Credit*
- Form 8911, *Alternative Fuel Vehicle Refueling Property Credit*
- Form 8910, *Alternative Motor Vehicle Credit*
- Form 8864, *Biodiesel and Renewable Diesel Fuels Credit*
- Form 8933, *Carbon Dioxide Sequestration Credit*
- Form 8847, *Credit for Contributions to Selected Community Development Corporations* (from partnerships and S corporations only)
- Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*
- Form 8932, *Credit for Employer Differential Wage Payments*
- Form 8882, *Credit for Employer-Provided Childcare Facilities and Services*
- Form 8881, *Credit for Small Employer Pension Plan Startup Costs*
- Form 5884-A, *Credit for Affected Midwestern Disaster Area Employers*
- Form 8826, *Disabled Access Credit*
- Form 8906, *Distilled Spirits Credit*
- Form 8844, *Empowerment Zone and Renewal Community Employment Credit*
- Form 8909, *Energy Efficient Appliance Credit*
- Form 1065-B, Schedule K-1, *Partner's Share of Income (Loss) from an Electing Large Partnership*
- Form 8845, *Indian Employment Credit*
- Form 3468, *Investment Credit*
- Form 8586, *Low-Income Housing Credit*
- Form 8896, *Low Sulfur Diesel Fuel Production Credit*
- Form 8923, *Mine Rescue Team Training Credit*
- Form 8874, *New Markets Credit*
- Form 8907, *Nonconventional Source Fuel Credit*
- Form 8820, *Orphan Drug Credit*
- Form 8936, *Qualified Plug-In Electric Drive Motor Vehicle Credit*
- Form 8834, Part I, *Qualified Plug-In Electric Vehicle Credit*
- Form 8900, *Qualified Railroad Track Maintenance Credit*
- Form 8835, *Renewable Electricity, Refined Coal, and Indian Coal Production Credit*
- Form 5884, *Work Opportunity Tax Credit*

See Form 3800 instructions for carryback and carryforward information, including rules for credit ordering and rules regarding situations in which the taxpayer has a change in marital status for a carryover year.

The following business credits may prove useful to qualified small business clients.

CREDIT FOR EMPLOYER SOCIAL SECURITY AND MEDICARE TAXES PAID ON CERTAIN EMPLOYEE TIPS

Reference. IRC §45B; Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*.

Summary. Qualified employers in the food and beverage industry may claim a credit for social security and Medicare taxes paid or incurred on certain employees' tips. Employers qualify for this credit if they meet both of the following conditions.

- The employer had employees who received tips from customers for providing, delivering, or serving food or beverages for consumption if tipping of employees for delivering or serving food or beverages is customary.
- The employer paid or incurred employer social security and Medicare taxes on those tips during the tax year.

The credit equals the amount the employer paid or incurred for the employer's share of social security and Medicare taxes on tips received by the employee. However, the amount of tips used to compute the credit for any month must be reduced by an amount equal to the employee's hours worked during the month times \$5.15 per hour²⁸ minus the actual wages (excluding tips) paid to the employee during that month.²⁹

This credit is claimed on Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*, filed with an original or amended return any time within three years of the due date of the employer's return.

CREDIT FOR EMPLOYER DIFFERENTIAL WAGE PAYMENTS

Reference. IRC §45P; Form 8932, *Credit for Employer Differential Wage Payments*.

Summary. Qualified small employers can claim a credit for 20% of the first \$20,000 of qualified differential wage payments made to each qualified employee. To be eligible, an employer must employ fewer than 50 employees on average during the tax year, and maintain a written plan to provide differential wage payments to every qualified employee.

The term **differential pay** refers to the amount of wages voluntarily paid to civilian-soldier employees serving active duty for a period of more than 30 days. It represents all or a portion of the wages the employer would have paid the employee if the employee was still performing services for the employer.

To qualify, the employee must be in the uniformed services, which includes the Armed Forces; the Army National Guard and the Air National Guard when engaged in active duty for training, inactive duty training, or full-time National Guard duty; the commissioned corps of the Public Health Service; and any other category of persons designated by the president in time of war or national emergency.

DISABLED ACCESS CREDIT

Reference. IRC §44; Form 8826, *Disabled Access Credit*.

Summary. The disabled access credit provides a nonrefundable credit for small businesses that incur expenses in providing access to persons with disabilities. An eligible small business is one that earned \$1 million or less, or had no more than 30 full-time employees in the previous year.

²⁸ This amount represents the federal minimum wage as of January 1, 2007, and has not been increased for purposes of the Form 8846 tax credit computation.

²⁹ See the instructions for Form 8846, *Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips*, for an example of how to compute this credit.

Eligible access expenditures include reasonable and necessary amounts paid or incurred to:

- Remove barriers preventing a business from being accessible to or usable by disabled individuals;
- Provide qualified interpreters or other methods of making audio materials available to the hearing-impaired;
- Provide qualified readers, taped texts, and other methods of making visual materials available to the visually-impaired; and
- Acquire or modify equipment or devices for disabled individuals.

WORK OPPORTUNITY TAX CREDIT

Reference. IRC §51; Form 5884, *Work Opportunity Tax Credit*.

Purpose. The work opportunity tax credit provides an incentive to employers to hire employees from targeted groups that traditionally face significant barriers to employment by allowing a tax credit for a portion of the qualified wages paid during the employee's first and second years of employment.

Qualified wages paid to employees hired from the following groups are eligible for this credit.

- Hurricane Katrina victims
- Long-term family assistance recipients
- Qualified recipients of Temporary Assistance for Needy Families
- Qualified veterans
- Qualified ex-felons
- Designated community residents
- Vocational rehabilitation referrals
- Summer youth employees
- Supplemental Nutrition Assistance Program recipients
- Supplemental Security Income recipients
- Unemployed veterans
- Disconnected youths

Employers must request and be issued a certification for each employee from the state employment-security agency to verify that the employee is a member of a targeted group. The certification generally must be received by the day the individual begins work. However, the employer can complete Form 8850, *Pre-Screening Notice and Certification Request for the Work Opportunity Credit*, on or before the day the employer offers the individual a job to prescreen the employee and to make a written request to the state workforce agency to certify the individual as a member of a targeted group.

Note. The work opportunity tax credit was extensively covered in the 2009 *University of Illinois Federal Tax Workbook* on pages 214–233. This can be found on the accompanying CD.

NEW CREDITS FOR 2010

The following credits are new for 2010 and are covered in Chapter 12, New Legislation.

- Qualifying therapeutic discovery project credit³⁰
- Small business health care tax credit³¹

³⁰. IRC §48D.

³¹. IRC §45R.

TABLE OF CREDITS

The following table lists both personal and general business credits in alphabetical order. The words “Credit for” have been dropped from the titles (e.g., the Credit for Employer Differential Wage Payments has been listed in the table as “Employer Differential Wage Payments”).

Credit	IRC	Form	Refundable	Carryback/Carryforward
Additional child tax	§24	8812	Yes	None
Adoption	§36C	8839	Yes	None
Agricultural chemicals security	§450	8931	No	Back 1 year, forward 20
Alcohol and cellulosic biofuels	§40	6478	No	Back 1 year, forward 20
Alternative fuel vehicle refueling property	§30C	8911	No	^a
Alternative motor vehicle	§30B	8910	No	^a
Biodiesel and renewable diesel fuels	§40A	8864	No	Back 1 year, forward 20
Carbon dioxide sequestration	§45Q	8933	No	Back 1 year, forward 20
Child and dependent care	§21	2441	No	None
Child tax	§24	Worksheet	No	None
Disabled access	§44	8826	No	Back 1 year, forward 20
Distilled spirits	§5005	8906	No	Back 1 year, forward 20
Earned income	§32	Sch. EIC	Yes	None
Education	§25A	8863	^b	None
Elderly and disabled	§22	Sch. R	No	None
Employer differential wage payments	§45P	8932	No	Back 1 year, forward 20
Employer-provided childcare	§45F	8882	No	Back 1 year, forward 20
Employer SS and Medicare taxes paid/tips	§45B	8846	No	Back 1 year, forward 20
Empowerment zone and renewal employment	§1396	8844	No	Back 1 year, forward 20
Energy efficient appliance	§45M	8909	No	Back 1 year, forward 20
First-time homebuyer	§36	5405	Yes	None
Foreign tax	§901	1116	No	Back 1 year, forward 10
Holders of tax credit bonds	§54A	8912	No	None
Indian employment	§45A	8845	No	Back 1 year, forward 20
Investment	§46	3468	No	Back 1 year, forward 20
Low-income housing	§42	8586	No	Back 1 year, forward 20
Low-sulfur diesel fuel production	§45H	8896	No	Back 1 year, forward 20
Making work pay/government retiree	§36A	Sch. M	Yes	None
Mine rescue team training	§45N	8923	No	Back 1 year, forward 20
Mortgage interest	§25	8396	No	Forward 3 years
New markets	§45D	8874	No	Back 1 year, forward 20
Nonbusiness energy improvement	§25C	5695	No	None
Nonconventional source fuel	§45K	8907	No	Back 1 year, forward 20
Orphan drug	§45C	8820	No	Back 1 year, forward 20
Plug-in electric drive motor vehicle	§30D	8936	No	^a
Plug-in electric vehicle	§30	8834	No	^a
Prior year minimum tax: nonrefundable	§53	8801	No	Carry forward until used
Prior year minimum tax: refundable	§53	8801	Yes	None
Qualified railroad track maintenance	§45G	8900	No	Back 1 year, forward 20
Renewable electricity, refined coal, etc.	§45	8835	No	Back 1 year, forward 20
Residential energy efficient property	§25D	5695	No	Forward 20
Retirement savings contribution	§25B	8880	No	None
Small employer pension plan startup	§45E	8881	No	Back 1 year, forward 20
Work opportunity	§51	5884	No	Back 1 year, forward 20

^a Credits based on items of personal use have no carryback/carryforward provision. However, any portion of these credits applicable to depreciable property is treated as part of the general business credit and can be carried back one year and forward for 20 years.

^b The Hope and lifetime learning credits are nonrefundable. Forty percent of the American opportunity credit is refundable.