3 Tax Credits That May Save You Thousands of Dollars

By Chaney Black

Below, I discuss three common tax credits that many taxpayers can benefit from, especially if you have children under 24 years old.

1. Earned income tax credit (EITC)

The Earned Income Tax Credit (EITC) is a tax credit available to working Americans with low incomes. The EITC is a refundable credit, which means that it can reduce a taxpayer's tax liability below zero, resulting in a refund. This credit requires some level of earned income. Your investment income, such as interest & dividends, must be below $3,500. Your child must be a qualifying child, which means they must meet certain tests when it comes to age, relationship, and residency. In order for you to be eligible for the EITC, your child must be under 19 years old, or under 24 years old if a full-time student.

Please see the chart below that shows the 2018 maximum credit amounts and income limits, depending on if you are married or single, as well as how many qualifying children you have.

2018 Earned Income Tax Credit (for Returns filed in 2019)

	No Children	1 Child	2 Children	3+ Children
Maximum Amount of Credit	$519	$3,461	$5,716	$6,431
Earned Income (lower limit) required to get maximum credit	$6,780	$10,180	$14,290	$14,290
Beginning Phaseout Threshold Amount (Single, SS, or Head of Household)	$8,490	$18,660	$18,660	$18,660
Ending Phaseout Amount (Single, SS, or Head of Household)	$15,270	$40,320	$45,802	$49,194
Beginning Phaseout Threshold Amount (Married Filing Jointly)	$14,170	$24,350	$24,350	$24,350
Ending Phaseout Amount (Married Filing Jointly)	$20,950	$46,010	$51,492	$54,884

As an example, let's say a husband farms and has a net farm loss of ($15,000) and his wife earns a $38,000 wage. The combined earned income is $23,000. The married couple has one child who is 4 years old. In this case, the couple qualifies for an earned income credit in the amount of $3,461. Their credit amount does not get phased out since their combined earned income is below the beginning phaseout threshold of $24,350. Keep in mind, this is assuming that the couple doesn't have any other activity impacting their tax return.

2. Child tax credit

A basic child tax credit of up to $2,000 per child is available on your 2018 tax return if your child meets certain criteria. The child cannot yet have turned 17 by the last day of the tax year and must be claimed as a dependent on your tax return. In addition, the child must not have provided more than half of their own support and must have lived with you for more than half of the tax year. There is an earned income threshold associated with this credit—which means that a family must earn at least $2,500 of earned income to claim the credit. The credit is also subject to phase-out limitations for taxpayers whose income surpasses an upper limit ($200,000 – single, $400,000 – married).

3. Non-Child Dependent Credit

Beginning in 2018, the new tax law allows a $500 credit for dependents who are not qualifying children under age 17. There is no age limit for the $500 credit. The potential dependent must still meet tax tests for dependency, however. This credit may apply to taxpayers who support a dependent who is a full-time student or disabled. This credit was put in place to provide some relief to families who had previously benefited from the personal exemption deduction for dependents claimed, which no longer exists. The income phase-out limitations are the same as the child tax credit mentioned above.

The credits discussed above can be impacted by a variety of items, depending on your specific tax situation. Each credit is a result of a rather complicated calculation. As your tax preparer, we can make sure that you are taking advantage of the tax credits available for your family to save you as much money as possible.

As always, please contact us with any questions or concerns.

Thanks,

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