



## **NONREFUNDABLE CREDITS**

# About Nonrefundable Tax Credits

- A nonrefundable credit is a dollar-for-dollar reduction of the tax liability.
- A nonrefundable credit can only reduce the tax liability to zero.
- Taxpayers with no income tax will not benefit from claiming nonrefundable credits.
- Generally, nonrefundable credits are applied against federal income tax in the order they are listed on Form 1040 and Schedule 3.
- Chris has a federal income tax obligation of \$400.
- Chris meets all the eligibility requirements to claim a \$500 Credit for Other Dependent. The total amount of nonrefundable credits Chris qualifies for (\$500) is higher than Chris's income tax (\$400).
- Chris will claim \$400 for the Credit for Other Dependents and his tax will be reduced to \$0. The \$100 of unused nonrefundable credit does not have an impact on Chris's return and it is not paid to him as a refund.

# Child Tax Credit

- The Child Tax Credit is a nonrefundable credit.
- The maximum credit is \$2,200 per qualifying child.
- Taxpayers who cannot use the maximum nonrefundable credit, may be able to claim the Additional Child Tax Credit, which is covered in the Module covering Refundable Credits.
- This common credit can also be claimed by parent(s) that are an ITIN holder.
- A qualifying child must be related to the taxpayer in one of these ways to be a qualifying child for the Child Tax Credit:
  - son or daughter, adopted child, stepchild, eligible foster child, brother or sister, half-brother or sister, stepbrother or sister, a descendent of any of the relations listed above (for example, a grandchild, niece, or nephew).

# Qualifying Child for the Child Tax Credit

- In order to be considered a qualifying child for the CTC, a dependent must meet the following requirements:
  - Under age 17 at the end of the tax year
  - A U.S. citizen, U.S. national, or resident alien of the United States
  - Meets the relationship test (see next slide)
  - Claimed as a dependent by the taxpayer (see exception below)
  - Did not provide over half of their own support
  - Lived with the taxpayer for more than six months of the year (see exception below)
  - Have a valid Social Security number

*EXCEPTION: Special rules can apply to divorced or separated spouses. It is possible for a custodial parent (a parent who has been given physical or legal custody of a child by court order) to allow a noncustodial parent to claim the CTC by signing the form 8332.*

# Knowledge Check

Francine, age 43, is divorced and earned \$43,000 in 2025. She supports her widowed mother-in-law, Connie, whose only income is social security. Francine's sons, Henry (age 16) and Neal (age 12), and Connie all lived with her in Chicago all year. Her sons do not provide any of their own support.

*Everyone in the family has a social security number except Francine and Henry, who have ITINs.*

## ***Who can Francine claim for the credit for other dependents?***

- ✓ **Connie - Yes.** She is Francine's dependent under the rules for qualifying relative. She is not a qualifying child for the child tax credit because she doesn't pass the relationship or age test.
- ✓ **Henry – Yes.** He qualifies as her dependent under the rules for a qualifying child but she cannot claim him for the child tax credit - he doesn't have an SSN.
- X **Neal – No.** Since he is only 12 and has an SSN, he is Francine's qualifying child for the child tax credit.

# Credit for Child and Dependent Care Credit

- This nonrefundable credit allows taxpayers to reduce income tax by a percentage of their total child and dependent care expenses.
- The credit is based on a percentage of expenses. The percentage is determined based on the taxpayer's AGI.
  - The maximum expenses a taxpayer can claim are \$3,000 for one qualifying person or \$6,000 for two or more qualifying people.
  - Expenses do not need to be allocated equally across qualifying people.
- The credit is based on amounts paid for the care of a qualifying person.
  - Child under age 13
  - Spouse who is unable to provide self-care
  - Dependent who is unable to provide self-care
- Don't include any amounts paid to a person you can claim as a dependent or your child who was under age 19, even if you can't claim as a dependent.
- To claim the credit, use Form 2441. This form collects care expense amounts and figures the amount of the credit.

# Taxpayer Eligibility

- There are five tests to determine a taxpayer's eligibility to claim the Child & Dependent Care Credit:

1. **Qualifying Person Test**  
(Must have a qualifying person)
2. **Earned Income Test**  
(Must have earned income)
3. **Work-Related Expense Test**  
(Care must be to enable the taxpayer to work or look for work)
4. **Joint Return Test**  
(Married taxpayers must file a joint return)
5. **Provider Identification Test**  
(The taxpayer must provide the name, address, and tax identification number of the care provider.)



*Note: All five tests must be satisfied by the taxpayer to claim the credit.*

# Knowledge Check

- Chanteal is single. She works full-time as a data entry clerk.
- Chanteal has two children, Alex and Ashley. Alex is three years old and attends daycare while Chanteal works. Ashley is seven years old and stays in after school care until Chanteal finishes working.
- For the tax year, Chanteal paid \$7,200 to Bright Beginnings Daycare for Alex's care, and \$1,800 to Smith Jones elementary school for Ashley to attend after school care.

What is the maximum amount of expenses that Chanteal can claim for the Child and Dependent Care Credit?

- A. \$3,000
- B. \$4,800
- C. \$6,000
- D. \$9,000

Answer: \$6,000

■ The maximum amount of qualified expenses that is allowed for a taxpayer with two or more children is \$6,000. It does not matter that expenses for one of those children--Ashley—was only \$1,800. She had enough expenses for Alex's care to justify the \$6,000 amount.

# About the Retirement Savings Credit

- The Retirement Savings Credit is a nonrefundable credit to encourage workers to voluntarily contribute to their retirement accounts.
- Credit is also known as the “Saver’s Credit”.
- Taxpayers have up until the due date of their tax return to make contributions to a qualified retirement account and qualify for the credit for that tax year.
- To claim the credit, use Form 8880. This form collects retirement account contribution amounts, and figures the amount of the credit.

## Who qualifies for the Retirement Savers Credit?

- Older than 18
- Not a full-time student
- Not claimed as a dependent  
on another person’s tax return
- Income below certain AGI limits (see  
limits in Publication 4012)



# Retirement Savers Credit Calculations

- Qualified retirement account contributions of up to \$2,000 may qualify the taxpayer for a credit of up to \$1,000 (contributions of up to \$4,000 if married filing jointly can qualify taxpayers for a credit of up to \$2,000.)
- The credit is based on a percentage of contributions. The percentage is determined based on the taxpayer's AGI.
- Distributions from a retirement account during the past three years reduce the amount of qualified contributions used to compute the credit.

## Eligible Retirement Accounts

- Traditional IRA
- Roth IRA
- 401(k)
- SIMPLE IRA
- SARSEP
- 403(b)
- 501(c)(18)
- Governmental 457(b) plan
- After-tax employee contributions to your qualified retirement and 403(b) plans

Contributions to an employer-sponsored retirement plan will be listed in box 12 of Form W2. Other taxpayer records are needed for contributions to non-work plans.

# Other Common Nonrefundable Credits

## Credit for Electric Vehicles

- A taxpayer may qualify for a nonrefundable credit up to \$7,500 if they buy a new, qualified plug-in EV or fuel cell electric vehicle.
- They may qualify for a nonrefundable credit up to \$4,000 for buying a previously owned, qualified plug-in EV or fuel cell vehicle, including cars and light trucks.
- See <https://www.irs.gov/credits-deductions/clean-vehicle-and-energy-credits>, for more details and the related requirements.

## Energy Efficient Home Improvement Credit

- Up to \$1,200 annually
- 30% of qualified improvements: insulation, doors, windows (including skylights), air conditioners, water heaters, electrical panel upgrades and home energy audits.
- Find out more information at: [Energy Efficient Home Improvement Credit Internal Revenue Service \(irs.gov\)](https://www.irs.gov/energy-efficient-home-credits)