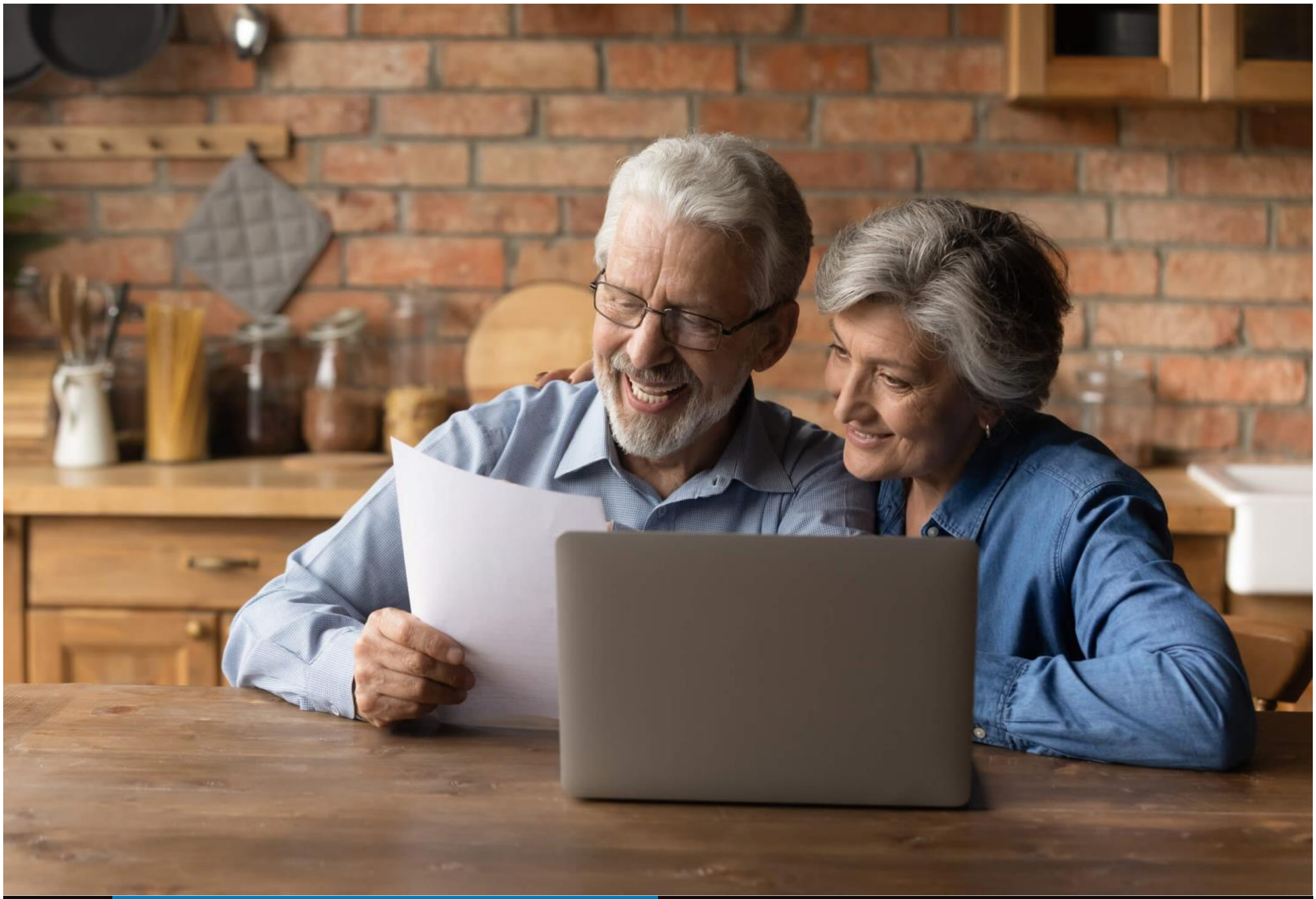

UNDERSTANDING IRS TAX CREDITS

A COMPREHENSIVE GUIDE TO HELP YOU GET THE CREDIT YOU DESERVE

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a MoneySolver™ company

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Introduction

Tax credits and deductions can help reduce the amount of tax you may owe, but they work in completely different ways.

What's The Difference Between a Tax Credit and Deduction?

Deductions reduce your taxable income, which in turn lowers your tax bill. Tax credits, on the other hand, reduce your taxes dollar-for-dollar. Tax credits may be fully refundable, partially refundable, or nonrefundable. A fully refundable credit is basically like hitting the tax credit lottery because it can increase your tax refund amount. For example, if you owe $1,500 in taxes and qualify for a $2,000 refundable tax credit, you'll end up with a $500 tax refund instead of a tax bill.

Types of Tax Credits

There are many types of federal tax credits available to individuals and businesses that cover a wide array of expenses and situations. In this guide, however, we'll be focusing on individual tax credits that fall under the following categories:

- Education Tax Credits
- Family & Dependent Tax Credits
- Tax Credits For "Going Green"
- Retirement & Healthcare Tax Credits

We'll also take a look at a few other federal tax credits that may help reduce your IRS bill this tax season.

Education Tax Credits

Education tax credits can help with the cost of post-secondary education by reducing the amount of tax owed on your tax return. In some cases, if the credit reduces your tax to less than zero, you may get a tax refund. There are two education credits available: the American Opportunity Tax Credit and the Lifetime Learning Credit.

American Opportunity Tax Credit

The American Opportunity Tax Credit (AOTC) is available to eligible students during the first four years of higher education. The maximum annual credit is $2,500 per eligible student. If the credit reduces your tax to less than zero, you may receive up to 40 percent of the remaining credit (up to $1,000) as a tax refund. To claim the full credit, your modified adjusted gross income (MAGI) must be $80,000 or less ($160,000 or less if filing a joint tax return). You may receive a partial credit if your MAGI is more than $80,000 but less than $90,000 (over $160,000 but less than $180,000 for married filing jointly). You are ineligible to take the AOTC if your MAGI is over $90,000 ($180,000 for joint filers).

Lifetime Learning Credit

The Lifetime Learning Credit (LLC) can help pay for undergraduate, graduate, and professional degree courses, as well as courses to improve your job skills. There is no limit on the number of years you can claim the LLC. The credit amount is 20 percent of the first $10,000 of qualified educational expenses, but cannot exceed $2,000 per tax return. Unlike the AOTC, the LLC is not a refundable tax credit. The income requirements for the LLC are the same as those for the AOTC.

Education Tax Credit Requirements

Although each has its own requirements, in general, you must meet all of the following to qualify for either education tax credit:

- You, your dependent, or a third party paid qualified education expenses
- The eligible student was previously or currently enrolled in an eligible educational institution
- The eligible student is either yourself, your spouse, or a dependent listed on your tax return

You may not claim an education tax credit if someone else lists you as a dependent on their tax return, your filing status is “married filing separately,” or you already claimed the expenses or student using another education tax benefit.

To see if you are eligible for either the American Opportunity Tax Credit or the Lifetime Learning Credit, check out the “Am I Eligible To Claim an Education Credit?” app from the IRS.

Family & Dependent Tax Credits

Raising a family can be very expensive. Thankfully, there are several tax credits available to help lower- to moderate-income families cover the costs of childcare and other expenses.

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) can give taxpayers with low-to-moderate income a substantial financial boost. The EITC not only reduces the amount of tax you may owe, but may result in a tax refund. In general, you must meet the following qualifications to claim this refundable tax credit:

- Have earned income
- Be a U.S. citizen or resident alien
- Have a valid Social Security number (SSN)
- $10,300 or less in investment income (2022 tax year) – this is adjusted annually

The amount of credit you receive is based on your income, filing status, and the number of qualifying children or relatives you claim on your tax return. For 2022, the credit amount ranges between $560 and $6,935.

You may still be eligible to take the EITC even if you do not have any dependents.

Child And Dependent Care Tax Credit

The Child And Dependent Care Tax Credit helps parents cover the costs of childcare while they are searching for employment, working, or a full-time student (if married). To claim the credit, you must have at least one qualifying child or dependent who is:

- 12 or younger at the end of the tax year; or
- A disabled (physically or mentally) spouse who lived with you for at least six months; or
- Another disabled person claimed as a dependent on your return who lived with you for at least six months

The amount of expenses you claim must not exceed your earned income for the tax year (if single). If you are married, your claimed expenses cannot exceed the smaller of your or your spouse's income. For 2022, the maximum for allowable expenses for one child is $3,000 and $6,000 for two or more children, which means you could receive up to $1,050 (one child) or $2,100 (two or more children) as a refundable tax credit. The total amount you can claim will depend on your income, expenses, and the number of qualifying children/dependents. If you earn more than $438,000, you do not qualify for this tax credit.

Child Tax Credit And Credit For Other Dependents

The Child Tax Credit (CTC) is a tax benefit available to taxpayers with a qualifying dependent child. A child qualifies for the CTC if they have a Social Security number and meet all of the following conditions:

- The child is your son, daughter, stepchild, eligible foster child, sibling (natural, half, or step), or a descendant of your sibling
- The child is 16 or younger at the end of 2022
- The child did not provide more than half of their own support
- The child is claimed as a dependent on your tax return
- The child did not file a joint return for the tax year you are claiming the credit
- The child is a U.S. citizen, U.S. national, or U.S. resident alien

Under the American Rescue Plan Act of 2021 (ARPA), the CTC maximum annual credit amounts increased to $3,000 (ages 6 to 17) and $3,600 (children younger than 6) per child, and the credit was fully refundable. Unfortunately, these rules were not extended for the 2022 tax year.

For the 2022 tax year, the CTC is worth $2,000 per qualifying dependent if your modified adjusted gross income (MAGI) is $400,000 or less (married filing jointly), or $200,000 or below for all other filing statuses. If your MAGI exceeds these thresholds, the credit is reduced by $50 for each $1,000 over the limit until the credit is eliminated.

Credit For Other Dependents

If you have a dependent that does not qualify for the Child Tax Credit, you may still be eligible for the $500 non-refundable tax credit for other dependents. This typically includes elderly parents and grandparents claimed as dependents on your return, as well as dependent children who are 18 or older. You cannot, however, claim both credits on your return.

Additional Child Tax Credit

If your tax liability was less than the maximum value of the Child Tax Credit, you may be eligible to receive all or part of the difference in a refundable tax credit (up to $1,500) known as the Additional Child Tax Credit (ACTC).

Adoption Credit

The Adoption Credit helps offset expenses related to the adoption of an eligible child. For 2022, the maximum credit is $14,890. Any credit in excess of your tax liability may be carried forward for up to five years. For example. if you owe $10,000 in taxes and are eligible for the full credit, you can claim a $10,000 credit on your tax return. The remaining $4,890 may be used on a future return.

The tax year in which you can claim the credit depends on when the qualified expenses were paid, whether it was a foreign or domestic adoption, and when, if ever, the adoption was finalized. Similar to other tax credits, the amount you can claim is based on not only your qualified expenses, but also your income.

Tax Credits for "Going Green"

If you recently installed a renewable energy system in your home or started driving a plug-in electric car, these tax credits could save you some green for going green.

Residential Energy Efficient Property Credit

You may claim the Residential Energy Efficient Property Credit for both your primary residence or second home if you installed any of the following eligible equipment or technology:

- Solar-powered water heaters
- Solar panels that generate electricity for your home
- Wind turbines (must generate 100+ kilowatts)
- Geothermal heat pumps (must meet Energy Star guidelines)
- Fuel cells that use a renewable source to generate power (min. of 0.5 kilowatts)

Fuel-cell equipment is only eligible if installed in your primary residence. The maximum tax credit for this type of equipment is $500 per half-kilowatt. All other eligible equipment is equal to 26 percent of the cost (including installation) for systems placed in service between 1/01/2020 and 12/31/2022. The credit drops to 22 percent for systems installed between 1/01/2023 and 12/31/2023. Unless this credit is extended, it will no longer be available beginning in 2024.

If you are eligible for the Residential Energy Efficient Property Credit, you will need to complete Form 5695, Residential Energy Credits, and include it with your tax return.

Electric Vehicle (EV) and Fuel Cell Electric Vehicle (FCEV) Tax Credit

The Inflation Reduction Act of 2022 (Public Law 117-169) amended the Qualified Plug-in Electric Drive Motor Vehicle Credit (IRC 30D), now known as the Clean Vehicle Credit, and added a new requirement for final assembly in North America. This change took effect on August 17, 2022. Additional requirements will begin on January 1, 2023.

Vehicles Purchases Before August 17, 2022

Qualifying EVs purchased before August 17, 2022, are eligible for a tax credit ranging from $2,500 to $7,500. The credit amount is based on the vehicle's traction battery capacity and gross vehicle weight rating. The credit, however, will begin to phase out when at least 200,000 qualifying vehicles of an eligible manufacturer have been sold for use in the United States. If you purchased an EV prior to August 16, 2022, but did not take possession until after that date, you are still eligible for the credit.

Vehicles Purchased Between August 17 and December 31, 2022

Qualifying EVs purchased and delivered between August 17, 2022, and December 31, 2022, are eligible for the same tax incentive as those purchased prior to August 17, 2022, as long as their final assembly was done in North America. The manufacturer sales caps on vehicles still applies, as well.

Vehicles Purchased After January 1, 2023

Beginning January 1, 2023, the tax credit caps for automakers (previously 200k) is eliminated. The federal tax credit amount remains at $7,500 for new vehicles that go through final assembly in North America. The credit, however, is broken into two pieces. $3,750 is based on the vehicle having at least 40% of its battery's critical minerals from the U.S. or countries with a free trade agreement with our country. The other $3,750 is based on at least 50% of the battery's components coming from the U.S. or countries with a free trade agreement with America. The battery requirements (minerals & components) increases by 10% each year until minerals hit 80% (2027) and components hit 100% (2029). Large vehicles must be $80,000 or less (SUV, van, or truck). All other vehicles must be $55,000 or less.

There is a new $4,000 tax credit for qualifying used EVs that are valued at less than $25,000. The income thresholds, however are lower than the new vehicle credit. Single filers must have a modified gross income below $75,000. Head of household is $112,500 or less, and joint filers must not exceed $150,000.

Retirement & Healthcare Tax Credits

Saving for retirement or covering the cost of healthcare is a struggle for many people. There are, however, tax breaks available that can help ease that burden.

Saver's Tax Credit

The Saver's Tax Credit, also known as the Retirement Savings Contribution Credit, lets you claim a credit for up to 50 percent of the contributions you make to an individual retirement account (IRA) or an employer-sponsored plan, such as a 401(k). The maximum credit is $1,000 for single filers or $2,000 for those filing a joint return. You must be 18 years or older and cannot be claimed as a dependent on another person's return. If you are a full-time student or exceed the income thresholds, you are ineligible to take the Saver's Tax Credit.

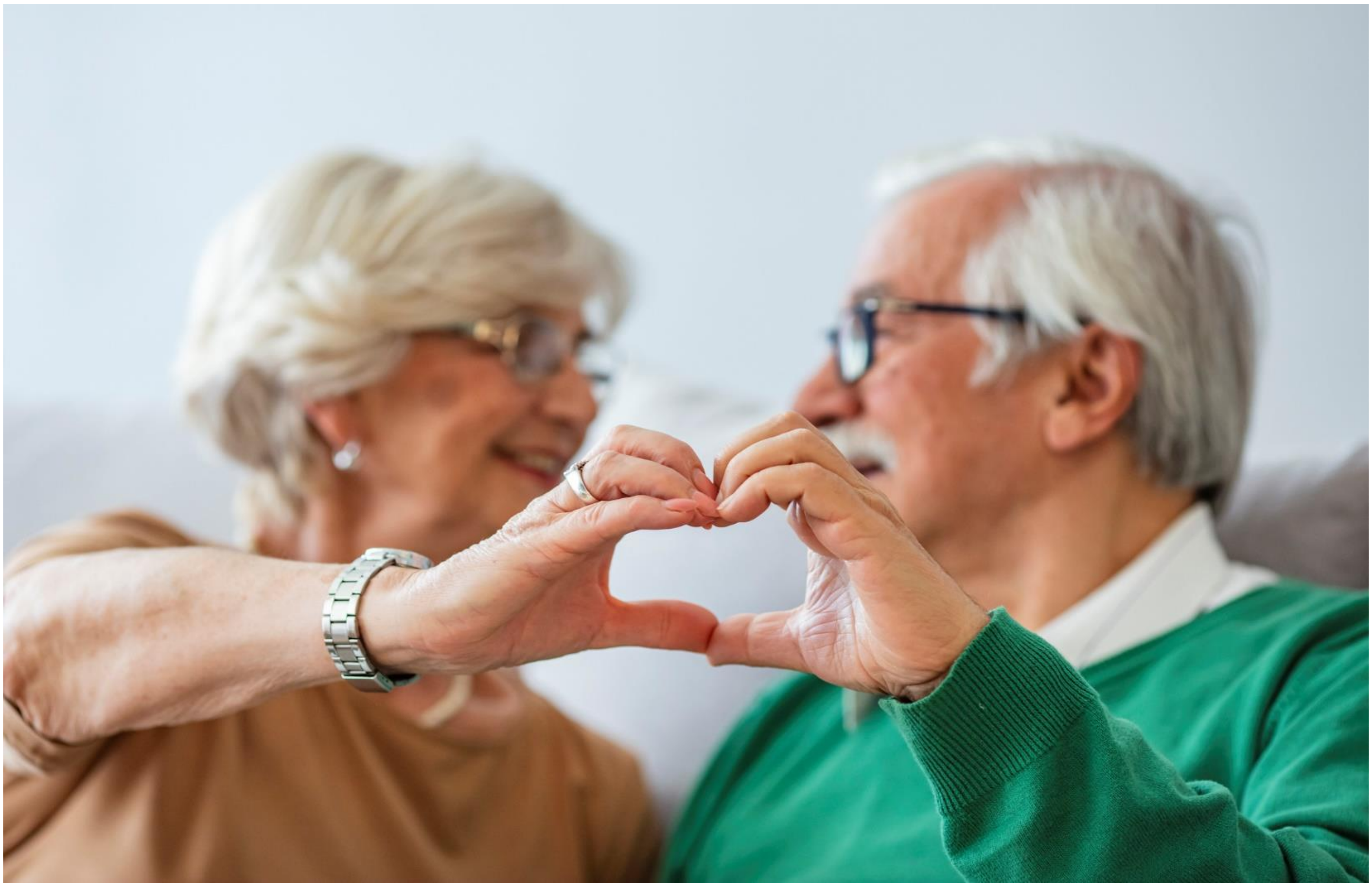
Speak to a tax professional to learn more about potential retirement tax benefits!

Premium Tax Credit

When you enroll in a healthcare plan through the Health Insurance Marketplace®, the premium tax credit can help lower your monthly payment (also known as your "premium"). The total of your tax credit is based on the income and household information you provided on your application.

You can use some, all, or none of your tax credit to lower your monthly insurance payment. If you overestimate your credit, you must repay the difference when you file your taxes.

For tax years 2021 and 2022, the American Rescue Plan Act of 2021 (ARPA) temporarily expanded eligibility for the premium tax credit by eliminating the rule that a taxpayer with household income above 400% of the federal poverty line cannot qualify for a premium tax credit.



Other Tax Credits

If you worked outside of the United States, recently retired due to a disability, or are over the age of 65, you may be eligible for one of these tax credits.

Foreign Tax Credit

If you paid or accrued foreign taxes to a foreign country or U.S. possession and are subject to U.S. tax on the same income, you may be able to take a credit for those taxes and reduce your tax liability. Generally, only income, war profits, and excess profits taxes qualify for the credit. You must complete Form 1116, Foreign Tax Credit, to receive this tax benefit. Since foreign tax credit laws are complex, we highly recommend working with a tax professional to ensure you meet all compliance requirements.

Credit For The Elderly or The Disabled

The Credit for The Elderly or The Disabled is valued between $3,750 and $7,500. You can take the credit if you are a qualified individual, and your income does not exceed certain limits. To see if you are eligible, refer to IRS Publication 524 or take the 5-minute quiz on IRS.gov.

Beware of Falsely Claiming Tax Credits!

If you falsely claim the Earned Income Tax Credit (EITC), Child Tax Credit (CTC), Credit for Other Dependents (ODC), or the American Opportunity Tax Credit (AOTC), the IRS can ban you from taking the credit. For "reckless or intentional disregard or rules and regulations," you could be restricted from taking the credit for two years. If the IRS determines that you fraudulently claimed the credit, the ban can last up to 10 years.

Tax Credit Ban? You Have Four Options.

The IRS will generally impose a ban after auditing your tax return and determining you falsely claimed one or more credits. You should receive a call from the auditor or Form 886-A, which will explain why the ban is being imposed. When this happens, you have four options:

- Agree to the ban and pay the additional assessment
- Request a conference with the IRS Independent Office of Appeals
- Seek review of the determination in the United States Tax Court
- Ask for audit reconsideration (if you have received Notice CP 79A, We Denied One or More of the Credits Claimed on Your Tax Return and Applied a Two-Year Ban)

It's important to respond to all IRS correspondence promptly. If you are facing a tax credit ban due to an unintentional error, seek immediate help from an experienced tax professional.

At Tax Defense Network, we can help with amending tax returns, tax audits, and more. Visit www.TaxDefenseNetwork.com to learn more about our tax relief services or to schedule a free consultation today!