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[What Are Child Care Tax Breaks?](#)

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The federal government wants us to work, not to sit at home, by providing us incentives, even in the form of child care tax breaks. Nonetheless, like any other bureaucratic legislation, this tax comes with complexities and imponderables. Let us simplify this rather complicated yet useful tax incentive through explanations and examples.

REQUIREMENTS FOR CHILD CARE TAX CREDIT

- You can claim it only for child care expenses.
- You can claim it only for children under 13 years old.
- You can claim it only for child expenses which facilitate your going to work.
- You can claim it only if your spouse also go to work or attend school full time for at least five months during the year.
- You can claim it only for \$3,000 OR \$6,000, if more than one child.
- You can claim it only for some percentage of the \$3,000 or \$6,000. The percentage varies based on your income from the maximum of 35% to minimum of 20%.

SPECIFICS FOR CHILD CARE TAX CREDIT

- You all can take advantage of child tax credit, if you meet all of the requirements described earlier.
- You all can take advantage of 35% maximum percentage rate, if your adjusted gross income is \$15,000 or less.
- You all can take advantage of 20%-35% of \$3,000 or \$6,000, if your gross income is below \$43,000.
- You all can take advantage of 20% of \$3,000 or \$6,000, if your gross income is above \$43,000, no matter if you earn millions of dollars annually or \$43,001.

CAVEAT

The rules offer another wrinkle of complexity.

Eligible child care expenses, NOT CHILD CARE TAX CREDIT, are limited to your earned income for the year. If you are married and file jointly, then your eligible child care expenses are limited to your spouse's earned income or yours, whichever is LOWEST.

PRACTICAL EXAMPLES FOR CHILD CARE TAX CREDIT

EXAMPLE 1. You and your wife both work, have 3 children, one is 14 years old, the other is 9 and the last one is 2 years old. You and your wife make \$70,000 a year in adjusted gross income. Your child care expenses are around \$8,000. Then your child care tax break is only 20% of \$6,000, which is \$1,200.

EXAMPLE 2. You and your wife both work, have 2 children respectively 7 and 8 years old and file jointly. Your wife's earned income for the year was \$4,000. You made \$70,000. Your child care expenses were \$9,000. Now, it is much trickier. Based on our general calculation, you would calculate since your income is above \$43,000, then you would get \$1,200 in child care tax credit (20% of \$6,000). However, based on the CAVEAT explained earlier, your child expenses are limited to the \$4,000 your spouse earned in the year. Thus, your child care tax credit would be 20% of \$4,000, which is \$800.

CAVEAT: THE CREDIT RULES ARE FOR 2010 ONLY, BUT MAY BE EXTENDED TO 2011

The credit rules described here are just for 2010. In fact, less generous and probably onerous credit rules are scheduled to take effect in 2011. However, it is very much possible Congress extend these credit rules into 2011.

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