From the desk of

Peter S. Muffoletto, C.P.A.

ARPA Enhanced Child and Dependent Care Credit

The American Rescue Plan Act (ARPA) provides eligible families with an enhanced child and dependent care credit (CDCC) for tax year 2021.

The changes made by the American Rescue Plan Act (ARPA) to the child and dependent care tax credit for the 2021 tax year is available for expenses relating to the care of qualifying individual(s) under the age of 13 while the taxpayer can be gainfully employed.

For a care related expense to qualify for the credit, the expense must be for the purpose of allowing the taxpayer to work. The credit allows both the primary taxpayer and spouse to work, and the expenses must be for the care of a child, stepchild, or foster child, brother, sister or step-sibling (or a descendant of any of these) who is under 13, and lives in the home for over half the year, and for a dependent who does not provide over half of his or her own support for the year.

The expense can also be for the care of your spouse or dependent who is handicapped, and lives with you for over half the year.

The cost of household services, domestic help, can also qualify for the cost at least in part goes towards the care of the individual.

The typical expenses that qualify for the credit are payments to a day-care center, nanny, or nursery school. Sleep-away camp do not qualify.

The cost of kindergarten also does not qualify as the primary purpose is education related, however, the cost of before and after school programs may qualify as care expenses.

To claim the credit, married couples must file a joint return.

For purposes of this rule a valid same-sex marriage that is authorized under state or foreign law is recognized, but a registered domestic partnership or a civil union does not qualify.

The 2021 credit is refundable as long as either the taxpayer, or spouse has a principal place of residence in the U.S. for more than one-half of the tax year.

The care-giver's name, address, and social security number (or tax ID number if it's a day-care center or nursery school) must be provided, therefore “off the books” expenses will not qualify. Additionally, a day-care center must be in compliance with state and local regulations.

The social security number of the children who receive the care must also be listed to obtain the credit. No credit without the appropriate Social Security numbers can be claimed. Omission of the social security numbers when claiming the credit will result in assessments of tax liabilities.

When calculating the credit, several limits apply:

Qualifying expenses are limited to the lower income of the taxpayer or spouse from wages, self-employment, or certain disability and retirement benefits using the figure for whichever of you earns less.

Under this limitation if one has no earned income, no credit is available, however, under certain conditions, when one spouse has no actual earned income and that spouse is a full-time student or disabled, the spouse is considered to have monthly income of $250 (if the couple has one qualifying individual) or $500 (two or more qualifying individuals).

For 2021 the first $8,000 (increased from $3000) for one qualifying individual, or $16,000 (up from $6000) if you have two or more qualifying individuals, of care expenses generally qualifies for the credit.

If your employer has a dependent care assistance program under which you receive benefits excluded from gross income, the qualifying expense limits ($8,000 or $16,000) are reduced by the excludable amounts you receive.

New for the 2021 tax year is a further phaseout of the credit for high income individuals:

- The phaseout percentage is 20% (instead of 50%) reduced (but not below zero) by 1 % for each $2,000 (or fraction thereof) by which AGI for 2021 exceeds $400,000.

The applicable percentage is 50% for taxpayers with AGI of $125,000 or below.

- The applicable percentage decreases one percent for every $2,000 (or fraction thereof) by which the taxpayer's AGI exceeds $125,000 until AGI reaches $185,000.
- The applicable percentage is 20% for taxpayers with AGI greater than $185,000 but not greater than $400,000.
- For taxpayers with AGI above $400,000, the applicable percentage again decreases one percent for every $2,000 (or fraction thereof). Thus, for taxpayers with AGI greater than $440,000, the credit is phased out completely.

Note that a credit reduces your tax bill dollar for dollar.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

Should you have questions relating to any tax or financial matters call at

(818) 346-2160,

or you can visit us on the web at

www.petemcpa.com!

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.