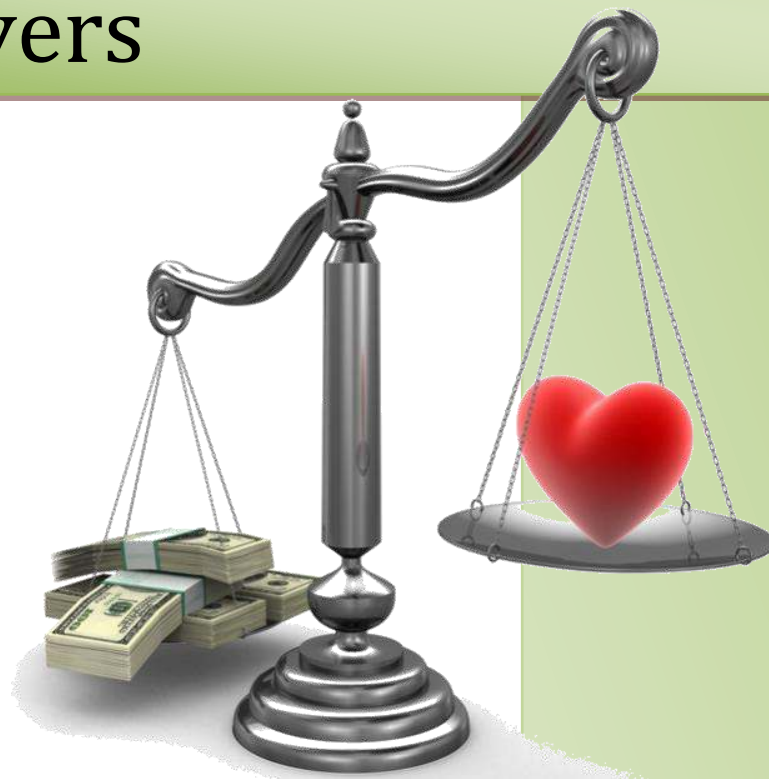




Tax Year 2018

Foster, Adoptive and Kinship Caregivers



**National Foster Parent Association
Federal Tax Benefits
Tax Year 2018**

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“Nearly every conceivable accession to wealth, except gifts and inheritances, starts with the premise it is taxable, unless it is specifically excluded by the Internal Revenue Code (§61).”



Generally, the tax benefits described in this guide are available to families that have taxable income in the form of wages or self-employment income. If your family has no wage earner, and receives only non-taxable benefits such as Supplemental Security Income (SSI) or Social Security benefits, then you may not be eligible for the tax benefits listed here.

Federal Tax Benefits Foster, Adoptive and Kinship Caregivers

2018 Tax Year

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Introduction

The National Foster Parent Association is pleased to present the 2018 Tax Benefits for Foster, Adoptive Parents and Kinship Caregivers*. This resource guide provides you with valuable information worth several thousand dollars or more in tax benefits.

The guide explains basic rules and offers tips on ways that foster and adoptive parents and kinship caregivers can claim deductions and credits available to them. Neither the Internal Revenue Service (IRS) nor commercial tax manuals offer information on unique tax rules that affect these families. As a result, obscure and complicated tax rules cause some families, and even some commercial tax preparers, to overlook or miss deductions and tax credits.

This information should not be considered legal advice or tax advice – it is general information that should not be acted upon except in consultation with a professional tax advisor. Give a copy of this guide to your tax preparer, and discuss the qualifications for any of the benefits discussed here.

You should also be aware that changes in the law, regulations, and IRS policies might occur after this guide is published. Consult a professional tax advisor for changes to the current tax year. Also see page 6 for important information relating to the recently passed Tax Cuts and Jobs Act. See [page 25](#) for information on free tax preparation through a Volunteer Income Tax Assistance (VITA) site and locating a tax professional in your area.

Throughout the United States, thousands of foster, adoptive, and kinship families are working hard to make life better for themselves and their families. With the jobs they hold and inadequate foster care reimbursements, many simply cannot earn enough to achieve their goals. However, this year, eligible families can get as much as \$6,557 from the Earned Income Credit ([see page 13](#)) and even more if they also qualify for Child Tax Credit ([see page 19](#)).

Finally, this guide focuses primarily on low-to-moderate income families. Some issues of interest to upper-bracket families, such as the phase out of certain tax benefits and the alternative minimum tax, are not addressed here (visit www.irs.gov for information).

Thank you for sharing your family and your home, giving love, encouragement, and hope to children and families in need.

National Foster Parent Association

* Kinship caregivers are individuals who have related children, e.g., a grandchild or a nephew placed in their home by a child welfare agency. These caregivers may be licensed and receive the regular board payment, or they may be unlicensed and receive a payment that is less than the regular cost of care reimbursement. In some cases, kinship caregivers have no involvement with a child welfare agency, and receive child only cash assistance (usually “TANF”).

Highlights of the most significant changes to the tax law in over 50 years:

- **Personal exemptions have been eliminated. This does not mean that you are not allowed to claim dependents on your tax return. It simply means that the tax benefits for having one or more dependents have changed.**
- **Adoption Tax Credit** maximum increased to \$13,810. Parents who adopt children with special needs get the full \$13,810, even if actual expenses were less. **However, the credit is no longer a refundable credit as it was in 2010 and 2011 only.** ([see page 18](#))
- **Earned Income Credit** maximum increased to \$6,341. The maximum amount of earned income increased to \$55,952 (MFJ/3 children). The maximum amount of investment income is \$3,450. ([See page 13](#))
- **Child Tax Credit** minimum earned income amount changes to \$2500. ([See page 19](#)). **The amount of the child tax credit has doubled from \$1000 to \$2000. In addition, up to \$1400 of the credit is now refundable.**
- **Standard Mileage Rate** is 54.5 cents per mile for 2018. **Medical- and move-related mileage** is 18 cents per mile for 2018. See Transportation under “What Medical Expenses Are Includable” in [IRS Publication 502](#) or Travel by car under Deductible Moving Expenses in [IRS Publication 521](#), Moving Expenses.
- **IRS W-4 Calculator.** The purpose of the W-4 calculator is to help employees to ensure that they do not have too much or too little income tax withheld from their pay. The calculator is more accurate and easier to use than the worksheets that accompany Form W-4. To try out the online calculator, go to www.irs.gov. Please be aware that the new W-4 form and the calculator, in many cases, will make a large change to the amount of the tax that is withheld from your paycheck. This may give you the unintended result of a much smaller refund than you are accustomed to receiving since you will be receiving the refund each week in your paycheck.
- **Qualified Business Income Deduction.** This is a brand new deduction created by the new law. It is extremely complicated. The super simplified explanation is that owners of a business may be allowed to exclude 20% of the net business income from being taxed. However, there are numerous rules and limitations that apply. If you own your own business we highly recommend that you seek professional help.
- Employee Business Expenses and Miscellaneous deductions have been completely eliminated under the new law.

Very Important Information

Throughout this guide you will see references and recommendations to seek out a professional tax preparer to prepare your return under certain circumstances. A professional preparer typically does not include someone standing on a street corner with a sign telling you how much money you will get back if you have 1,2, or 3 children. It also does not include anyone who does not sign your tax return, someone who insists on being paid in cash or someone who asks that your refund be deposited to their bank account. It also does not include anyone who just “takes your word for it”. Tax return preparers are subject to IRS rules and regulations and to “Due Diligence Requirements” if your tax return contains any of the following tax benefits:

Head of Household filing status
Child Tax Credit
Education Credit
Earned Income Credit

These requirements mandate that the preparer ask you for information and documents to verify that you are entitled to these benefits. If your preparer does not ask you any questions, or ask to see any documents, then it is very likely that this preparer may be fabricating information on your return to generate a large refund for you and a large fee for themselves.

General Rules

Taxable Income

Taxable income is generally reported on the following form types: [Form 1099](#) or [Form W-2](#).

1. **Form 1099-MISC:** Payments for services performed for a trade or business by people not treated as its employees. This form is issued to the *service provider* when \$600 or more is paid during the calendar year (tax year). **Form 1099-MISC is reported to the Internal Revenue Service (IRS).**
2. **W-2 income** is the earnings of an employee (*service provider*) who works for an employer (*recipient of service/agency*). If income was received and social security, or Medicare tax was withheld, or would have been withheld a W-2 should be issued. In addition, every employer (recipient of service or agency) that pays remuneration for services performed by an employee (service provider), must file a Form W-2 for each employee (service provider). **W-2 income is reported to the IRS.**

A service provider may work for more than one recipient of service or agency. Since W-2s and 1099s are issued to the service provider (employee or independent contractor) of **each** employer (recipient of service/agency), a service provider may receive more than one W-2 or 1099 statement.

If a foster parent receives taxable payments, the agency issues a Form W-2 or 1099-MISC to both the foster parent and IRS. The income must be reported on the tax return. Consult a tax professional for proper reporting on your tax return.

A foster parent or caregiver may receive a Form W-2 if they are considered a household worker. A household worker performs work in or around your home. Some examples of household workers are:

- Babysitters (Respite)
- Domestic workers
- Health aides
- Housekeepers
- Nannies
- Private nurses

Household workers are not employees if the household worker can control how the work is done. The worker is not an employee but is self-employed (**1099-MISC**). A self-employed worker usually offers services to the public in an independent business. A worker who performs childcare services in his or her home generally is not an employee. If an agency provides the worker and controls what work is done and how it is done, the worker is not an employee to the service recipient, but is the employee of the agency.



If a service provider receives a Form 1099 or W-2 in error, contact the issuing agency and ask for a corrected form. The responsibility to pursue a corrected form falls on the taxpayer. Consult a tax professional for assistance.

Non-Taxable Income

As a foster and adoptive parent and kinship caregiver, most payments received are excluded from taxable income and are not reported on a tax return. These include:

- cost of care reimbursements;
- specialized or difficulty of care payments;
- most other reimbursements from government or private child welfare agencies;
- child-only cash assistance (referred to in many states as “TANF” or Temporary Assistance to Needy Families); and
- Food Stamp Program.

Foster-care Payments: Payments received from a state, political subdivision, or a qualified foster care placement agency for providing care to qualified foster individuals in your home generally are not included in your income. However, you must include in your income payments received for the care of more than 5 individuals age 19 or older and certain difficulty-of-care payments.

§IRC 131— Difficulty-of-care payments: Additional payments that are designated by the state as compensation for providing the additional care that is required for physically, mentally, or emotionally handicapped qualified foster individuals. A state must determine that the additional compensation is needed and the care for which the payments are made must be provided in your home.

Some payments are treated as taxable income, when a foster parent:

- cares for more than ten children or operates a group home;
- is paid to keep a bed available even if it is not used;
- is paid for his or her time;
- cares for more than five persons over the age of 19.



Adoption assistance payments and related subsidies for child care or other special needs, that are paid by government child welfare agencies for adopted children, are also excluded from taxable income. These payments are considered public assistance and should not be reported on your tax return.

Deductions and Credits

There are two basic kinds of tax benefits, deductions and credits.

1. A **deduction** is subtracted from **your income**, and is generally less valuable than a tax credit. The value of a deduction is based on the marginal tax rate of the taxpayer.

*Example: A tax **deduction** of \$1,000*

*Taxpayer A, in the 12% tax bracket, will save \$120
(12% of \$1,000)*

*Taxpayer B, in the 22% tax bracket, will save \$220
(22% of \$1,000)*

2. A **tax credit** is a dollar for dollar reduction in **tax liability**.

*Example: A **tax credit** of \$1,000*

A taxpayer will have his or her tax bill reduced by \$1,000

However, because tax laws and procedures are very complicated, other factors can influence the ultimate value to the taxpayer.

Refundable and Non-Refundable Credit

Most tax credits are **non-refundable**. They simply reduce or eliminate the income tax you owe.

Suppose you owe \$400 in income taxes and qualify for a non-refundable credit worth \$1,000. The credit will eliminate the amount you owe — **but you cannot get the remaining \$600**.

Some tax credits are **refundable**. This means the taxpayer receives a refund for the full credit, even if no tax is due.

Suppose you owe \$400 in income taxes and qualify for a refundable credit worth \$1,000. The credit will eliminate the amount you owe — **and the IRS will send you a check for the remaining \$600**.

Dependency Exemption

Dependents of a taxpayer who meet a multi-part test may be claimed as exemptions and listed on the front page of the tax return (Form 1040 or 1040A). The dependency exemption can trigger eligibility for valuable tax benefits such as the Earned Income Credit, Child Tax Credit, Child and Dependent Care Credit, and Education Credits.

Overview of the Rules for Claiming an Exemption for a Dependent (Excerpt from IRS [Publication 17](#))



Caution: The following is only an overview of the general rules. For details, see [Publication 17](#).

- You cannot claim any dependents if you, or your spouse if filing jointly, could be claimed as a dependent by another taxpayer.
- You cannot claim a married person who files a joint return as a dependent unless that joint return is only a claim for refund and there would be no tax liability for either spouse on separate returns.
- You cannot claim a person as a dependent unless that person is a U.S. citizen, U.S. resident, U.S. national, or a resident of Canada or Mexico, for some part of the year.
- You cannot claim a person as a dependent unless that person is your **qualifying child** or **qualifying person (relative)**.

Tests to Be a Qualifying Child

Relationship

1. The child must be your son, daughter, stepchild, **eligible foster child**^{*}, brother, sister, half brother, half sister, stepbrother, stepsister, or a descendant of any of them.

Age

2. The child must be (a) under age 19 at the end of 2019, (b) under age 24 at the end of 2018 and a full-time student, or (c) any age if permanently and totally disabled.

Residence

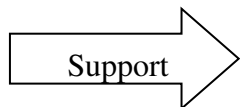
3. The child must have lived with you for more than half of the year (183 days).



Note that temporary absences for summer camp, school, or even institutional care do not disrupt the child's residence. In addition, a child born

^{*} An **eligible foster child** is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

during the year and placed in a home for the balance of the year meets the living arrangement requirement.

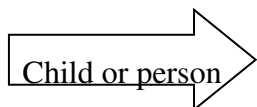


4. **The child** must not have provided more than half of **his or her own support for the year**.

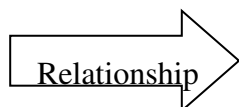


If the child meets the rules to be a qualifying child of more than one person, you must be the person entitled to claim the child as a dependent (see IRS [Pub. 501](#) or consult a tax professional)

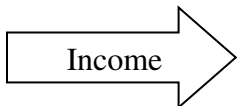
Tests to Be a Qualifying Person (Relative)



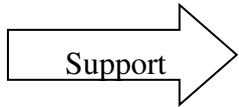
1. The person cannot be your qualifying child or the qualifying child of anyone else.



2. The person either (a) must be related to you in one of the ways listed under *Relatives who do not have to live with you**, or (b) must live with you **all year** as a member of your household.



3. The person's gross income for the year must be less than \$4,150.



4. You must provide more than half (50 percent) of the person's total support for the year. The support test can be a challenge, because all payments for cost of care reimbursement, all adoption assistance payments and TANF, SSI or other cash assistance count as support, but not support provided by the taxpayer.



For more information, see IRS [Publication 501](#), *Exemptions, Standard Deduction, and Filing Information*.[†]

* **Relatives who do not have to live with you:**

A person related to you in any of the following ways does not have to live with you all year as a member of your household to meet this test.

- Your child, stepchild, **eligible foster child**[‡], or a descendant of any of them (A legally adopted child is considered your child)
- Your brother, sister, half-brother, half-sister, stepbrother or stepsister
- Your father, mother, grandparent, or other direct ancestor, but not foster parent

[†] Special note for resource caretakers who are single, or who are married but separated from your spouse: A child placed in your home who qualifies for a dependency exemption may help you qualify for Head of Household filing status, which will further reduce your tax liability. See IRS [Publication 501](#) for more information.

[‡] Eligible foster child: An eligible foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

- Your stepfather or stepmother
- A son or daughter of your brother or sister
- A brother or sister of your father or mother
- Your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law

Social Security Numbers

The IRS is very strict in requiring that a dependent, or a qualifying child for one of the tax credits listed below, must have a valid Social Security Number (SSN). Foster parents should obtain a foster child’s SSN and the name on file with Social Security from the caseworker; if the child does not have a SSN, or if it is lost, the caseworker should obtain a new one from the Social Security Administration. Foster children who are not citizens may not be eligible for a SSN; in that case, the caseworker can apply for an Individual Taxpayer Identification Number (ITIN- [Form W-7](#)) that must be used if the child is claimed as a dependent. ITIN’s cannot be used to claim EITC. An Adoption Taxpayer Identification Number ([Form W-7A](#)) is also available for pending adoptions.

Earned Income Credit (EIC)

Workers Get the Most Out of Your Paychecks: EIC is the largest public benefit program providing support to working families.

If you have:	And your earned income is less than:	Maximum EIC for 2018 tax year is:
One qualifying child	\$41,094 (\$46,884 MFJ)	\$3,526
Two qualifying children	\$46,703 (\$52,493 MFJ)	\$5,828
Three or more qualifying children	\$50,162 (\$55,952 MFJ)	\$6,557
No qualifying children	\$15,570 (\$21,370 MFJ)	\$ 529

This is a refundable credit ([see page 10](#)).

Qualifying a child for EIC:

Relationship

To be your **qualifying child**, a child must be your:

- Son, daughter, stepchild, **eligible foster child**[§] or a descendant of any of them (for example, your grandchild)
- or Brother, sister, half-brother, half-sister, stepbrother, stepsister or a descendant of any of them (for example, your niece or nephew)

Age

The child must be **under the age of 19** at the end of 2018

Except:

- A full-time student under age 24
- or a person who is totally disabled of any age

Residence

The child must have **resided in the taxpayer's home** for more than six months.



Maximum investment income - \$3,600



It is important to note that a "qualifying child" for EIC does not have to meet the IRS tests for a dependent.

Be aware...

- Taxpayers with certain **unearned income** that exceeds \$3,600 from interest, dividends, rent, or capital gains cannot receive EIC.
- Taxpayers who file with the filing status "**married separate**" cannot receive EIC.
- When more than one person files a return claiming the same qualifying child (**Tie-Breaker Rules**) See IRS [Publication 17](#) or consult a tax professional.



Congress has imposed severe penalties on taxpayers and tax preparers who fraudulently or intentionally disregard the rules and regulations for claiming EIC. There are many unscrupulous tax preparers who prey on unknowledgeable taxpayers. Remember that you are the one who is liable for repaying any refund that you are not entitled to, even if you use a paid preparer. Be wary of preparers who do not sign the return, require that you pay in cash or require that your refund be deposited to a bank account that is not yours.

"The credits help workers keep working and care for themselves and their children."

[§] Eligible foster child: An eligible foster child is an individual who is placed with you by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction.

Charitable Contributions

Foster parents: You may be able to deduct as a charitable contribution some of the costs of being a foster parent. Foster parents are volunteers and therefore the expense for your volunteer service is deductible as Charitable Contributions.

- If you have no profit motive in providing foster care and are not, in fact, making a profit
- In addition, a qualified organization must designate the individuals you take into your home for foster care

You can deduct expenses that meet both of the following requirements:

- They are unreimbursed out-of-pocket expenses to feed, clothe, and care for the foster child
- They must be mainly to benefit the qualified organization



Unreimbursed expenses that you cannot deduct as charitable contributions may be considered support provided by you in determining whether you can claim the foster child as a dependent person (relative). For details, see [Publication 501](#), Exemptions, Standard Deduction, and Filing Information or consult a tax professional.



A foster child placed in your home for purposes of adoption by you is considered by the IRS to be caring for your own child, even if the adoption is not finalized in the tax year.

Example: You cared for a foster child because you wanted to adopt her, not to benefit the agency that placed her in your home. Your unreimbursed expenses related to this child are not deductible as charitable contributions.



Transportation expenses that are not reimbursed by the agency and directly related to the care of the foster child may also be a charitable deduction. This may include trips to administrative case reviews or to court hearings, visits to the foster child's siblings or other relatives, and trips for medical care. When using a family car, *parking* and *tolls* may be included. Actual *gas* and *oil* expenses (but not depreciation of the car) may be used, **or** the taxpayer may deduct **14 cents per mile**. To deduct mileage, you must maintain a reliable written log.



Tip: A foster parent should always seek **reimbursement** from the child welfare agency **to the extent possible**. Reimbursement of a \$100 expense gets you \$100. Claiming a \$100 expense as a charitable deduction gets you no more than \$12 if you are in the 12 percent tax bracket.



Reminder: Keep good records of expenditures and consult with a tax professional when considering large or unusual deductions.

Record-keeping

The IRS does not expect, or want, additional documents attached to tax forms that prove various expenses were incurred or show when certain children were placed in your home. However, the IRS reserves the right to ask for documentation, and a taxpayer who fails to provide proof upon request is at risk of losing a deduction or credit. Therefore, foster, adoptive parents and kinship caregivers should maintain records concerning the children in their homes, and the expenses that they incur. Generally, records should be kept for **at least three years**.

Suggestions

Identify sources of income or reimbursement.

- You may receive money from a variety of sources. Your records identify the sources of your income and reimbursements. Separate business from non-business income and taxable from non-taxable income. Remember, you are a professional, treat your volunteer service as a business.

Keep track of expenses.

- You may forget an expense unless you record it when it occurs. Maintain records to identify expenses for which you can claim a deduction. Make notes on your receipts of the purpose for the expense. Creating this habit will ensure you have valid receipts for your deductions.

Keep documents that show residency

- As IRS increases compliance efforts concerning dependents and the Earned Income Tax Credit, there is a greater chance that foster parents may be asked to demonstrate that their foster child lived with them. Parents can be prepared by holding on to placement paperwork, school records, medical documents, and childcare records that indicate dates and the child's address.



Tip: Many caregivers have adopted the “envelope system.” Envelopes marked with certain categories of expenses are stuffed with receipts upon returning from shopping trips. Recordkeeping should be prepared monthly. This makes a daunting task easier and eliminates the year-end receipt chaos.

Professional Foster Parents

The ever-changing world of foster care brings a higher level of care for foster children. The higher level of care has introduced the professional foster parent. Some foster parents may receive compensation beyond the foster care reimbursement and this income may be taxable. If you receive a 1099-MISC for this income, the IRS presumes you are a business.

Business Expenses

Business expenses are the cost of carrying on a trade or business. These expenses are usually deductible if the business is operated to make a profit.

What Can I Deduct?

To be deductible, a business expense must be both **ordinary and necessary**. An **ordinary expense** is one that is common and accepted in your trade or business. A **necessary expense** is one that is helpful and appropriate for your trade or business. An expense does not have to be indispensable to be considered necessary. Ask yourself, “is this expense ordinary or necessary for my business and why?” Keep notes and accurate records, remember, the IRS may request to view these documents.

Personal Expenses

Generally, you cannot deduct personal, living, or family expenses. However, if you have an expense for something that is used partly for business and partly for personal purposes, divide the total cost between the business and personal parts. You can deduct as a business expense only the business part.

Business Use of Your Home

If you use part of your home for business, you may be able to deduct expenses for the business use of your home. These expenses may include mortgage interest, insurance, utilities, repairs, and depreciation. Know the square footage of your home and the areas used “exclusively” for business purposes. Refer to [Publication 587](#), Business Use of Your Home. An optional rule allows you to deduct \$5 per square foot up to a maximum of 300 square feet in lieu of computing actual expenses.

Example: Your home is 1500 square feet. The bedroom used exclusively for foster children is 150 square feet. The percentage allowable for business use of your home is 10% of the expenses or you can claim a deduction of \$750 under the optional rule.

Business Use of Your Car

If you use your car in your business, you can deduct car expenses. Refer to [Publication 463](#), Travel, Entertainment, Gift, and Car Expenses.



This list is not all inclusive of the types of business expenses that you can deduct. For additional information, refer to [Publication 535](#), Business Expenses or consult a tax professional.

Adoption Tax Credit

The legal and other expenses of adopting a child can be significant. The law permits adoptive parents to claim a credit against their federal tax for up to **\$13,810** for tax year 2018. The adoption of a “Special Needs” child **does not require the taxpayer to have qualifying expenses**. The IRS defines a special needs child as:

- A citizen of the U.S.
- The state determines that the child cannot or should not be returned to his or her parents
- Probably will not be adopted unless adoption assistance is provided to the adoptive parents
- Can also include ethnic background, age, member of minority or sibling group, or mental/physical handicap



If state determines that the child is a special needs child, keep that documentation. In many states the Adoption Assistance Agreement and/or Adoption Subsidy Agreement form will designate that the child is a special needs child.

Qualifying expenses are defined as **reasonable** and **necessary** expenses directly related to a legal adoption. Examples include:

- adoption fees
- court costs/attorney fees
- medical expenses
- travel expenses
- other expenses related to the adoption of an eligible child

Excluded or non-qualifying expenses include:

- adoption of a spouse’s child
- expenses paid or reimbursed by federal, state or local programs
- expenses allowed as a credit or deduction under another income tax rule
- expenses that violate a federal or state law

An **eligible child** must be

- under age 18, or
- mentally or physically disabled

These amounts are phased out if your modified adjusted gross income (MAGI) is between **\$207,400 and 247,140**. For more information, see IRS [Form 8839](#), *Qualified Adoption Expenses*.

For 2018, the Adoption Tax Credit is non-refundable meaning that the credit only benefits adoptive families who have a federal income tax liability. However, you should still report the credit on your return if you are eligible. **Any credit that does not benefit you in 2018 may possibly be used in 2019 through 2023 if your tax situation changes.** Be sure to consult with a tax professional knowledgeable in the adoption tax credit.

Child Tax Credit

The Child Tax Credit (CTC) is \$2,000, for the 2018 tax year, for each qualifying child. A **qualifying child** for the Child Tax Credit must meet the following requirements:

- The child must be the taxpayer's biological child, grandchild, adopted child, sibling, stepchild, or descendant of one of those individuals, or **an eligible foster child**
- The child must be under the age of 17 at the end of the year
- The child must be a citizen or resident of the U.S.
- The child must qualify as the taxpayer's dependent

Generally, foster and adoptive parents and kinship caregivers who are eligible to claim a dependency exemption for a child under age 17 are also eligible to claim the Child Tax Credit. CTC is a non-refundable credit.



For lower income foster and adoptive parents and kinship caregivers:

The Child Tax Credit is “non-refundable” and is first used to reduce or eliminate any income tax owed. Families with **earned income for 2018** may be able to get all or part of any remaining CTC as an additional refund.

The Child Tax Credit no longer affects eligibility for federal benefit programs such as TANF, Food Stamps, SSI, Medicaid, or federal housing subsidies. Phase-out ranges apply, see IRS [Publication 972](#), Child Tax Credit, for more information or consult a tax professional.



Congress has imposed severe penalties on taxpayers and tax preparers who fraudulently or intentionally disregard the rules and regulations for claiming Child Tax Credit or the additional Child Tax Credit There are many unscrupulous tax preparers who prey on unknowledgeable taxpayers. Remember that you are the one who is liable for repaying any refund that you are not entitled to, even if you use a paid preparer. Be wary of preparers who do not sign the return, require that you pay in cash or require that your refund be deposited to a bank account that is not yours.

Child and Dependent Care Credit

This credit is available for work-related expenses incurred by the taxpayer for care of a qualifying individual, who must be a dependent ([see page 11](#)). Generally, expenses must be for the care of a **child under age 13**. However, this age limit is waived for a dependent who is **disabled and not capable of self-care (requires medical diagnosis)**.



*Example: A 16 -year old with severe ADHD and a behavior disorder that cannot be left unsupervised may be a qualifying child for the Child and Dependent Care Credit. The level of severity of the disability must be supported by a written diagnosis signed by a medical professional. **Maximum expenses** are \$3,000 per year for one child, and \$6,000 per year for two or more children. The credit is calculated as a **percentage of the allowable expenses**. The credit can be up to 35% of your expenses depending on your adjusted gross income. Employer dependent care assistance plans maximum is \$5,000.*

Qualifying expenses include:

- child care expenses,
- after school programs, and
- summer camp



However, **overnight** camp expenses are not considered qualifying expenses.

Childcare payments to a relative qualify, unless the relative is a dependent of the taxpayer. You will need to report the name, address and Social Security number or Employer Identification Number of any day care provider you paid to provide child care in order to claim this credit. (Phase-out ranges apply, see IRS [Publication 503](#) and [Form 2441](#) or consult a tax professional)

Education Credits

The **American Opportunity Credit (AOC)** and the **Lifetime Learning Credit** are based on amounts paid for “qualified expenses” for college, vocational training and other post-secondary education. The AOC **is refundable** up to \$1,000 and the Lifetime Learning credit is **non-refundable**, and can be claimed for expenses incurred by the taxpayer or the taxpayer’s dependent.

The following rules apply to both the American Opportunity Credit and the Lifetime Learning Credit:

- The definition of qualified higher education expenses for tax-free distributions from a qualified tuition program is expanded to include amounts paid in 2018 for the purchase of computer software, any computer or related peripheral equipment, fiber optic cable related to computer use, and Internet access.
- The school must be eligible to participate in a student aid or student loan program administered by the U.S. Department of Education.
- The credit cannot be claimed for educational expenses paid through a scholarship, employer, education IRA, or other third party source.
- Educational expenses paid with borrowed funds qualify.
- Educational expenses paid by a taxpayer for a dependent who is claimed as a dependent qualify for the credit.
- Educational expenses do not include personal expenses such as room and board.
- A student may claim **either** the American Opportunity Credit or the Lifetime Learning Credit but **not both in the same year**.
- Taxpayers who file married filing separately are not eligible for these credits.
- **You must have a Form 1098-T from the educational institution**

American Opportunity Credit

The American Opportunity credit can now be claimed for the first four years of post-secondary education.

- Generally, 40% of the credit is now a partially refundable credit, which means that you can receive up to \$1,000 even if you owe no taxes.
- However, none of the credit is refundable if the taxpayer claiming the credit is a child:

- (a) who is under age 18 (or a student who is at least age 18 and under age 24 and whose earned income does not exceed one-half of his or her own support),
- (b) who has at least one living parent, and (c) who does not file a joint return.

Vocational training that leads to a certificate upon completion will qualify. Examples of vocational courses include certified nurse's aide, certified child care worker, and certified auto mechanic courses offered at community colleges or other qualifying institutions. The course load for a vocational training program must be at least a half time course load for one semester.

The AOC is up to \$2,500 per student per year. The credit is phased out (gradually reduced) if your modified adjusted gross income (AGI) is between \$80,000 and \$90,000 (\$160,000 and \$180,000 if you file a joint return).



Congress has imposed severe penalties on taxpayers and tax preparers who fraudulently or intentionally disregard the rules and regulations for claiming the American Opportunity Credit. There are many unscrupulous tax preparers who prey on unknowledgeable taxpayers. Remember that you are the one who is liable for repaying any refund that you are not entitled to, even if you use a paid preparer. Be wary of preparers who do not sign the return, require that you pay in cash or require that your refund be deposited to a bank account that is not yours.

Lifetime Learning Credit

Qualifying expenses for this credit include **tuition and fees** for **any post-secondary instruction** at a qualifying educational institution. There is **no minimum course requirement**, so individual classes at community colleges or other approved institutions will qualify. Also, the cost of continuing education classes, including foster parent conferences, may qualify if offered by a qualified educational institution.

The Lifetime Learning Credit is 20% of tuition and fees, up to \$2,000 per tax return. Therefore, this is a maximum amount for all family members combined.

To claim education credits, the taxpayer must complete [Form 8863](#) and attach it to [Form 1040](#). Phase-out ranges apply, for more information, see IRS [Publication 970](#), *Tax Benefits for Education*.

Special Rules for Legal Guardians

A number of states sponsor “Assisted Guardianship” or “Subsidized Guardian” programs as a permanency option. Under these programs, a foster parent, often a relative of the child, assumes legal guardianship of the child. In many cases, the child welfare agency continues to provide cost of care reimbursement payments and other supports to the caregiver. The following special rules apply to guardians:

- Cost of care reimbursement and difficulty of care payments are not taxable income, and should not be reported on the caretaker’s tax return.
- Expenses related to legal guardianship of a child are not eligible as charitable contributions. The IRS determined legal guardianship as caring for your own child.
- A guardian child not related to you may be claimed as a dependent if the guardian provides more than half of the child’s support and the child lives in the caretaker’s home for the full year. A guardian child related to you does not need to live with you all year.
- A child claimed as a dependent may also be a qualifying child for the Child and Dependent Care Credit, the Child Credit, and the Education Credits.
- A child placed by a public or private child welfare agency with a guardian can be a qualifying child for the Earned Income Tax Credit, if the child resides with the guardian for more than 6 months.

Claims for Prior Years

If you learn about your eligibility for a tax benefit for the first time in this guide, you may be eligible to amend a previous year tax return. Any taxpayer may file an amended return, [Form 1040X](#), to correct errors in a prior year return. The IRS will issue refunds for amended returns up to three prior years. The deadline for filing an amended return that claims a refund for the 2015 tax year is April 15, 2019. Generally speaking, the IRS will not honor claims for refunds for 2014 and prior tax years although there can be some situations where you might still be able to amend those returns.

If you have misplaced a prior year return, you can obtain a free transcript or a copy of the actual return for a fee of \$50.00, from the IRS. [Form 4506-T](#), *Request for Transcript of Tax Return* and [Form 4506](#), *Request a copy of a tax Return* are available online at www.irs.gov or can be ordered from the IRS by calling (800) 829-1040.

Resources

Where to Find More Information

There are many sources of more information, and much of it is free. The IRS prints dozens of publications, including several cited in this booklet. The following is a list of the most relevant publications:

<u>Publication 17</u>	<i>Your Federal Income Tax</i> – a 270+ page book that provides information on a wide variety of income tax topics
<u>Publication 505</u>	<i>Tax Withholding and Estimated Tax</i>
<u>Publication 596</u>	<i>Earned Income Credit</i>
<u>Publication 972</u>	<i>Child Tax Credit</i>
<u>Publication 503</u>	<i>Child and Dependent Care Expenses</i>
<u>Publication 501</u>	<i>Exemptions, Standard Deduction, and Filing Information</i>
<u>Publication 556</u>	<i>Examination of Returns, Appeal Rights, and Claims for Refund</i>
<u>Publication 970</u>	<i>Tax Benefits for Education</i>
<u>Form 8839</u>	<i>Qualified Adoption Expenses</i>
<u>Publication 587</u>	<i>Business Use of Your Home</i>

These and many other IRS publications are free. To obtain these publications and any of the forms mentioned in this booklet, you can:

- call (800) 829-1040;
- pick them up at most IRS offices; or
- download them from the IRS website: <http://www.irs.gov/formspubs/index.html>

The Center on Budget and Policy Priorities publishes an annually updated Earned Income Tax Credit Outreach Kit with reproducible posters, flyers and much other useful information. The 2018 edition is available at: <http://eitcoutreach.org>

The American Bar Association Section of Taxation maintains a website with a page that lists over 100 links to tax related websites, including federal and state agencies, and private organizations. This is available at: <http://www.abanet.org/tax/sites.html>

Professional Tax Preparation

When it is time to file a tax return, many taxpayers seek help from a professional tax preparer.

Volunteer Income Tax Assistance (VITA)

- Provides free tax filing help for low-income taxpayers at community sites
- Sponsored by the IRS
- In many communities across the country
- Volunteers are trained under IRS guidance
- Taxpayers can receive refund in 7-12 days through e-filing
- Less sites likely to be open this year due to budget constraints

Call **211** nationwide for information on the VITA sites in your community or the IRS at (800) 829-1040. Be aware that most VITA sites are only open during the tax-filing season (late January through April 15), and many VITA sites cannot handle relatively complicated or multi-year returns. It is best to call before hand for an appointment.

The tax rules summarized in this guide are complex, and applying the rules to a particular family can be very challenging. Generally, foster and adoptive parents and kinship caregivers should consult with a tax advisor before using the information in this guide.

What to bring to your tax appointment:

- Proof of identification
- Social Security Card for you and your family or a Social Security verification letter
- Birth dates for you, your spouse and dependents
- Current year's tax package (if you've received one)
- W-2 form
- Interest and dividend statement
- A copy of last year's federal and state tax returns if available
- Bank routing numbers and account numbers for direct deposit
- Total paid for day care and day care provider's Tax ID Number

Enrolled agents are licensed to practice by the federal government and authorized to appear in the place of the taxpayer at the IRS. Only enrolled agents, attorneys and CPAs may represent taxpayers before the IRS. The differences between enrolled agents and other tax professionals are only enrolled agents are required to demonstrate to the IRS their competence in matters of taxation before they may represent a taxpayer before the IRS. Unlike attorneys and CPAs, who may or may not choose to specialize in taxes, all enrolled agents specialize in taxation. Enrolled agents are the only taxpayer representatives who receive their right to practice from the U.S. government (CPAs and attorneys are licensed by the states).

Other sources for referrals of tax professionals are the state CPA Society; phone numbers can be located in the yellow pages of the phone directory or online.

Tax attorneys, accountants and enrolled agents are professional sources of assistance, but this representation can be expensive. Referrals can be obtained through the local bar association, the state CPA Society or the National Association of Enrolled Agents.

IRS Inquiries and Disputes

Less than 1 percent of all taxpayers receive audit letters but a much higher percent of returns claiming refundable tax credits are audited or the taxpayer receives letters raising questions about their returns. Often, IRS letters request relatively simple information, such as the Social Security Number of someone in the household. In some cases, the letter requests more detailed information concerning the tax return. If you paid someone to prepare your return, that individual or company should provide some assistance in responding, if you need help. Depending on the circumstances, an additional fee may be charged.

The Taxpayer Advocate Service is an independent organization within the IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should. Contact your local IRS office or call (800) 829-1040.

Conclusion

This guide offers general information about tax benefits that may be available to foster, adoptive and kinship caregivers. The application of the tax laws to your specific circumstances will require reference to numerous rules and policies that could not be included in this guide. NFPA urges you to consult with a tax professional before making decisions about claiming particular tax benefits. Give a copy of this guide to your tax advisor, and discuss how these tax laws apply to your family and your earnings.

The National Foster Parent Association cannot offer individual tax advice. However, we are interested in hearing comments and suggestions about this information. Please send your comments by email to info@nfpaonline.org, by phone (800) 557-5238 or mail to:

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Pflugerville, TX 78680



Mission Statement:

To support foster parents in achieving safety, permanence and well-being for children and youth in care.