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§21 Expenses for household and dependent care services necessary for gainful employment

Explanations for Code Sec. 21

EXP ¶214 Credit for child and dependent care expenses.

Code Arranged Explanations

EXP ¶214 Credit for child and dependent care expenses.

Taxpayers can claim credit for child and dependent care expenses that enable them to be gainfully employed. [Code Sec. 21\(a\)](#); [Reg §1.21-1\(a\)\(1\)](#). The maximum dollar amount of employment-related expenses (as defined at [¶214.03](#)) eligible for the credit is limited to \$3,000 for one qualifying individual (as defined at [¶214.02](#)), and \$6,000 for two or more qualifying individuals, reduced by the amount excludable by the taxpayer under [Code Sec. 129](#) (as discussed at [¶214.04](#)), which covers employer payments or costs under a dependent care assistance program for furnishing dependent care assistance to the employee. [Code Sec. 21\(c\)](#). The amount of the credit itself is based on a sliding scale percentage. If adjusted gross income (AGI) is \$15,000 or less, taxpayers' credit is 35% of their employment-related expenses. But this percentage is phased down by 1% for each \$2,000 of AGI, or fraction thereof, in excess of \$10,000, but not to a percentage below 20%, see chart, below. [Code Sec. 21\(a\)\(2\)](#); [Reg §1.21-1\(a\)\(2\)](#). Thus, the credit is reduced to 20% for taxpayers with AGI over \$43,000. Conf Rept No. 107-84 ([PL 107-16, 6/7/2001](#)) p. 138, see [¶211.003](#).

To compute the applicable credit percentage, use the chart below:

Adjusted gross income		
Over	But not over	Applicable Percentage
0	\$15,000	35%
15,000	17,000	34
17,000	19,000	33
19,000	21,000	32
21,000	23,000	31
23,000	25,000	30
25,000	27,000	29
27,000	29,000	28
29,000	31,000	27
31,000	33,000	26
33,000	35,000	25
35,000	37,000	24
37,000	39,000	23
39,000	41,000	22
41,000	43,000	21
43,000	No limit	20

Example. Taxpayers T, D, and H have AGIs of \$10,000, \$20,000, and \$30,000, respectively, and each incurs employment-related expenses for one qualifying individual of \$3,600 and didn't receive employer-provided dependent care assistance. *Result:* T's credit is \$1,050 (35% × \$3,000); D's credit is \$960 (32% × \$3,000); and H's credit is \$810 (27% × \$3,000). In each case, the total employment-related expenses were \$3,600, but the expenses were limited to \$3,000 for one qualifying individual.

Example. Taxpayers A, S, and J have AGIs of \$15,000, \$25,000, and \$40,000, respectively, and each incurs employment-related expenses of \$7,500 for two qualifying individuals and didn't receive employer-provided dependent care assistance. *Result:* A's credit is \$2,100 (\$6,000 × 35%); S's credit is \$1,800 (\$6,000 × 30%); and J's credit is \$1,320 (\$6,000 × 22%). In each case, the total employment expenses were \$7,500 but the expenses are limited to \$6,000 for two qualifying individuals.

 **OBSERVATION:** The maximum credit equals \$1,050 for a taxpayer with one qualifying individual (35% × \$3,000), and \$2,100 for a taxpayer with two or more qualifying individuals (35% × \$6,000).

For the effect after Dec. 31, 2010 on [Code Sec. 21\(a\)\(2\)](#) and [Code Sec. 21\(c\)](#) above of the sunset provisions contained in Sec. 901, [PL 107-16, 6/7/2001](#), see [§179,006.86](#).

For treatment of payments to relatives, see [§214.01](#).

For the earned income limitation on child care credit, see [§214.05](#).

For the deemed earned income of a disabled or student spouse, see [§214.06](#).

For the marital status requirement for the credit, see [§214.07](#).

For how to claim the credit, see [§214.08](#).

For the requirement that the service provider's identification be provided, see [§214.09](#).

Prior law.

For tax years beginning before Jan. 1, 2003, Sec. 204(c), [PL 107-16, 6/7/2001](#):

- The maximum child and dependent care credit was 30% (rather than 35%), and the AGI limit for taking that maximum credit percentage was set at \$10,000 or less (rather than \$15,000 or less). [Code Sec. 21\(a\)\(2\) before amend by Sec. 204\(b\), PL 107-16, 6/7/2001](#).
- The dollar limitations for employment-related expenses that could be taken into account in computing the child and dependent care credit were \$2,400 for one qualifying individual (rather than \$3,000) and \$4,800 for two or more qualifying individuals (rather than \$6,000). [Code Sec. 21\(c\) before amend by Sec. 204\(a\), PL 107-16, 6/7/2001](#).

The following chart is used to compute the applicable percentage for pre-2003 years ([IRS Pub. 503, \(2002\), p. 13](#)):

Adjusted gross income—Tax years before 2003

Over	But not over	Applicable Percentage
0	\$10,000	30%
10,000	12,000	29
12,000	14,000	28
14,000	16,000	27
16,000	18,000	26
18,000	20,000	25
20,000	22,000	24
22,000	24,000	23
24,000	26,000	22
26,000	28,000	21
28,000	No limit	20

 **OBSERVATION:** Before 2003, the maximum credit was \$720 for a taxpayer with one qualifying individual (30% x \$2,400), and \$1,440 for a taxpayer with two or more qualifying individuals (30% x \$4,800).

TIN requirement.

The credit is not allowed with respect to any qualifying individual unless that individual's taxpayer identification number (TIN) is included on the tax return claiming the credit.

[Code Sec. 21\(e\)\(10\)](#).