

Roundup of Five Popular Tax Credits

Tax Savings Available on 2013 Tax Returns

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With your tax return due to the IRS this month, you're probably busy gathering your information. Before you hand over everything to your tax preparer, make sure you've included all of the necessary documentation and forms that can help you save money on your 2013 return. When it comes to cutting down the amount you owe, a tax credit is more valuable than a deduction because it reduces tax liability on a dollar-for-dollar basis. The complete list is extensive, but here are five popular credits for individuals on

2013 returns:

1. Higher Education Credits: You may be able to take advantage of either one of two tax credits (but not both) for higher education expenses:

American Opportunity Credit: The maximum credit of \$2,500 per student can be claimed for the first four years of college study. The credit begins to phase out for single filers with a modified adjusted gross income (MAGI) above \$80,000 and joint filers above \$160,000.

Lifetime Learning Credit: The maximum credit of \$2,000 per taxpayer can be claimed in any year of undergraduate study. It begins to phase out for single filers with a MAGI above \$53,000 and joint filers above \$107,000.

2. Child Tax Credit: A \$1,000 credit is available for every qualifying child under age 17 whom you claim as a dependent. However, the tax benefits of the child tax credit are phased out for single filers with a MAGI above \$75,000 and \$110,000 for joint filers. The allowable credit is reduced by \$50 for every \$1,000 (or fraction thereof) of MAGI above the threshold.

3. Dependent Care Credit: You can claim the dependent care credit—often called the “child care credit”—for the cost of caring for a child under age 13 or a dependent unable to care for himself or herself. To qualify, the expenses must be incurred in order for you to be “gainfully employed.” The credit is generally equal to 20% of the first \$3,000 of qualified expenses for one dependent and \$6,000 for two or more dependents.

4. Adoption Credit: Parents who adopt a child may be entitled to some tax relief. The adoption credit can be claimed for up to \$12,970 of qualified adoption expenses, including costs for reasonable and necessary adoption fees, attorney fees and other related expenses. However, the tax benefits of the adoption credit are phased out for filers with a MAGI beginning at \$194,580.

5. Retirement Savings Contributions Credit: Some taxpayers are in line for a little-known tax credit for making elective contributions of up to \$2,000 to qualified retirement plans. This includes contributions to

401(k), 403(b), 457, Savings Incentive Match Plan for Employees (SIMPLE) and Simplified Employee Pension (SEP) plans as well as traditional IRAs and Roth IRAs. A taxpayer may also claim the credit for voluntary after-tax contributions to qualified plans. The credit percentage ranges from 50% to 10% depending on the adjusted gross income.

Other credits, such as the foreign tax credit and the credit for the elderly or disabled, are also available to some taxpayers on their 2013 tax returns. For more information on individual tax credits contact your Henry & Horne, LLP professional tax adviser.

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