

Take Tax Credits When They Are Due

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The income tax liability you face on your 2011 return—which must be filed by April 17, 2012—may be reduced by certain tax credits. The list of credits is extensive, but here is a quick review of several common types.

Higher Education Credits: You may be able to take advantage of either one of two tax credits (but not both) for higher education expenses: The American Opportunity Tax Credit (formerly the Hope Scholarship Credit) and the Lifetime Learning Credit.

1. American Opportunity Tax Credit: The maximum credit for 2011 is \$2,500 per student. The credit can be claimed for the first four years of college study. However, the credit is phased out for single filers with a modified adjusted gross income (MAGI) between \$80,000 and \$90,000; \$160,000 and \$180,000 for joint filers.

2. Lifetime Learning Credit: The maximum credit for 2011 is \$2,000 per taxpayer. The Lifetime Learning credit can be claimed in any year of study (undergraduate or graduate). However, this credit is phased out for single filers with a MAGI between \$51,000 and \$61,000; \$102,000 and \$122,000 for joint filers.

Child Tax Credit: For 2011, you are entitled to a \$1,000 credit for every qualifying child younger than 17 years of age 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; \$110,000 for joint filers. The allowable credit is reduced by \$50 for every \$1,000 (or fraction thereof) of MAGI above the threshold.

Dependent Care Credit: You can claim the dependent care credit—often called the “child care credit”—for the cost of caring for a child younger than 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.” For taxpayers with an adjusted gross income (AGI) above \$43,000, the credit is equal to 20% of the first \$3,000 of qualified expenses for one child or dependent; \$6,000 for two or more children or dependents. Thus, the maximum annual credit for high-income parents with two or more children is \$1,200.

Adoption Credit: Parents who adopt a child through proper legal channels are entitled to some tax relief. For 2011, you can claim a credit of up to \$13,360 of your 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 between \$185,210 and \$225,210.

Retirement Contributions Savings 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, SIMPLE and SEP plans as well as traditional IRAs and Roth IRAs. You may also claim the credit for voluntary after-tax contributions to qualified plans. The credit percentage ranges from as high as 50% to as low as 10%, depending on the individual's AGI.

Credit for the Elderly or Disabled: If an individual, such as an elderly parent or in-law, is either age 65 or older at the close of the tax year or retired on disability, he or she may be able to claim a special tax credit. The credit is equal to 15% of a base amount of \$5,000 (\$7,500 for joint filers if both spouses qualify) reduced by (1) nontaxable Social Security and benefits and (2) 50% of the excess AGI over \$10,000 for joint filers; \$7,500 for singles.

Residential Energy Credit: You may qualify for a 10% credit for installing qualified energy-efficient improvements in your home. This covers property ranging from simple insulation to central air conditioning. The credit has a lifetime limit of \$500, but only \$200 may be used for windows. Also, the available credit may be reduced by amounts claimed in prior years. Note: As of this writing, the credit is not available after 2011.

Foreign Tax Credit: You may elect to claim foreign income taxes paid directly or accrued as a tax credit on your return in lieu of deducting the foreign taxes as an itemized deduction. For instance, you might incur foreign income taxes through your mutual fund investments. Your broker will provide the necessary information on the appropriate tax forms.

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