

IRS Tax Credits Provide Funds for First-Time Homebuyers, Childcare, Education and More

[Updated information](#) on the first-time homebuyer credit is available.

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Tax credits can help pay the cost of raising a family, going to college, saving for retirement or getting daycare for dependents. But each year, many taxpayers overlook these credits, even though they often qualify for one or more.

While tax deductions and tax credits can both save money, they are fundamentally different. A deduction lowers the income on which the tax is figured, while a credit lowers the tax itself.

The popular credits listed below can help either lower a taxpayer's bill or increase a refund.

First-Time Homebuyer Credit

Those who bought a main home recently or are considering buying one may qualify for the first-time homebuyer credit. Normally, a taxpayer qualifies if she didn't own a main home during the prior three years. This unique credit of up to \$7,500 works much like a 15-year interest-free loan. It is available for a limited time only — on homes bought from April 9, 2008, to June 30, 2009. It can be claimed on new [Form 5405](#) and is repaid each year as an additional tax. Income limits and other special rules apply. The [First-Time Homebuyer Credit Information Center](#) has more details.

Earned Income Tax Credit (EITC)

The [Earned Income Tax Credit](#) (EITC) helps people who work but do not earn a lot. Working families with incomes below \$41,646 and childless workers with incomes under \$15,880 often qualify. Generally, you must have earned income as an employee, independent contractor, farmer or business owner to qualify. Taxpayers under the minimum retirement age who receive disability payments from an employer plan may also be eligible. The EITC Assistant, available in mid-January, can help you see if you qualify.

Child Tax Credit

A taxpayer who has a dependent child under age 17 probably qualifies for the child tax credit. This credit, which can be as much as \$1,000 per eligible child, is in addition to the regular \$3,500 exemption claimed for each dependent. A change in the way the credit is figured means that more low- and moderate-income families will qualify for the full credit on their 2008 returns. The child tax credit is not the same as the child care credit. Details on figuring and claiming the child tax credit can be found in IRS [Publication 972](#) (PDF format).

Credit for Child and Dependent Care Expenses

An individual who pays for someone to care for a child so he or she can work or look for work probably qualifies for the child and dependent care credit. Normally, the child must be the taxpayer's dependent and under age 13. Though often referred to as the child care credit, this credit is also available to those who pay someone to care for a spouse or dependent, regardless of age, who is unable to care for him- or herself. In most cases, the care provider's Social Security Number or taxpayer identification number must be obtained and entered on the return.

Form 1040 filers claim the credit for child and dependent care expenses on Form 2441. Form 1040A filers claim it on Schedule 2. IRS [Publication 503](#) (PDF version) has more information.

Education Credits

The Hope credit and the lifetime learning credit help parents and students pay for post-secondary education. Normally, a taxpayer can claim both his or her own tuition and required enrollment fees, as well as those for a dependent's college education. The Hope credit targets the first two years of post-

secondary education, and an eligible student must be enrolled at least half time. A taxpayer can also choose the lifetime learning credit, even if she is only taking one course. In some cases, however, she may do better by claiming the tuition and fees deduction, instead.

The education credit and the tuition and fees deduction cannot both be claimed for the same student in the same year. Special rules, including income limits, apply to each of these tax breaks.

Education credits are claimed on [Form 8863](#). Details on these and other education-related tax breaks are contained in [Publication 970](#) (PDF version).

Saver's Credit

The saver's credit is designed to help low- and moderate-income workers save for retirement. A taxpayer probably qualifies if his income is below certain limits and he contributes to an IRA or workplace retirement plan, such as a 401(k). Income limits for 2007 are:

- \$26,500 for singles and married taxpayers filing separately
- \$39,750 for heads of household and
- \$53,000 for joint filers

Also known as the retirement savings contributions credit, the saver's credit is available in addition to any other tax savings that apply. There is still time to put money into an IRA and get the saver's credit on a 2008 return. 2008 IRA contributions can be made until April 15, 2009. [Form 8880](#) is used to claim the saver's credit.

Other Credits Available

IRS.gov has information on these additional credits:

- [Recovery Rebate Credit](#), claimed on Form 1040 Line 70, Form 1040A Line 42 and Form 1040EZ Line 9. FS-2009-3 has further details
- District of Columbia first-time homebuyer credit, claimed on [Form 8859](#)
- Foreign tax credit, claimed on Form 1040 Line 47
- Credit for the elderly or the disabled, claimed on Form 1040 Schedule R
- Adoption credit, claimed on [Form 8839](#)
- Residential energy efficient property credit, claimed on [Form 5695](#)
- Alternative motor vehicle (including hybrids) credit, claimed on [Form 8910](#)
- Credit for prior year minimum tax, claimed on [Form 8801](#)

Credits Save Taxpayers Money

These credits can increase a refund or reduce a tax bill. Usually, credits can only lower a tax liability to zero. But some credits, such as the EITC, the child tax credit, the Recovery Rebate Credit and the first-time homebuyer credit, are refundable — in other words, they can make the difference between a balance due and a refund.

Although some credits are available to people at all income levels, others have income restrictions. These include the EITC, the Recovery Rebate Credit, the saver's credit, the first-time homebuyer credit, the education credits and the child tax credit.

A taxpayer who qualifies can claim any credit, regardless of whether he or she itemizes deductions. Any credit can be claimed on Form 1040, sometimes referred to as "the long form." Alternatively, many credits can also be claimed on the 1040A "short form." The EITC and Recovery Rebate Credit can even be claimed on Form 1040EZ. The instruction booklet for each of these forms contains information about these and other tax credits.

Related Information:

- [IRS Forms and Publications](#) — Download or order by telephone
- [1040 Central](#)