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EQUITABLE SOLUTIONS AND PROSPERITY PLANNING
Professional Guidance for Divorcing Individuals

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DID YOU KNOW?

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That some tax credits follow the dependency exemption and some follow custody?

The opportunity for either spouse to benefit from tax credits is very important in divorce settlements. Credits reduce tax liabilities dollar per dollar, some are refundable (where the credit is greater than the tax), and they can increase the after-tax cash flow of either spouse with proper planning.

The Child Tax Credit is generally** a nonrefundable credit where a parent may be able to claim a tax credit up to $1,000 per qualifying child. Generally, a qualifying child must meet the same criteria as that for the dependency exemption, except that the child must be under age 17 at the end of the year. The credit follows whomever CLAIMS the dependent exemption. So in the case of a divorced couple, if Mom is claiming the deduction, she is eligible to receive the credit (if all other criteria is met). The custodial parent can give away the exemption and therefore the child tax credit as long as IRS form 8332 is filed. The Credit begins to phase-out for Singles or Head of Households at $75,000 of Adjusted Gross Income (AGI) and completely phases out at various income levels for one through five children.

The Child and Dependent Care Credit is a nonrefundable credit for a percentage of a parent's dependent care expenses <u>that enable them to work</u>. The maximum qualifying expenses are $3,000 for one qualifying child and $6,000 for two or more qualifying children. The credit is a percentage of the qualifying expenses based upon the parent's AGI. The maximum amount of the credit is 20% of the qualifying expenses with AGI over $43,000 (2007 limit). There is no phase out BUT the credit belongs to the custodial parent, <u>regardless</u> of who claims the dependent exemption.
The dependent's age, type of expense, earned income of the parent, who the provider is, prepayment of expenses, and reimbursement from employer plans also affect the ability of either spouse to claim the credit.

Depending upon the respective spouse's income, proper tax planning can help each spouse take advantage of this subsidy provided by the Federal Government.

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