



Department of the Treasury
Internal Revenue Service

Publication 503
Cat. No. 15004M

Child and Dependent Care Expenses

For use in preparing
1997 Returns



Get forms and other information faster and easier by:
COMPUTER

- World Wide Web ► www.irs.ustreas.gov
- FTP ► [ftp.irs.ustreas.gov](ftp://ftp.irs.ustreas.gov)
- IRIS at FedWorld ► (703) 321-8020

FAX

- From your FAX machine, dial ► (703) 368-9694
- See *How To Get More Information* in this publication.

Contents

Introduction	2
Tests To Claim the Credit	2
Qualifying Person Test	2
Keeping Up a Home Test	3
Earned Income Test	6
Work-Related Expense Test	7
Joint Return Test	8
Provider Identification Test	8
How To Figure the Credit	9
Figuring Total Work-Related Expenses	9
Earned Income Limit	10
Dollar Limit	11
Amount of Credit	11
How To Claim the Credit	12
Employment Taxes for Household Employers	12
Examples	13
How To Get More Information	17
Index	18

Important Changes for 1997

Taxpayer identification number needed for each qualifying person. You must include on line 2 of your 1997 Form 2441 or Schedule 2 (Form 1040A) the name and taxpayer identification number (generally the social security number) of each qualifying person. If the correct information is not shown, the credit may be reduced or disallowed.

Adoption taxpayer identification number (ATIN). If you are claiming the child and dependent care credit for a child who was placed with you by an authorized adoption agency, you must enter the child's name and taxpayer identification number on the form you use to claim the credit. If you do not know the child's birth social security number (SSN), you must get an ATIN for the child by filing Form W-7A, *Application for Taxpayer Identification Number for Pending U.S. Adoptions*.

Important Reminders

Individual taxpayer identification number (ITIN) for aliens. The IRS will issue an ITIN to a nonresident or resident alien who does not have and is not eligible to get an SSN. To apply for an ITIN, Form W-7 must be filed with the IRS. It usually takes about 30 days to get an ITIN. The ITIN is entered wherever an SSN is requested on a tax return. If you are required to include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

You may have to pay employment taxes. If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer who has to pay employment taxes. Usually, you are *not* a household employer if the person who cares for your dependent or spouse does so at his or her home or place of business. See *Employment Taxes for Household Employers*.

Introduction

This publication explains the tests you must meet to claim the credit for child and dependent care expenses. It explains how to figure and claim the credit. It also discusses some of the employment tax rules for household employers.

If you pay someone to care for your dependent who is under age 13 or for your spouse or dependent who is not able to care for himself or herself, you may be able to get a credit of up to 30% of your expenses. To qualify, you must pay these expenses so you can work or look for work.

Dependent care benefits. If you received any dependent care benefits from your employer in 1997, you may be able to exclude from your income all or part of them. You must complete Part III of Form 2441 or Schedule 2 (Form 1040A) before you can figure the amount of your credit. See *Employer's Dependent Care Benefits* under *How To Figure the Credit*.

Useful Items

You may want to see:

Publication

- 501** Exemptions, Standard Deduction, and Filing Information
- 926** Household Employer's Tax Guide

Form (and Instructions)

- 2441** Child and Dependent Care Expenses
- 6251** Alternative Minimum Tax—Individuals
- Schedule 2 (Form 1040A)** Child and Dependent Care Expenses for Form 1040A Filers
- Schedule H (Form 1040)** Household Employment Taxes
- W-10** Dependent Care Provider's Identification and Certification

See *How To Get More Information*, near the end of this publication, for information about getting these publications and forms.

Tests To Claim the Credit

To be able to claim the credit for child and dependent care expenses, you must meet *all* the following tests. These tests are presented in *Figure A* and are also explained in detail in this publication. To claim the credit, you must file Form 1040 or Form 1040A, not Form 1040EZ.

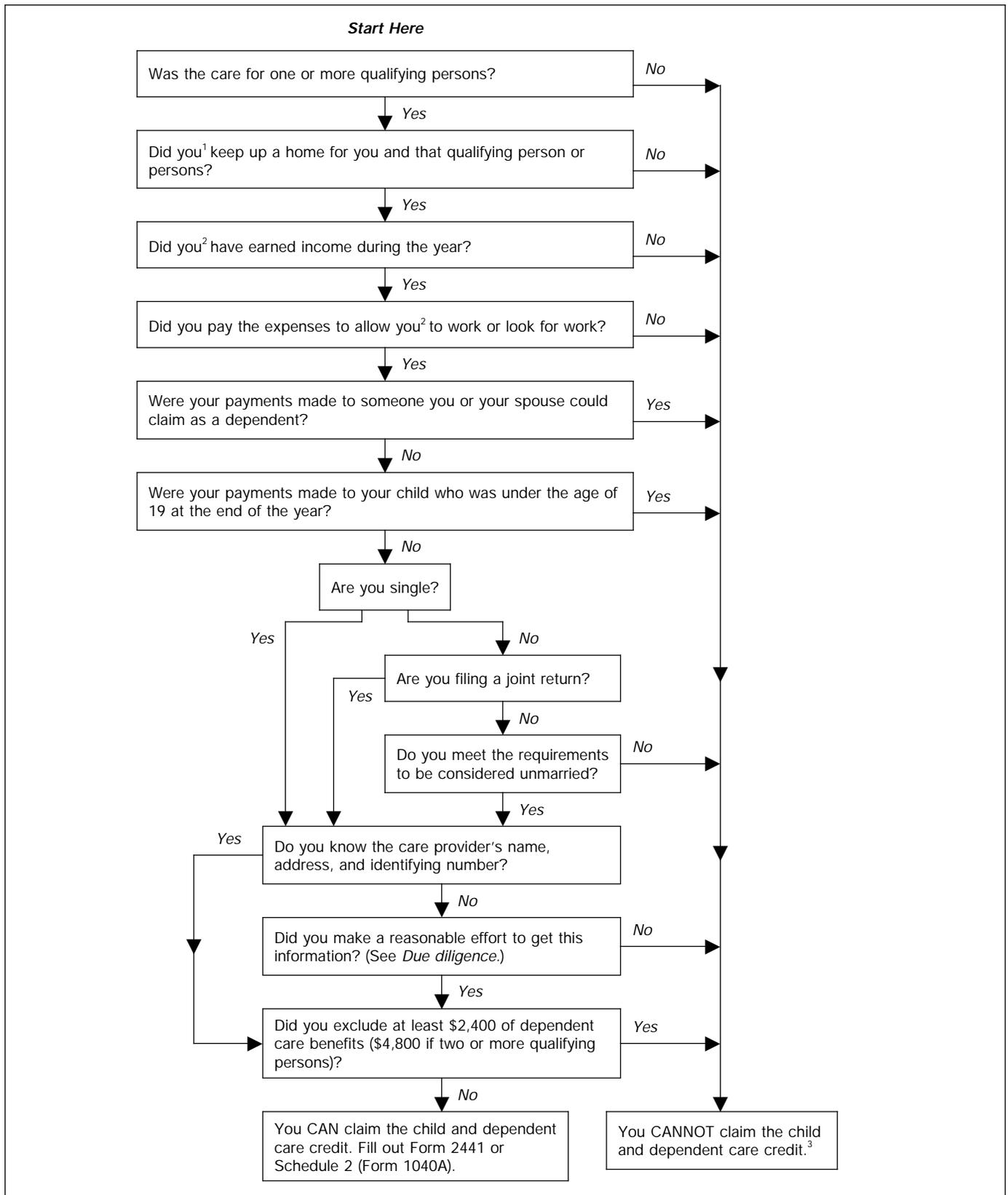
- 1) The care must be for one or more qualifying persons who are identified on the form you use to claim the credit. (See *Qualifying Person Test*.)
- 2) You (and your spouse if you are married) must keep up a home that you live in with the qualifying person or persons. (See *Keeping Up a Home Test*.)
- 3) You (and your spouse if you are married) must have earned income during the year. (However, see *Rule for student-spouse or spouse not able to care for self* under *Earned Income Test*.)
- 4) You must pay child and dependent care expenses so you (and your spouse if you are married) can work or look for work. (See *Work-Related Expense Test*.)
- 5) You must make payments for child and dependent care to someone you (or your spouse) cannot claim as a dependent. If you make payments to your child, he or she cannot be your dependent and must be age 19 or older by the end of the year. (See *Payments to Relatives* under *Work-Related Expense Test*.)
- 6) Your filing status must be single, head of household, qualifying widow(er) with dependent child, or married filing jointly. You must file a joint return if you are married, unless an exception discussed under *Joint Return Test* applies to you.
- 7) You must identify the care provider on your tax return. (See *Provider Identification Test*.)
- 8) You must exclude less than \$2,400 (less than \$4,800 if two or more qualifying persons were cared for) of dependent care assistance benefits. (See *Reduced Dollar Limit* under *How To Figure the Credit*.)

Qualifying Person Test

Your child and dependent care expenses must be for the care of one or more members of your home who are qualifying persons. A qualifying person is:

- 1) Your dependent who was under age 13 when the care was provided and for whom you can claim an exemption,
- 2) Your spouse who was physically or mentally not able to care for himself or herself, or
- 3) Your dependent who was physically or mentally not able to care for himself or herself and for whom you can claim an exemption (or could claim an ex-

Figure A. **Can You Claim the Credit?**



¹ This includes your spouse if you were married.

² This also applies to your spouse, unless your spouse was disabled or a full-time student.

³ If you had expenses that met the requirements for 1996, except that you did not pay them until 1997, you may be able to claim those expenses in 1997. See *Expenses not paid until the following year* under *How To Figure the Credit*.

emption except the person had \$2,650 or more of gross income).



You must include on your return the name and taxpayer identification number (generally the social security number) of the qualifying person(s). If the correct information is not shown, the credit may be reduced or disallowed.

If you are divorced or separated, see *Child of Divorced or Separated Parents* to determine which parent may treat the child as a qualifying person.

For information on claiming an exemption, see Publication 501.

Physically or mentally not able to care for oneself.

Persons who cannot dress, clean, or feed themselves because of physical or mental problems are considered not able to care for themselves. Also, persons who must have constant attention to prevent them from injuring themselves or others are considered not able to care for themselves.

Person qualifying for part of year. You determine a person's qualifying status each day. For example, if the person for whom you pay child and dependent care expenses no longer qualifies on September 16, count only those expenses through September 15. Also see *Dollar Limit*, under *How To Figure the Credit*, later.

Child of Divorced or Separated Parents

To be a qualifying person, your child usually must be your dependent for whom you can claim an exemption. But an exception may apply if you are divorced or separated. Under the exception, if you are the custodial parent, you can treat your child as a qualifying person even if you cannot claim the child's exemption. If you are the noncustodial parent, you cannot treat your child as a qualifying person even if you can claim the child's exemption.

This exception applies if all of the following are true.

- 1) One or both parents had custody of the child for more than half of the year.
- 2) One or both parents provided more than half of the child's support for the year.
- 3) Either—
 - a) The custodial parent signed **Form 8332**, *Release of Claim to Exemption for Child of Divorced or Separated Parents*, or a similar statement, agreeing not to claim the child's exemption for the year, or
 - b) The noncustodial parent provided at least \$600 for the child's support and can claim the child's exemption under a pre-1985 decree of divorce or separate maintenance, or written agreement.

For purposes of 3(a), a similar statement includes a divorce decree or separation agreement that went into effect after 1984 that allows the noncustodial parent to claim the child's exemption without any conditions, such as payment of support.

You can use *Figure B* to see whether this exception applies to you. If it applies, only the custodial parent can treat the child as a qualifying person. If the exception does not apply, follow the regular rules for a qualifying person under *Qualifying Person Test*, earlier.

Example. You are divorced and have custody of your 8-year-old child. You sign Form 8332 to allow your ex-spouse to claim the exemption. You pay child care expenses so you can work. Your child is a qualifying person and you, the custodial parent, can claim the credit for those expenses, even though your ex-spouse claims an exemption for the child.

Custodial parent. You are the custodial parent if, during the year, you have custody of your child longer than your child's other parent has custody.

Divorced or separated. For purposes of determining whether your child is a qualifying person, you are considered divorced or separated if either of the following applies.

- 1) You are divorced or separated under a decree of divorce or separate maintenance or a written separation agreement, or
- 2) You lived apart from your spouse for all of the last 6 months of the year.

Keeping Up a Home Test

To claim the credit, you (and your spouse if you are married) must keep up a home that you live in with one or more qualifying persons.

You are keeping up a home if you pay more than half the cost of running it for the year. If you live in your home with a qualifying person for less than a full year, see *Cost determined monthly*, later.

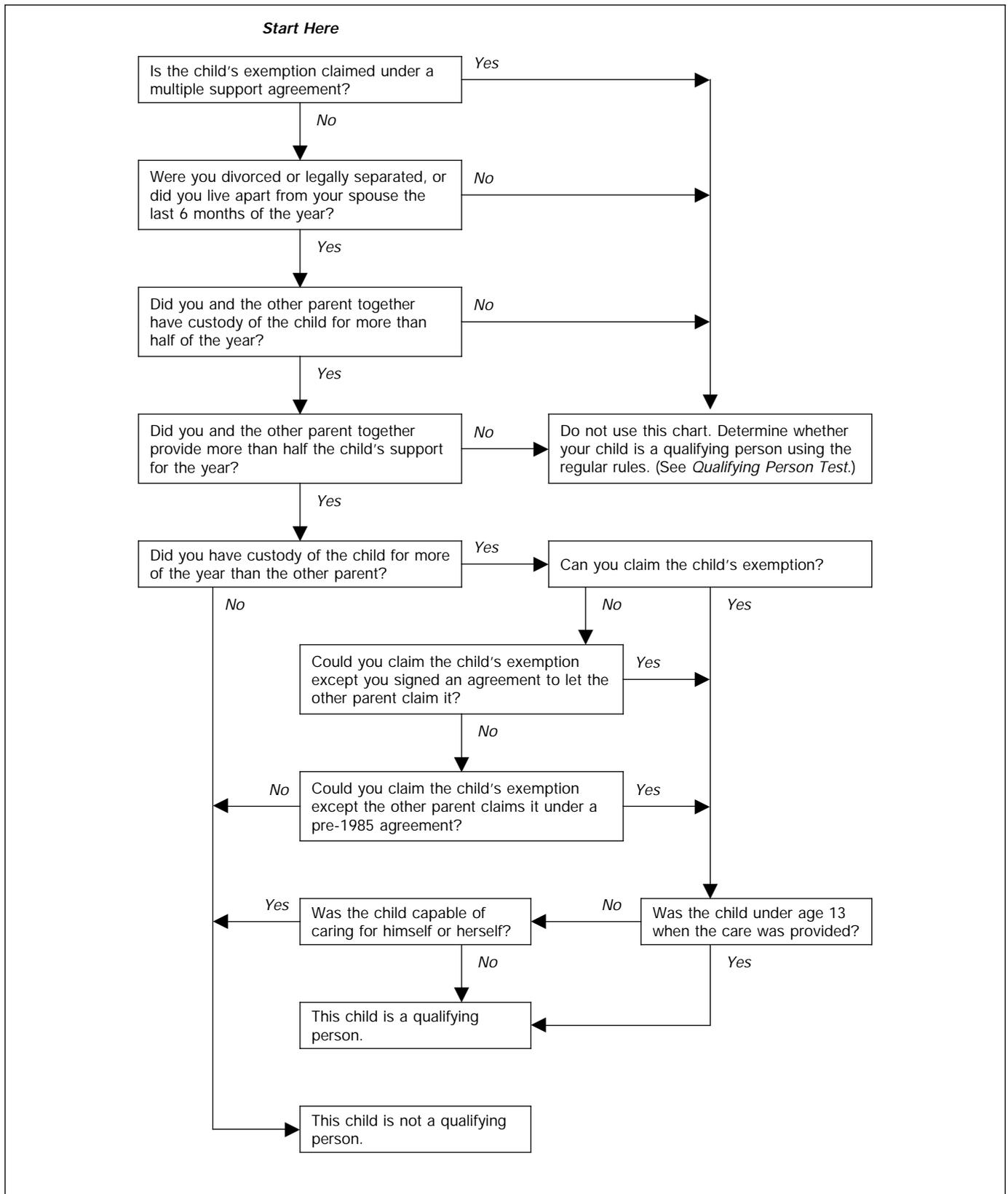
Home. The term "home" means the main home for both you and the qualifying person. Your home can be the main home even if the qualifying person does not live there all year because of his or her:

- 1) Birth,
- 2) Death, or
- 3) Temporary absence due to:
 - a) Sickness,
 - b) School,
 - c) Business,
 - d) Vacation,
 - e) Military service, or
 - f) Custody agreement.

Costs of keeping up a home. The costs of keeping up a home normally include property taxes, mortgage interest, rent, utility charges, home repairs, insurance on the home, and food eaten at home.

The costs of keeping up a home do not include payments for clothing, education, medical treatment,

Figure B. Is a Child of Divorced or Separated Parents a Qualifying Person?



vacations, life insurance, transportation, or mortgage principal. They also do not include the purchase, permanent improvement, or replacement of property. For example, you cannot include the cost of replacing a water heater. However, you can include the cost of repairing a water heater.

Public assistance benefits. Payments you receive from a state that you use to keep up your home are provided by the state, not by you. You must provide more than half the cost of keeping up your home **from your own funds** to claim the credit for child and dependent care expenses.

Families living together. If you and your family share living space with another family, your family and the other family are treated as separate households. (This rule applies only for purposes of the credit for child and dependent care expenses.) If you provide more than half the cost of running your household, you are keeping up a home.

Cost determined monthly. If a qualified person lived with you for less than a full year, figure the cost of keeping up your home for that period. To do this, divide your cost for the year by 12 and multiply the result by the number of months the person lived with you. Count any partial month as a full month.

Example. Joe lives in his home all year, but his son, who is a qualifying person, lives in it only from June 20 to December 31. The cost of keeping up his home for the full year is \$6,600. To meet the keeping up a home test, Joe must pay more than half the cost of keeping up the home from June 1 to December 31. He figures this as follows.

• Cost of Keeping Up Joe's Home That He Must Pay	
• Cost of keeping up the home for the full year	\$6,600•
• Divided by the number of months in a year	<u>÷ 12•</u>
• Monthly cost of keeping up the home	\$550•
• Multiplied by number of months the qualifying person lived in the home	<u>× 7•</u>
• Cost of keeping up the home while the qualifying person lived there	\$3,850•
• Multiplied by one-half	<u>× .50•</u>
• Half the cost of keeping up the home while the qualifying person lived there	<u>\$1,925•</u>

To meet the keeping up a home test, Joe must pay more than \$1,925 to keep up his home from June 1 to December 31.

Earned Income Test

To claim the credit, you (and your spouse if you are married) must have earned income during the year.

Earned income includes wages, salaries, tips, other employee compensation, and net earnings from self-employment. A net loss from self-employment reduces earned income. Earned income also includes strike benefits and any disability pay you report as wages. It also includes nontaxable earned income such as parsonage allowances, meals and lodging furnished for the convenience of the employer, voluntary salary deferrals, military basic quarters and subsistence allowances and in-kind quarters and subsistence, and military pay earned in a combat zone.

Members of certain religious faiths. This section is for persons who are members of certain religious faiths that are opposed to participation in Social Security Act programs and have an IRS-approved form that exempts certain income from social security and Medicare taxes. These forms are:

- Form 4361, *Application for Exemption From Self-Employment Tax for Use by Ministers, Members of Religious Orders and Christian Science Practitioners*, or
- Form 4029, *Application for Exemption From Social Security and Medicare Taxes and Waiver of Benefits*, for use by members of recognized religious groups.

Each form is discussed in this section in terms of what is or is not earned income for purposes of the child and dependent care credit. For information on the use of these forms, see Publication 517, *Social Security and Other Information for Members of the Clergy and Religious Workers*.

Form 4361. If you have an approved Form 4361, amounts you received for performing ministerial duties as an employee are earned income. This includes wages, salaries, tips, and other employee compensation. Other employee compensation includes earned income that is not taxable such as housing allowances or the rental value of a parsonage that you receive as part of your pay for services as an employee.

Amounts you received for ministerial duties, but not as an employee, are not net earnings from self-employment. Examples include fees for performing marriages and honoraria for delivering speeches. Any income or loss from these activities is not taken into account in figuring earned income.

Any amount you received that is not related to your ministerial duties is earned income.

Form 4029. If you have an approved Form 4029, all wages, salaries, tips, and other employee compensation are earned income. Amounts you received as a self-employed individual are not net earnings from self-employment and are not taken into account in figuring earned income.

Earned income does not include pensions or annuities, social security payments, workers' compensation, interest, dividends, or unemployment compensation. It also does not include scholarship or fellowship grants, except amounts paid to you (and reported on Form W-2) for teaching, research, or other services.

Rule for student-spouse or spouse not able to care for self. Your spouse is treated as having earned income for any month that he or she is:

- 1) A full-time student, or
- 2) Physically or mentally not able to care for himself or herself.

Figure the earned income of the nonworking spouse as shown under *Earned Income Limit*, later.

This rule applies to only one spouse for any one month. If, in the same month, both you and your spouse do not work and are either full-time students or physically or mentally not able to care for yourselves, only one of you can be treated as having earned income in that month.

Full-time student. You are a full-time student if you are enrolled at and attend a school for the number of hours or classes that the school considers full time. You must have been a student for some part of each of 5 calendar months during the year. (The months need not be consecutive.) If you attend school only at night, you are not a full-time student. However, as part of your full-time course of study, you may attend some night classes.

The term “school” includes elementary schools, junior and senior high schools, colleges, universities, and technical, trade, and mechanical schools. It does not include on-the-job training courses, correspondence schools, and night schools.

Work-Related Expense Test

Child and dependent care expenses must be work related to qualify for the credit. Expenses are considered work related only if both of the following are true.

- ☒ They allow you (and your spouse if you are married) to work or look for work.
- ☒ They are for a qualifying person's care.

Working or Looking for Work

To be work related, your expenses must allow you to work or look for work. If you are married, generally both you and your spouse must work or look for work. Your spouse is treated as working during any month he or she is a full-time student or is physically or mentally not able to care for himself or herself.

Your work can be for others or in your own business or partnership. It can be either full time or part time. Work also includes actively looking for work. However, if you do not find a job and have no earned income for the year, you cannot take this credit. See *Earned Income Test*, earlier.

Whether your expenses allow you to work or look for work depends on the facts. For example, the cost of a babysitter while you and your spouse go out to eat is not normally a work-related expense. Expenses are not considered work related merely because you had them while you were working. They must enable you to be gainfully employed. For example, you are not gainfully employed if you do unpaid volunteer work or volunteer work for a nominal salary.

Work for part of year. If you work or actively look for work during only part of the period covered by the expenses, then you must figure your expenses for each day. For example, if you work all year and pay care expenses of \$120 a month (\$1,440 for the year), all the expenses are work related. However, if you work or look for work for only 2 months and 15 days during the year and pay expenses of \$120 a month, your work-related expenses are limited to \$300 (2½ months × \$120).

Payments while you are out sick. Do not count as work-related expenses amounts you pay for child and dependent care while you are off work because of illness. These amounts are not paid to allow you to work. This applies even if you get sick pay and are still considered an employee.

Care of a Qualifying Person

To be work related, your expenses must be to provide care for a qualifying person. You do not have to choose the least expensive way of providing the care.

Expenses for household services qualify if part of the services is for the care of qualifying persons. See *Household Services*, later.

Expenses are for the care of a qualifying person only if their main purpose is the person's well-being and protection. Expenses for care do not include amounts you pay for food, clothing, and entertainment. However, if these amounts are incident to and cannot be separated from the cost of caring for the qualifying person, you can count the total cost.

Schooling. You can count the total cost of sending your child to school if both of the following are true.

- 1) Your child is in a grade level below the first grade.
- 2) The amount you pay for schooling is incident to and cannot be separated from the cost of care.

If your child is in the first grade or higher, or if the cost of schooling can be separated, you must divide the total cost between the cost of care and the cost of schooling. You can count only the cost of care in figuring your credit.

Example 1. You take your 3-year-old child to a nursery school that provides lunch and educational activities as a part of its preschool child-care service. You can count the total cost in figuring the credit.

Example 2. Your 5-year-old child goes to kindergarten in the morning. In the afternoon, she attends an after-school day care program at the same school. Your total cost for sending her to the school is \$3,000, of which \$1,800 is for the after-school program. Only the \$1,800 qualifies for figuring the credit.

Example 3. You place your 10-year-old child in a boarding school so you can work full time. Only the part of the boarding school expense that is for the care of your child is a work-related expense. You cannot count any part of the amount you pay the school for your child's education.

Care outside your home. You can count the cost of care provided outside your home if the care is for your dependent under age 13, or any other qualifying person who regularly spends at least 8 hours each day in your household.

Dependent care center. You can count care provided outside your home by a dependent care center only if the center complies with all state and local regulations that apply to these centers. A dependent care center is a place that provides care for more than six persons (other than persons who live there) and re-

ceives a fee, payment, or grant for providing services for any of those persons, even if the center is not run for profit.

Camp. The cost of sending your child to an overnight camp is **not** considered a work-related expense.

Transportation. The cost of getting a qualifying person from your home to the care location and back, or from the care location to school and back, is **not** considered a work-related expense. This includes the costs of bus, subway, taxi, or private car. Also, if you pay the transportation cost for the care provider to come to your home, you cannot count this cost as a work-related expense.

Household Services

Expenses you pay for household services meet the work-related expense test if they are at least partly for the well-being and protection of a qualifying person.

Household services are ordinary and usual services done in and around your home that are necessary to run your home. They include the services of a housekeeper, maid, or cook. However, they do not include the services of a chauffeur, bartender, or gardener.

In this publication, the term “housekeeper” refers to any household employee whose services include the care of a qualifying person.

Expenses partly work related. If part of an expense is work related (for either household services or the care of a qualifying person) and part is for other purposes, you have to divide the expense. To figure your credit, count only the part that is work related. However, you do not have to divide the expense if only a small part is for other purposes.

Example. You pay a housekeeper to care for your 9-year-old and 15-year-old children so you can work. The housekeeper spends most of the time doing normal household work and spends 30 minutes a day driving you to and from work. You can treat the entire expense of the housekeeper as work related because the time spent driving is minimal. You do not have to divide the expenses between the two children because the household expense is partly for the care of your 9-year-old child, who is a qualifying person.

Meals and lodging provided for housekeeper. If you have expenses for food that your housekeeper eats in your home, count these as work-related expenses. If you have extra expenses for your housekeeper's lodging, count these as work-related expenses also.

Example. You move to an apartment with an extra bedroom for a housekeeper. You can count the extra rent and utility expenses for this bedroom as work related. If your housekeeper moves into an existing bedroom in your home, you can count the extra utility expenses as work related.

Taxes paid on wages. The taxes you pay on wages for qualifying child and dependent care services are work-related expenses. For more information on a

household employer's tax responsibilities, see *Employment Taxes for Household Employers*, later.

Payments to Relatives

You can count work-related expenses you pay to relatives who are not your dependents, even if they live in your home. However, do not count any amounts you pay to:

- 1) A dependent for whom you (or your spouse if you are married) can claim an exemption, or
- 2) Your child who is under age 19 at the end of the year, even if he or she is not your dependent.

Joint Return Test

Generally, married couples must file a joint return to take the credit. However, if you are legally separated or living apart from your spouse, you may be able to file a separate return and still take the credit.

Legally separated. You are not considered married if you are legally separated from your spouse under a decree of divorce or separate maintenance. You are eligible to take the credit on a separate return.

Married and living apart. You are not considered married and are eligible to take the credit if **all** the following apply.

- 1) You file a separate return.
- 2) Your home is the home of a qualifying person for more than half the year.
- 3) You pay more than half the cost of keeping up your home for the year.
- 4) Your spouse does not live in your home for the last 6 months of the year.

Death of spouse. If your spouse died during the year and you do not remarry before the end of the year, you generally must file a joint return to take the credit. If you do remarry before the end of the year, the credit can be claimed on your deceased spouse's separate return.

Provider Identification Test

You must identify all persons or organizations that provide care for your child or dependent. Use Part I of Form 2441 or Schedule 2 (Form 1040A) to show the information.

Information needed. To identify the care provider, you must give the provider's:

- 1) Name,
- 2) Address, and
- 3) Taxpayer identification number.

If the care provider is an individual, the taxpayer identification number is his or her social security number or individual taxpayer identification number. If the care provider is an organization, then it is the employer identification number (EIN).

You do not have to show the taxpayer identification number if the care provider is one of certain tax-exempt organizations (such as a church or school). In this case, write "Tax-Exempt" in the space where the tax form calls for the number.

If you cannot provide all of the information or the information is incorrect, you must be able to show that you used due diligence (discussed later) in trying to furnish the necessary information.

Getting the information. You can use **Form W-10** to request the information from the care provider. If you do not use Form W-10, you can get the information from:

- 1) A copy of the provider's social security card,
- 2) A copy of the provider's driver's license (in a state where the license includes the social security number),
- 3) A copy of the provider's completed Form W-4 if he or she is your household employee,
- 4) A copy of the statement furnished by your employer if the provider is your employer's dependent care plan, or
- 5) A letter or invoice from the provider if it shows the necessary information.



You should keep this information with your tax records. Do not send Form W-10 (or other document containing this information) to the Internal Revenue Service.

Due diligence. If the care provider information you give is incorrect or incomplete, your credit may not be allowed. However, if you can show that you used due diligence in trying to supply the information, you can still claim the credit.

You can show due diligence by getting and keeping the provider's completed Form W-10 or one of the other sources of information listed earlier. Care providers can be penalized if they do not provide this information to you or if they provide incorrect information.

Provider refusal. If the provider refuses to give you the identifying information, you should report whatever information you have (such as the name and address) on the form you use to claim the credit. Write "See Page 2" in the columns calling for the information you do not have. On the bottom of page 2, explain that you requested the information from the care provider, but the provider did not give you the information. This statement will show that you used due diligence in trying to furnish the necessary information.

How To Figure the Credit

Your credit is a percentage of your work-related expenses. Your expenses are subject to the earned income limit and the dollar limit. The percentage is based on your adjusted gross income.

Figuring Total Work-Related Expenses

To figure the credit for 1997 work-related expenses, count only those you paid by December 31, 1997.

Expenses prepaid in an earlier year. If you pay for services before they are provided, you can count the prepaid expenses only in the year the care is received. Claim the expenses for the later year as if they were actually paid in that later year.

Expenses not paid until the following year. Do *not* count 1996 expenses that you paid in 1997 as work-related expenses for 1997. You may be able to claim an additional credit for them on your 1997 return, but you must figure it separately. See *Payments for previous year's expenses* under *Amount of Credit*, later.



If you had expenses in 1997 that you did not pay until 1998, you cannot count them when figuring your 1997 credit. You may be able to claim a credit for them on your 1998 return.

Expenses reimbursed. If a state social services agency pays you a nontaxable amount to reimburse you for some of your child and dependent care expenses, you cannot count the expenses that are reimbursed as work-related expenses.

Example. You paid work-related expenses of \$3,000. You are reimbursed \$2,000 by a state social services agency. You can use only \$1,000 to figure your credit.

Medical expenses. Some expenses for the care of qualifying persons who are not able to care for themselves may qualify as work-related expenses and also as medical expenses. You can use them either way, but you cannot use the same expenses to claim both a credit and a medical expense deduction.

If you use these expenses to figure the credit and they are more than the earned income limit or the dollar limit, discussed later, you can add the excess to your medical expenses. However, if you use your total expenses to figure your medical expense deduction, you cannot use any part of them to figure your credit. For information on medical expenses, see Publication 502, *Medical and Dental Expenses*.



Amounts excluded from your income under your employer's dependent care benefits plan cannot be used to claim a medical expense deduction.

Employer's Dependent Care Benefits

Dependent care benefits include:

- 1) Amounts your employer pays directly to either you or your care provider for the care of your qualifying person while you work, and
- 2) The fair market value of care in a day-care facility provided or sponsored by your employer.

Your salary may have been reduced to pay for these benefits.

Exclusion. If your employer provides dependent care benefits under a qualified plan, you may be able to exclude these benefits from your income. Your employer can tell you whether your benefit plan qualifies. If it does, you must complete Part III of either Form 2441 or Schedule 2 (Form 1040A) to claim the exclusion even if you cannot take the credit. You cannot use Form 1040EZ.

The amount you can exclude is limited to the smallest of:

- 1) The total amount of dependent care benefits you received during the year,
- 2) The total amount of qualified expenses you incurred during the year,
- 3) Your earned income,
- 4) Your spouse's earned income, or
- 5) \$5,000 (\$2,500 if married filing separately).

Statement for employee. Your employer must give you a **Form W-2, Wage and Tax Statement** (or similar statement), showing in box 10 the total amount of dependent care benefits provided to you during the year under a qualified plan. Your employer will also include any dependent care benefits over \$5,000 in your wages shown in box 1 of your Form W-2.

Forfeitures. Forfeitures are amounts credited to your dependent care benefit account and included in the amount shown in box 10 of your Form W-2, but not received because you did not incur the expense. When figuring your exclusion, subtract any forfeitures from the total dependent care benefits reported by your employer. To do this, enter the forfeited amount on line 11 of Form 2441 or Schedule 2 (Form 1040A).



Forfeitures do not include amounts that you expect to receive in the future.

Claiming the credit. If you exclude dependent care benefits from your income, the amount of the excluded benefits:

- 1) Is not included in your work-related expenses, and
- 2) Reduces the dollar limit, discussed later.

Earned Income Limit

The amount of work-related expenses you use to figure your credit cannot be more than:

- 1) Your earned income for the year, if you are **single** at the end of the year, or
- 2) The smaller of your or your spouse's earned income for the year, if you are **married** at the end of the year.

Earned income is defined under *Earned Income Test*, earlier.



For purposes of item (2), use your spouse's earned income for the entire year, even if you were married for only part of the year.

Example. You remarried on December 3. Your earned income for the year was \$18,000. Your new spouse's earned income for the year was \$2,000. You paid work-related expenses of \$3,000 for the care of your 5-year-old child and qualified to claim the credit. The amount of expenses you use to figure your credit cannot be more than \$2,000 (the smaller of your earned income or that of your spouse).

Separated spouse. If you are legally separated or married and living apart from your spouse (as described under *Joint Return Test*, earlier), you are not considered married for purposes of the earned income limit. Use only your income in figuring the earned income limit.

Surviving spouse. If your spouse died during the year and you file a joint return as a surviving spouse, you are not considered married for purposes of the earned income limit. Use only your income in figuring the earned income limit.

Community property laws. You should disregard community property laws when you figure earned income for this credit.

Self-employment. If you are self-employed, include your net earnings in earned income. For purposes of the child and dependent care credit, net earnings from self-employment generally means the amount from line 3 of Schedule SE (either Section A or Section B) **minus** any deduction for self-employment tax on line 26 of Form 1040. Include your self-employment earnings in earned income, even if they are less than \$400 and you did not file Schedule SE. If you filed Schedule C or C-EZ to report income as a statutory employee, also include as earned income the amount from line 1 of that Schedule C or C-EZ.

You must reduce your earned income by any net loss from self-employment.

Optional method. If your net earnings from self-employment are low or you have a net loss, you may be able to figure your net earnings by using an optional method instead of the regular method. Get Publication 533, *Self-Employment Tax*, for details. If you use an optional method to figure net earnings for self-employment tax purposes, include those net earnings in your earned income for this credit. In this case, subtract any deduction you claimed on Form 1040, line 26, from the total of the amounts on Schedule SE, Section B, lines 3 and 4b, to figure your net earnings.

Student-spouse or spouse not able to care for self. Your spouse who is either a full-time student or not able to care for himself or herself is treated as having earned income. His or her earned income for each month is considered to be at least \$200 if there is one qualifying person in your home, or at least \$400 if there are two or more. If your spouse works during that month, use the higher of \$200 (or \$400) or his or her actual earned income for that month. If your spouse is a full-time

student or not able to care for himself or herself for only part of a month, the full \$200 (or \$400) still applies for that month.

If, in the same month, both you and your spouse are either full-time students or not able to care for yourselves, only one spouse can be considered to have this earned income of \$200 (or \$400) for that month.

Example. Jim works and keeps up a home for himself and his wife Sharon. Because of an accident, Sharon is not able to care for herself for 11 months during the tax year.

During the 11 months, Jim pays \$2,750 of work-related expenses for Sharon's care. These expenses also qualify as medical expenses. Their adjusted gross income is \$29,000 and the entire amount is Jim's earned income.

Jim and Sharon's earned income limit is the smallest of the following amounts.

Jim and Sharon's Earned Income Limit

1) Work-related expenses Jim paid	\$2,750 ^y
2) Jim's earned income	\$29,000 ^y
3) Income considered earned by Sharon (\$11 × \$200)	\$2,200 ^y

Jim and Sharon can use \$2,200 to figure the credit and treat the balance of \$550 (\$2,750 – \$2,200) as a medical expense. However, if they use the \$2,750 first as a medical expense, they cannot use any part of that amount to figure the credit.

Dollar Limit

There is a dollar limit on the amount of your work-related expenses you can use to figure the credit. This limit is \$2,400 for one qualifying person, or \$4,800 for two or more qualifying persons.

If you paid work-related expenses for the care of two or more qualifying persons, the \$4,800 limit does not need to be divided equally among them. For example, if your work-related expenses for the care of one qualifying person are \$2,000 and your work-related expenses for another qualifying person are \$2,800, you can use the total, \$4,800, when figuring the credit.

Yearly limit. The dollar limit is a yearly limit. The amount of the limit remains the same no matter how long you have a qualifying person in your household. Use the \$2,400 limit if you paid work-related expenses for the care of one qualifying person at any time during the year. Use \$4,800 if you paid work-related expenses for the care of more than one qualifying person at any time during the year.

Example. In July of this year, you enrolled your 3-year-old daughter in a preschool program to permit your spouse to begin a new job. You paid \$300 per month for the preschool. You can use the full \$1,800 you paid (\$300 × 6 months) as qualified expenses since they are not more than the yearly \$2,400 dollar limit.

Reduced Dollar Limit

If you received **dependent care benefits** from your employer that you exclude from your income, you must subtract that amount from the dollar limit that applies to you. Your reduced dollar limit is figured on lines 20

through 24 of Form 2441 or Schedule 2 (Form 1040A). See *Employer's Dependent Care Benefits*, earlier, for information on excluding these benefits.

Example. George is a widower with one child and earns \$24,000 a year. He pays work-related expenses of \$1,900 for the care of his 4-year-old child and qualifies to claim the credit for child and dependent care expenses. His employer pays an additional \$1,000 under a qualified dependent care benefit plan. This \$1,000 is excluded from George's income.

Although the dollar limit for his work-related expenses is \$2,400 (one qualifying person), George figures his credit on only \$1,400 of the \$1,900 work-related expenses he paid. This is because his dollar limit is reduced as shown next.

George's Reduced Dollar Limit

y) Maximum allowable expenses for one qualifying person	\$2,400 ^y
z) Minus: Dependent care benefits George excludes from income	<u>-1,000^y</u>
g) Reduced dollar limit on expenses George can use for the credit	<u>\$1,400^y</u>

Amount of Credit

To determine the amount of your credit, multiply your work-related expenses (after applying the earned income and dollar limits) by a percentage. This percentage depends on your adjusted gross income shown on line 33 of Form 1040 or line 17 of Form 1040A. The following table shows the percentage to use based on adjusted gross income.

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

Payments for previous year's expenses. If you had work-related expenses in 1996 that you paid in 1997, you may be able to increase the credit on your 1997 return. Attach a statement to your form showing how you figured the additional amount from 1996. Then above line 9 on Form 2441 or Schedule 2 (Form 1040A), write "PYE" and the amount of the credit. To the right of that amount, also write the name and taxpayer identification number of the person for whom you paid the prior year's expenses. Then add this credit to the amount on line 9, and replace the amount on line 9 with the total.



Use the following worksheet to figure the credit you may claim for 1996 expenses paid in 1997.

Worksheet for 1996 Expenses Paid in 1997

- 1) Enter your 1996 qualified expenses paid in 1996
- 2) Enter your 1996 qualified expenses paid in 1997
- 3) Add the amounts on lines 1 and 2

- 4) Enter \$2,400 if care was for one qualifying person (\$4,800 if for two or more)
- 5) Enter any dependent care benefits received for 1996 and excluded from your income (from line 19 of 1996 Form 2441 or Schedule 2 (Form 1040A))
- 6) Subtract amount on line 5 from amount on line 4 and enter the result
- 7) Compare your earned income for 1996 and your spouse's earned income for 1996 and enter the smaller amount
- 8) Compare the amounts on lines 3, 6, and 7 and enter the smallest amount
- 9) Enter the amount on which you figured the credit for 1996 (from line 7 of 1996 Form 2441 or Schedule 2 (Form 1040A))
- 10) Subtract amount on line 9 from amount on line 8 and enter the result. If zero or less, stop here. You cannot increase your credit by any previous year's expenses ..
- 11) Enter your 1996 adjusted gross income (from line 32 of your 1996 Form 1040 or line 17 of your 1996 Form 1040A)
- 12) Find your 1996 adjusted gross income in the table of percentages (shown earlier) and enter the corresponding decimal amount here
- 13) Multiply line 10 by line 12. Add this amount to your 1997 credit and enter the total on line 9 of your 1997 Form 2441 or Schedule 2 (Form 1040A). Above line 9, write "PYE," the amount of this credit, and the name and taxpayer identification number of the person for whom you paid the prior year's expenses

Example. In 1996, Sam and Kate had child-care expenses of \$2,600 for their 12-year-old child. Of the \$2,600, they paid \$2,000 in 1996 and \$600 in 1997. Their adjusted gross income for 1996 was \$30,000. Sam's earned income of \$14,000 was less than Kate's earned income. A credit for their 1996 expenses paid in 1997 is not allowed in 1996. It is allowed for the 1997 tax year, but they must use their adjusted gross income for 1996 to compute the amount. The worksheet they use to figure this credit is shown next.

Sam & Kate's Worksheet for 1996 Expenses Paid in 1997

1) Enter your 1996 qualified expenses paid in 1996	\$2,000
2) Enter your 1996 qualified expenses paid in 1997	600
3) Add the amounts on lines 1 and 2	\$2,600
4) Enter \$2,400 if care was for one qualifying person (\$4,800 if for two or more)	\$2,400
5) Enter any dependent care benefits received for 1996 and excluded from your income (from line 19 of 1996 Form 2441 or Schedule 2 (Form 1040A))	0
6) Subtract amount on line 5 from amount on line 4 and enter the result	\$2,400
7) Compare your earned income for 1996 and your spouse's earned income for 1996 and enter the smaller amount	\$14,000
8) Compare the amounts on lines 3, 6, and 7 and enter the smallest amount	\$2,400
9) Enter the amount on which you figured the credit for 1996 (from line 7 of 1996 Form 2441 or Schedule 2 (Form 1040A))	2,000
10) Subtract amount on line 9 from amount on line 8 and enter the result. If zero or less, stop here. You cannot increase your credit by any previous year's expenses ..	400
11) Enter your 1996 adjusted gross income (from line 32 of your 1996 Form 1040 or line 17 of your 1996 Form 1040A)	\$30,000
12) Find your 1996 adjusted gross income in the table of percentages (shown earlier) and enter the corresponding decimal amount here20
13) Multiply line 10 by line 12. Add this amount to your 1997 credit and enter the total above line 9 of your 1997 Form 2441 or Schedule 2 (Form 1040A). Above line 9, write "PYE," the amount of this credit, and the name and taxpayer identification number of the person for whom you paid the prior year's expenses	\$80

Sam and Kate add the \$80 from line 13 of this worksheet to their 1997 credit and enter the total on line 9 of their Schedule 2 (Form 1040A). They enter "PYE \$80" and their child's name and SSN above line 9.



Your credit may be limited because of the **alternative minimum tax**. See your form instructions for details.

How To Claim the Credit

To claim the credit, you can file Form 1040 or Form 1040A. You cannot claim the credit on Form 1040EZ.

Form 1040. You must complete **Form 2441** and attach it to your Form 1040. Enter the credit on line 40 of your Form 1040.

Form 1040A. You must complete **Schedule 2** (Form 1040A) and attach it to your Form 1040A. Enter the credit on line 24a of your Form 1040A.

Tax credit not refundable. Your credit for child and dependent care expenses cannot be more than the amount of your tax liability. This means that you cannot get a refund for any part of the credit that is more than your tax.



You should keep records of your work-related expenses. Also, if your dependent or spouse is not able to care for himself or herself, your records should show both the nature and length of the disability. Other records you should keep to support your claim for the credit are described earlier under *Provider Identification Test*.

Employment Taxes for Household Employers

If you pay someone to come to your home and care for your dependent or spouse, you may be a household employer who has to have an employer identification number (EIN) and pay employment taxes. If the individuals who work in your home are self-employed, you are not liable for any of the taxes discussed in this section. Self-employed persons who are in business for themselves are not household employees. Usually, you are **not** a household employer if the person who cares for your dependent or spouse does so at his or her home or place of business.

If you use a placement agency that exercises control over what work is done and how it will be done by a babysitter or companion who works in your home, that person is not your employee. This control could include providing rules of conduct and appearance and requiring regular reports. In this case, you do not have to pay

employment taxes. But, if an agency merely gives you a list of sitters and you hire one from that list, the sitter may be your employee.

If you have a household employee you may be subject to:

- 1) Social security and Medicare taxes,
- 2) Federal unemployment tax, and
- 3) Federal income tax withholding.

Social security and Medicare taxes are generally withheld from the employee's pay and matched by the employer. Federal unemployment (FUTA) tax is paid by the employer only and is for the employee's unemployment insurance. Federal income tax is withheld from the employee's total pay if the employee asks you to do so and you agree.

For more information on a household employer's tax responsibilities, see Publication 926 and Schedule H (Form 1040).

You may also be subject to state income tax withholding and state unemployment tax. You should contact your state unemployment tax office for information on how to file the state tax returns and for a state reporting number.

Examples

The following examples show how to figure the credit for child and dependent care expenses. A filled-in page 1 of Schedule 2 (Form 1040A) that illustrates *Example 1* and a filled-in Form 2441 (filed with Form 1040) that illustrates *Example 2* are shown after the examples.

Example 1: Child Care—Two Children

Jerry and Ann Jones are married and keep up a home for their two preschool children, ages 2 and 4. They claim their children as dependents and file a joint return

using Form 1040A. Their adjusted gross income (AGI) is \$27,500. Jerry earned \$12,500 and Ann earned \$15,000.

During the year, they pay work-related expenses of \$3,000 for child care for their son Daniel at a neighbor's home and \$2,200 for child care for their daughter Amy at Pine Street Nursery School.

They figure their credit on Schedule 2 as follows.

Child care by neighbor	\$3,000 ^y
Child care by nursery school	<u>+2,200^y</u>
Total work-related expenses	\$5,200 ^y
Dollar limit	\$4,800 ^y
Lesser of Expenses paid (\$5,200) or Dollar limit (\$4,800)	<u>\$4,800^y</u>
Percentage for AGI of \$27,500	21% ^y
Amount of credit (21% of \$4,800)	<u>\$1,008^y</u>

Example 2: Dependent Care Benefits

Joan Thomas is divorced and has two children, ages 3 and 9. She works at ACME Computers. Her adjusted gross income (AGI) is \$29,000, and the entire amount is earned income.

Joan's younger child (Susan) stays at her employer's on-site child-care center while she works. The benefits from this child-care center qualify to be excluded from her income. Her employer reports the value of this service as \$3,000 for the year. This \$3,000 is shown in box 10 of her Form W-2, but is not included in taxable wages in box 1.

A neighbor cares for Joan's older child (Seth) after school, on holidays, and during the summer. She pays her neighbor \$2,400 for this care.

Joan figures her credit on Form 2441 as follows.

Work-related expenses Joan paid	\$2,400 ^y
Dollar limit	\$4,800 ^y
Minus Dependent care benefits excluded from Joan's income	<u>-3,000^y</u>
Reduced dollar limit	\$1,800 ^y
Lesser of Expenses paid (\$2,400) or Dollar limit (\$1,800)	<u>\$1,800^y</u>
Percentage for AGI of \$29,000	20% ^y
Amount of credit (20% of \$1,800)	<u>\$360^y</u>

Name(s) shown on Form 1040A: First and initial(s) JERRY & ANN	Last JONES	Your social security number 2 4 6 0 0 2 4 6 8
--	---------------	--

Before you begin, you need to understand the following terms. See **Definitions** on page 50.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I Persons or Organizations Who Provided the Care—You must complete this part.

(If you need more space, use the bottom of page 2.)

1 (a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see page 51)
SUE SMITH	413 MAPLE STREET ANYTOWN, PA 18605	1 3 2 0 0 5 4 6 7	3 0 0 0
PINE STREET NURSERY SCHOOL	706 PINE STREET ANYTOWN, PA 18605	1 0 6 7 5 4 3 2 1	2 2 0 0

Did you receive dependent care benefits?	No	Yes	Complete only Part II below. Complete Part III on the back next.
--	----	-----	---

Caution: If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040A, line 27, on page 25.

Part II Credit for Child and Dependent Care Expenses

2 Information about your **qualifying person(s)**. If you have more than two qualifying persons, see page 51.

(a) Qualifying person's name		(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 1997 for the person listed in column (a)
First	Last		
DANIEL	JONES	1 2 3 0 0 9 8 7 6	3 0 0 0
AMY	JONES	1 2 3 0 0 6 7 8 9	2 2 0 0

3 Add the amounts in column (c) of line 2. **DO NOT** enter more than 2,400 for one qualifying person or 4,800 for two or more persons. If you completed Part III, enter the amount from line 24.

3 4 8 0 0

4 Enter **YOUR earned income**.

4 1 2 5 0 0

5 If married filing a joint return, enter **YOUR SPOUSE'S** earned income (if student or disabled, see page 52); **all others**, enter the amount from line 4.

5 1 5 0 0 0

6 Enter the **smallest** of line 3, 4, or 5.

6 4 8 0 0

7 Enter the amount from Form 1040A, line 17.

7 2 7 5 0 0

8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7.

If line 7 is—	Decimal amount is	If line 7 is—	Decimal amount is
Over	But not over	Over	But not over
\$0—10,000	.30	\$20,000—22,000	.24
10,000—12,000	.29	22,000—24,000	.23
12,000—14,000	.28	24,000—26,000	.22
14,000—16,000	.27	26,000—28,000	.21
16,000—18,000	.26	28,000—No limit	.20
18,000—20,000	.25		

8 × 2 1

9 Multiply **line 6** by the decimal amount on line 8. Enter the result. Then, see page 52 for the amount of credit to enter on Form 1040A, line 24a.

9 1 0 0 8

Name(s) shown on Form 1040: Joan Thomas Your social security number: 559 00 3436

Before you begin, you need to understand the following terms. See **Definitions** on page 1 of the instructions.

- **Dependent Care Benefits**
- **Qualifying Person(s)**
- **Qualified Expenses**
- **Earned Income**

Part I **Persons or Organizations Who Provided the Care**—You must complete this part. (If you need more space, use the bottom of page 2.)

1	(a) Care provider's name	(b) Address (number, street, apt. no., city, state, and ZIP code)	(c) Identifying number (SSN or EIN)	(d) Amount paid (see instructions)
	Pat Green	12 Ash Avenue Hometown, TX 75240	240-00-3811	2,400
	ACME Computers	(See W-2)		

Did you receive dependent care benefits?	NO	→ Complete only Part II below.
	YES	→ Complete Part III on the back next.

Caution: If the care was provided in your home, you may owe employment taxes. See the instructions for Form 1040, line 52.

Part II **Credit for Child and Dependent Care Expenses**

2 Information about your **qualifying person(s)**. If you have more than two qualifying persons, see the instructions.

(a) Qualifying person's name		(b) Qualifying person's social security number	(c) Qualified expenses you incurred and paid in 1997 for the person listed in column (a)
First	Last		
Seth	Thomas	559 00 1234	2,400
Susan	Thomas	559 00 5678	

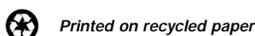
3 Add the amounts in column (c) of line 2. DO NOT enter more than \$2,400 for one qualifying person or \$4,800 for two or more persons. If you completed Part III, enter the amount from line 24	3	1,800																																
4 Enter YOUR earned income	4	29,000																																
5 If married filing a joint return, enter YOUR SPOUSE'S earned income (if student or disabled, see the instructions); all others , enter the amount from line 4	5	29,000																																
6 Enter the smallest of line 3, 4, or 5	6	1,800																																
7 Enter the amount from Form 1040, line 33	7	29,000																																
8 Enter on line 8 the decimal amount shown below that applies to the amount on line 7	8	X . 20																																
<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$0—10,000</td> <td style="text-align: right;">.30</td> </tr> <tr> <td>10,000—12,000</td> <td style="text-align: right;">.29</td> </tr> <tr> <td>12,000—14,000</td> <td style="text-align: right;">.28</td> </tr> <tr> <td>14,000—16,000</td> <td style="text-align: right;">.27</td> </tr> <tr> <td>16,000—18,000</td> <td style="text-align: right;">.26</td> </tr> <tr> <td>18,000—20,000</td> <td style="text-align: right;">.25</td> </tr> </table> </td> <td style="width: 50%; vertical-align: top;"> <table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$20,000—22,000</td> <td style="text-align: right;">.24</td> </tr> <tr> <td>22,000—24,000</td> <td style="text-align: right;">.23</td> </tr> <tr> <td>24,000—26,000</td> <td style="text-align: right;">.22</td> </tr> <tr> <td>26,000—28,000</td> <td style="text-align: right;">.21</td> </tr> <tr> <td>28,000—No limit</td> <td style="text-align: right;">.20</td> </tr> </table> </td> </tr> </table>	<table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$0—10,000</td> <td style="text-align: right;">.30</td> </tr> <tr> <td>10,000—12,000</td> <td style="text-align: right;">.29</td> </tr> <tr> <td>12,000—14,000</td> <td style="text-align: right;">.28</td> </tr> <tr> <td>14,000—16,000</td> <td style="text-align: right;">.27</td> </tr> <tr> <td>16,000—18,000</td> <td style="text-align: right;">.26</td> </tr> <tr> <td>18,000—20,000</td> <td style="text-align: right;">.25</td> </tr> </table>	If line 7 is—	Decimal amount is	Over	But not over	\$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	<table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$20,000—22,000</td> <td style="text-align: right;">.24</td> </tr> <tr> <td>22,000—24,000</td> <td style="text-align: right;">.23</td> </tr> <tr> <td>24,000—26,000</td> <td style="text-align: right;">.22</td> </tr> <tr> <td>26,000—28,000</td> <td style="text-align: right;">.21</td> </tr> <tr> <td>28,000—No limit</td> <td style="text-align: right;">.20</td> </tr> </table>	If line 7 is—	Decimal amount is	Over	But not over	\$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	8	X . 20
<table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$0—10,000</td> <td style="text-align: right;">.30</td> </tr> <tr> <td>10,000—12,000</td> <td style="text-align: right;">.29</td> </tr> <tr> <td>12,000—14,000</td> <td style="text-align: right;">.28</td> </tr> <tr> <td>14,000—16,000</td> <td style="text-align: right;">.27</td> </tr> <tr> <td>16,000—18,000</td> <td style="text-align: right;">.26</td> </tr> <tr> <td>18,000—20,000</td> <td style="text-align: right;">.25</td> </tr> </table>	If line 7 is—	Decimal amount is	Over	But not over	\$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	<table border="0"> <tr> <th style="text-align: left;">If line 7 is—</th> <th style="text-align: right;">Decimal amount is</th> </tr> <tr> <td>Over</td> <td style="text-align: right;">But not over</td> </tr> <tr> <td>\$20,000—22,000</td> <td style="text-align: right;">.24</td> </tr> <tr> <td>22,000—24,000</td> <td style="text-align: right;">.23</td> </tr> <tr> <td>24,000—26,000</td> <td style="text-align: right;">.22</td> </tr> <tr> <td>26,000—28,000</td> <td style="text-align: right;">.21</td> </tr> <tr> <td>28,000—No limit</td> <td style="text-align: right;">.20</td> </tr> </table>	If line 7 is—	Decimal amount is	Over	But not over	\$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			
If line 7 is—	Decimal amount is																																	
Over	But not over																																	
\$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																																	
If line 7 is—	Decimal amount is																																	
Over	But not over																																	
\$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																																	
9 Multiply line 6 by the decimal amount on line 8. Enter the result. Then, see the instructions for the amount of credit to enter on Form 1040, line 40	9	360																																

Part III Dependent Care Benefits

10	Enter the total amount of dependent care benefits you received for 1997. This amount should be shown in box 10 of your W-2 form(s). DO NOT include amounts that were reported to you as wages in box 1 of Form(s) W-2	10	3,000
11	Enter the amount forfeited, if any. See the instructions	11	
12	Subtract line 11 from line 10	12	3,000
13	Enter the total amount of qualified expenses incurred in 1997 for the care of the qualifying person(s)	13	5,400
14	Enter the smaller of line 12 or 13	14	3,000
15	Enter YOUR earned income	15	29,000
16	If married filing a joint return, enter YOUR SPOUSE'S earned income (if student or disabled, see the line 5 instructions); if married filing a separate return, see the instructions for the amount to enter; all others , enter the amount from line 15	16	29,000
17	Enter the smallest of line 14, 15, or 16	17	3,000
18	Excluded benefits. Enter here the smaller of the following: <ul style="list-style-type: none"> • The amount from line 17, or • \$5,000 (\$2,500 if married filing a separate return and you were required to enter your spouse's earned income on line 16). 	18	3,000
19	Taxable benefits. Subtract line 18 from line 12. Also, include this amount on Form 1040, line 7. On the dotted line next to line 7, write "DCB"	19	-0-

To claim the child and dependent care credit, complete lines 20–24 below.

20	Enter \$2,400 (\$4,800 if two or more qualifying persons)	20	4,800
21	Enter the amount from line 18	21	3,000
22	Subtract line 21 from line 20. If zero or less, STOP . You cannot take the credit. Exception. If you paid 1996 expenses in 1997, see the line 9 instructions	22	1,800
23	Complete line 2 on the front of this form. DO NOT include in column (c) any excluded benefits shown on line 18 above. Then, add the amounts in column (c) and enter the total here	23	2,400
24	Enter the smaller of line 22 or 23. Also, enter this amount on line 3 on the front of this form and complete lines 4–9	24	1,800



How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" telephone services in several ways.

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.

Index

<hr/>	
A	
Amount of credit	11
<hr/>	
C	
Camp, overnight	8
Care:	
For qualifying person	7
Outside home	7
Provider	8
Child of divorced or separated parents	4
Community property laws	10
Cook	8
Costs of keeping up home	4
Custodial parent	4
<hr/>	
D	
Death of spouse	8, 10
Dependent care benefits	9, 11, 13
Dependent care center	7
Divorced parents	4
Dollar limit	11
Due diligence	9
<hr/>	
E	
Earned income limit	10
Earned income test	6
Employment taxes	12
Expenses:	
Medical	9
Paid in following year	9, 11
Prepaid	9
Reimbursed	9
Work-related	7, 9
<hr/>	
F	
Forfeitures	10
Forms:	
2441	12
8332	4
W-10	9
W-2	10
<hr/>	
H	
Help from IRS	17
Household employer	8, 12
Household services	8
Housekeeper	8
How to claim	12
<hr/>	
I	
Identification of care provider ..	8
<hr/>	
J	
Joint return test	8
<hr/>	
K	
Keeping up a home test	4
<hr/>	
L	
Limits:	
Alternative minimum tax	12
Dollar	11
Earned income	10
Looking for work	7
<hr/>	
M	
Maid	8
Meals and lodging for housekeeper	8
Medical expenses	9
<hr/>	
N	
Not able to care for one- self	4, 6, 10
<hr/>	
P	
Provider identification test	8
Public assistance benefits	6
<hr/>	
Q	
Qualifying person	2
<hr/>	
R	
Recordkeeping	9, 12
Reimbursed expenses	9
Relatives, payments to	8
<hr/>	
S	
Schedule 2 (Form 1040A)	12
Schooling	7
Self-employment income	10
Separated parents	4, 8, 10
Spouse:	
Divorced	4
Not able to care for self .	6, 10
Separated	4, 8, 10
Student	6, 10
Surviving	8, 10
Student-spouse	6, 10
<hr/>	
T	
Taxes on wages	8, 12
Transportation	8
<hr/>	
U	
Upkeep of home, costs	4
<hr/>	
W	
Wages, taxes on	8, 12
Work-related expense test	7
<hr/>	

Tax Publications for Individual Taxpayers

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 225 Farmer's Tax Guide
- 334 Tax Guide for Small Business
- 509 Tax Calendars for 1998
- 553 Highlights of 1997 Tax Changes
- 595 Tax Highlights for Commercial Fishermen
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 508 Educational Expenses
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 520 Scholarships and Fellowships
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions

- 530 Tax Information for First-Time Homeowners
- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 534 Depreciating Property Placed in Service Before 1987
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts (Business and Nonbusiness)
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Federal Tax Information on Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 575 Pension and Annuity Income
- 584 Nonbusiness Disaster, Casualty, and Theft Loss Workbook
- 587 Business Use of Your Home (Including Use by Day-Care Providers)
- 590 Individual Retirement Arrangements (IRAs) (Including SEP-IRAs and SIMPLE IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 Understanding the Collection Process
- 596 Earned Income Credit
- 721 Tax Guide to U.S. Civil Service Retirement Benefits

- 901 U.S. Tax Treaties
- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 Is My Withholding Correct for 1998?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000
- 1546 The Problem Resolution Program of the Internal Revenue Service

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

- 1040 U.S. Individual Income Tax Return
 - Sch A Itemized Deductions
 - Sch B Interest and Dividend Income
 - Sch C Profit or Loss From Business
 - Sch C-EZ Net Profit From Business
 - Sch D Capital Gains and Losses
 - Sch E Supplemental Income and Loss
 - Sch EIC Earned Income Credit
 - Sch F Profit or Loss From Farming
 - Sch H Household Employment Taxes
 - Sch R Credit for the Elderly or the Disabled
 - Sch SE Self-Employment Tax
- 1040EZ Income Tax Return for Single and Joint Filers With No Dependents
- 1040A U.S. Individual Income Tax Return
 - Sch 1 Interest and Dividend Income for Form 1040A Filers

- Sch 2 Child and Dependent Care Expenses for Form 1040A Filers
- Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers
- 1040-ES Estimated Tax for Individuals
- 1040X Amended U.S. Individual Income Tax Return
- 2106 Employee Business Expenses
- 2106-EZ Unreimbursed Employee Business Expenses
- 2119 Sale of Your Home
- 2210 Underpayment of Estimated Tax by Individuals, Estates and Trusts
- 2441 Child and Dependent Care Expenses
- 2848 Power of Attorney and Declaration of Representative
- 3903 Moving Expenses
- 4562 Depreciation and Amortization

- 4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return
- 4952 Investment Interest Expense Deduction
- 5329 Additional Taxes Attributable to Qualified Retirement Plans (Including IRAs), Annuities, and Modified Endowment Contracts
- 6251 Alternative Minimum Tax—Individuals
- 8283 Noncash Charitable Contributions
- 8582 Passive Activity Loss Limitations
- 8606 Nondeductible IRAs (Contributions, Distributions, and Basis)
- 8822 Change of Address
- 8829 Expenses for Business Use of Your Home