

Abstract: Among the many challenges of parenthood is what to do with the kids when school lets out. Parents who choose to send their children to day camp may qualify for a valuable tax break: the child and dependent care credit. This article explains why tax credits are so beneficial and how eligibility for this one is determined.

Sending the kids to day camp may bring a tax break

Among the many challenges of parenthood is what to do with your kids when school lets out. Babysitters are one option, or you might consider sending them to a day camp. There's no one-size-fits-all answer, but if you do choose a day camp, you could be eligible for a tax break. (Unfortunately, overnight camps don't qualify.)

Dollar-for-dollar savings

Day camp can be a qualified expense under the child and dependent care tax credit. The credit is worth 20% to 35% of the qualifying costs, subject to an income cap. As of this writing, the maximum amount of expenses that can be claimed is \$3,000 for one qualifying child or \$6,000 for two or more children, multiplied by the percentage that applies to your income level. For those qualifying for the 35% rate with maximum expenses of \$3,000, the credit equals \$1,050, or \$2,100 for two children with expenses of at least \$6,000. The applicable credit percentage to use drops as your adjusted gross income (AGI) rises. When AGI exceeds \$43,000, the percentage is 20% of qualified expenses, subject to the \$3,000 or \$6,000 limit.

Tax credits are particularly valuable because they reduce your tax liability dollar-for-dollar — \$1 of tax credit saves \$1 of taxes. This is compared to deductions, which simply reduce the amount of income subject to tax. So, if you're in the 24% tax bracket, a \$1 deduction saves you only \$0.24 of taxes.

Qualifying for the credit

Only dependents under age 13 generally qualify. However, the credit may also be claimed for expenses paid to care for a dependent relative, such as an in-law or parent, who is incapable of self-care. Eligible care costs are those incurred while you work or look for work.

Expenses paid from, or reimbursed by, an employer-sponsored Flexible Spending Account can't be used to claim the credit. The same is true for a dependent care assistance program.

Determining eligibility

Additional rules apply to this credit. Contact us if you have questions about your eligibility for the credit and the exceptions.