US Expats | Your 10 point ~~C~~checklist to Child Tax Credits

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Let's admit it, having children is expensive. A number of expenses, such as education and child care, need to be added to the budget, not to mention the increase in clothing, food and leisure costs.

The Internal Revenue Service (IRS) actually recognizes this struggle and allows various exemptions, deductions and credits to taxpayers who have children. The most common benefit is an exemption of $4,000 (for 2015) (indexed for inflation) for each of your children that qualifies as a dependent per the IRS rules. Other benefits include deductions for medical expenses, student loan interest and credits for child care and education expenses.

There is also a credit that can reduce your tax bill by as much as $1,000 per child – the **Child Tax Credit**. Here are 10 important points that you have to consider regarding the child tax credit:

1. **This is a separate benefit in addition to all other child-related deductions and credits** – Yes, this is not in lieu of your $4,000 exemption or your credit for child care expenses. So don't worry, you may still be eligible for such benefits even if you are claiming the child tax credit.

2. **It is your child's circumstance that decides if you qualify to claim the credit or not** – Determining if you are allowed to claim the credit does not solely depend on your own tax situation. The IRS also looks at several requirements that your child needs to meet to be able to claim the credit.

3. **Your child should be claimed as a dependent on your return** – This appears to be making up the major requirement in claiming the child tax credit. If you can claim your child as a dependent on your return, it means that he or she is your child (biological, adoptive or foster child) who is a U.S. citizen, a U.S. national, or a U.S. resident alien. He or she have also lived with you for more than half of the year and did not provide over half of his or her own financial support during the year. In case your child filed a tax return, it was either a separate return or a joint return filed only to claim a refund of withheld income tax or estimated tax paid. **Guess what?** This just made up six out of the seven requirements that the IRS listed.

   Note that you may also claim a child tax credit for your sibling, niece, nephew or grandchild, provided they meet the requirements mentioned above.

4. **Your child shouldn't be above 16 years of age at the end of the year** – This completes the IRS' seven requirements for a child to be considered qualified for child tax credit. If your child turned 17 years old during the year, he or she is no longer qualified.

5. **You can claim $1,000 credit for each of your children that qualifies** – The number of qualifying children, itself, is not limited. You could take a credit of up to $5,000 if all of your five children met the seven requirements.

6. **Your income shouldn't be very high... –** For child tax credit purposes, your income is considered very high if your modified adjusted gross income (MAGI) is above certain amounts, which are determined by your tax filing status. The $1,000 per child credit starts to reduce if your MAGI

reaches $110,000 and you are married filing a joint return with your spouse. For married taxpayers filing separately, credit reduction starts at $55,000, while single, head of household, or qualifying widow(er) get a reduced credit starting at $75,000 MAGI level.

7. **…because the credit may decrease down to zero -** Your credit is reduced by $50 for each $1,000 of your income that exceeds the threshold. So, if you are married filing jointly and your MAGI is at least $130,000, your child tax credit becomes zero.

8. **The credit may give you a refund… –** Once you have computed your allowable child tax credit, you need to compare that to the amount that it reduces your tax by. If your tax is equal to zero or lower than the allowed credit, the excess may be refunded to you! **How is this possible?** Say you earned a salary of $50,000 during the year. You are married filing separately and you have four ~~(4)~~ qualified dependent children. Taking into account your allowable deductions and exemptions, your tax will be approximately $3,100. As you are allowed a $4,000 child tax credit, the IRS may pay you back the $900 excess credit.

9. **Sorry expats, ~~…but~~ you cannot take a refund on the excess credit if you took a foreign-earned income exclusion** - Unfortunately, the refundable credit is not available to taxpayers who have excluded full or part of their foreign earned income from tax. This is a new rule that was put into place beginning 2015 tax year. Looking back at the example, if you excluded your $50,000 foreign-earned salaries from income tax leading you to a zero tax liability, you cannot be refunded the $4,000 unutilized child tax credit.

10. **But what if you pay tax to the country you live in?** The refundable tax credit might still be possible! If you pay enough tax to the country you live in, the foreign tax credit can wipe out the US tax that's due on the same income. Even though the tax liability is zero, you will get your $4,000 refund because you used foreign tax credits and not the foreign earned income exclusion.

    You should file a tax return – This is obviously, the most important thing to remember. The IRS has no way of finding out that you qualify for the credit unless you tell them so by filing a tax return. There may be a case when you are not required to file a tax return but are better off doing so because of the refundable credits that you may possibly claim.

There are also other credits and deductions that may be available depending on your tax situation. If your tax situation is a little complex, you may want to consult an expat tax advisor to make sure that you are maximizing these benefits.

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