Module 8 Article

Tax Credits & Who Can Use Them

Tax Credits Are Like Free Money

Tax credits are a valuable tool that can help individuals and families to reduce their tax liability and potentially receive a tax refund. These credits are available to individuals who meet certain qualifications and can provide significant savings on their tax bill.

In this article, we will discuss several examples of tax credits, including the Earned Income Tax Credit (EITC), the Child Tax Credit (CTC), and the American Opportunity Tax Credit (AOTC). We will also explain whether each credit is refundable or non-refundable, and the groups of people who benefit most from each type. Understanding tax credits can help individuals to make informed decisions about their own tax planning and potential tax savings.

The Earned Income Tax Credit (EITC)

The Earned Income Tax Credit (EITC) is a refundable tax credit that is available to low- and moderate-income workers who earn less than a certain amount of money each year. The amount of the credit is determined by the individual's income, number of children, and filing status.

The EITC is a refundable tax credit, which means that it can be used to reduce a person's tax liability below zero, resulting in a tax refund. This means that even if an individual does not owe any taxes, they can still receive a refund if they qualify for the EITC.

The EITC is most beneficial for low-income workers, particularly those who are working full-time or part-time and earning less than $50,000 per year. For example, a single mother who is working as a part-time cashier and earning $25,000 per year with two children could potentially qualify for an EITC of $5,600.

The Child Tax Credit (CTC)

The Child Tax Credit (CTC) is a non-refundable tax credit that is available to individuals who have dependent children under the age of 17. The amount of the credit is determined by the individual's income, number of children, and filing status.

The CTC is a non-refundable tax credit, which means that it can only be used to reduce a person's tax liability, but it cannot be used to generate a tax refund. This means that if an individual's tax liability is already zero, they will not receive any additional benefit from the CTC.

The CTC is most beneficial for individuals who have dependent children and who are paying taxes. For example, a married couple who are both working and earning a combined income of $100,000 per year with two children could potentially qualify for a CTC of $2,000.

The American Opportunity Tax Credit (AOTC)

The American Opportunity Tax Credit (AOTC) is a partially refundable tax credit that is available to individuals who are paying for college or other post-secondary education. The amount of the credit is determined by the individual's income, number of students, and education expenses.

The AOTC is a partially refundable tax credit, which means that it can be used to reduce a person's tax liability below zero, but only up to a certain amount. Any remaining credit that is not used to offset tax liability can be refunded to the taxpayer. This means that if an individual's tax liability is already zero, they can still receive a partial refund if they qualify for the AOTC.

The AOTC is most beneficial for individuals who are paying for college or other post-secondary education and who are earning less than $80,000 per year (or $160,000 for married couples filing jointly). For example, a single student who is earning $30,000 per year and paying $5,000 in education expenses could potentially qualify for an AOTC of $1,000.

The Bottom Line On Tax Credits

Overall, tax credits can provide significant benefits to individuals and families who qualify. By understanding the different types of tax credits, their refundability or non-refundability, and the groups of people who benefit most from each type, individuals can make informed decisions about their own tax planning and potential tax savings.

STANDARDS: 1.12.9b, 1.12.9c