CHAPTER 1

You and Your Family

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The nature of families is changing, and taxes have specific rules for them. Do the old clichés still ring true? Can two still live as cheaply as one? Are things really cheaper by the dozen? For tax purposes, there may be a penalty or bonus for being married versus single, depending on the income of each spouse and the particular tax break involved. And there are certain tax breaks for having a family.

This chapter explains family-related tax benefits, such as tax credits related to your children, and the consequences of marital dissolutions. For more information on these topics, see IRS Publication 501, *Dependents, Standard Deduction, and Filing Information*; IRS Publication 503, *Child and Dependent Care Expenses*; IRS Publication 504, *Divorced or Separated Individuals*; and IRS Publication 596, *Earned Income Credit*.

Marital Status

Whether you are married or single has a significant impact on your taxes. In some cases, being married results in a "marriage bonus," which means effectively averaging taxes when one spouse works and the other does not or has only modest income. In other cases, being married results in a "marriage penalty," which means that two working spouses earning about the same likely will pay higher total tax than if they were single. For some tax rules, a married couple has the identical tax break as a single individual, such as the $3,000 capital loss deduction against ordinary income, the adoption credit limit ($17,670 in 2026), and the $40,400 limit on itemizing state and local taxes, which is a distinct disadvantage for those who are married. For some tax rules, a married couple has double the tax break for singles, such as the ordinary loss deduction for so-called Section 1244 stock, so marital status makes no difference here.

There are 5 filing statuses used determine eligibility for various tax breaks:

- Married filing jointly (MFJ)
- Married filing separately (MFS)
- Head of household (HOH)
- Single
- Qualifying surviving spouse with a dependent child (QSS)

You need to know which term applies to you. The terms are not further defined here and often cause confusion, so check IRS Publication 501 if you are unsure. Under federal tax law, the terms "husband," "wife," and "spouse" are gender neutral. The term "husband and wife" means two individuals lawfully married to each other. Those in a civil union or domestic partnership are not married for federal income tax purposes.

Bonus Deduction for Seniors

If you are age 65 or older, you may claim a special deduction of up to $6,000. The deduction can be taken whether or not you itemize other deductions. The IRS calls this the Enhanced Deduction for Seniors.

Benefit 

If you are 65 or older by the end of 2026, you can deduct up to $6,000 just because of your age. If you are married and your spouse is 65 or older, the deduction on a joint return can be up to $12,000.

Looking Ahead

The bonus deduction for seniors is a temporary measure set to run only through 2028 unless Congress extends it.

Conditions

To claim the senior bonus, you must meet the following conditions:

- ***Age.*** Be at least 65 years old by December 31, 2026.
- ***Joint filing.*** Married couples must file jointly to claim the deduction, even if only one spouse reaches age 65.
- ***Income.*** The deduction applies only if modified adjusted gross income does not exceed a set amount: $75,000 for singles and $150,000 for joint filers. The $6,000 extra additional standard deduction amount phases out for singles with MAGI over $75,000 and is fully phased out at $175,000. For joint filers, the phase-out range is $150,000 to $250,000. The $6,000 deduction is reduced by 6% for each one dollar over the initial threshold.

Example

You are single, age 68, with modified adjusted gross income of $85,000 ($10,000 over the initial MAGI threshold). The $6,000 deduction is reduced by $600 (6% of $10,000), so the senior bonus deduction is $5,400.

Planning Tip

The senior bonus deduction presents an opportunity for long-term tax planning. For example, consider converting a traditional IRA to a Roth IRA to the extent that conversion income is shielded by the senior bonus deduction. This will work to create tax-free income in the future.

Pitfall

Not all states have adopted the federal tax treatment for this deduction. A number of states have decoupled from certain federal tax breaks, so check your state's rules on whether this deduction is available for state income tax purposes.

Where to Claim the Deduction

The deduction is claimed on Schedule 1-A of Form 1040 or 1040-SR.

Dependents

While the exemption for dependents has been eliminated, the concept continues to apply for various purposes. For example, for purposes of a child tax credit that may be claimed for a qualifying child or a dependent who is not a qualifying child, the concept of dependents continues to apply. The definition of dependent varies for certain purposes and is explained in each relevant tax break in this book. For example, the amount of income for a qualifying relative taken into account in determining a dependent for purposes of head of household status and some other tax breaks in 2026 is $5,300.

Qualifying Child

The following is a brief explanation of a qualifying child and a qualifying relative (someone who is not a qualifying child):

A qualifying child must meet all of the following conditions:

- ***Relationship test:*** The child must be your son or daughter (natural, adopted, step, and in some cases foster) or a descendant of your sibling (e.g., niece or nephew).
- ***Age test:*** The child must be younger than you and either younger than 19 years old, be a "student" younger than 24 years old as of the end of the calendar year, or any age but permanently and totally disabled.
- ***Residency test:*** The child must live with you in the United States for more than half the year (special rules for noncustodial parents are explained later).
- ***Joint return test:*** The child cannot file a joint return unless doing so only to claim a tax refund.
- ***Support test:*** The child does not provide more than half of his or her own support.

Multiple people claiming the child as a dependent. Where one parent has physical custody of the child, he or she can waive treating the child as a dependent to permit the noncustodial parent to do so. The waiver (annually or permanently) is made on Form 8332, *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*. The form applies to some benefits (e.g., child tax credit) but not for other benefits (e.g., earned income tax credit, dependent care credit, head of household status).

Where 2 people are eligible to treat the child as a dependent, a "tie breaker rule" comes into play. Generally, the person with greater physical custody (determined by counting the nights that the child spends with each person) is determinative. When there's an even split, other rules are used to decide which person can treat the child as a dependent.

Qualifying Relative

This is a person who is not a qualifying child and who meets all of the following conditions:

- ***Relationship test.*** The person must be either related to you in a stated way (e.g., a child too old to be a qualifying child, grandchild, parent, certain in-laws, aunt, uncle, niece, or nephew) or a member of your household.
- ***Support test.*** You must provide more than half of the person's support for the year.
- ***Gross income test.*** The person must have a gross income below a set amount ($5,300 in 2026).

Child Tax Credit

It's estimated that it costs a middle-class family over $303,418 to raise a child to age 18. In recognition of this cost, the tax law allows you to claim a tax credit.

Benefit

You may claim a tax credit of up to $2,200 for each qualifying child under the age of 17. You may claim a $500 credit for a qualifying dependent (a person who is not a qualifying child). If the credit for a qualifying child that you are entitled to claim is more than your tax liability, you may be entitled to a refund under certain conditions.

Generally, the credit up to $1,700 per qualifying child is refundable for 2026. This refundable credit usually is allowed to the extent of 15% of earned income over $2,500.

If you have 3 or more children for whom you are claiming the credit, you are entitled to an additional child tax credit. In reality, the additional child tax credit is merely a larger refund of the credit you are ordinarily entitled to. There are 2 ways to figure your refundable amount (the additional child tax credit) and you can opt for the method that results in the larger refund:

1. 15% of earned income over $2,500 up to the lesser of this calculation or the unused child tax credit of $1,700 per qualifying child
2. Excess of your Social Security and Medicare taxes (plus the so-called employer share of self-employment taxes, if any) over your earned income credit for the year (the earned income credit is explained in the next main section)

Conditions

To claim the child tax credit, you must meet 3 conditions:

1. You must have a qualifying child or a qualifying dependent.
2. Your income must be below a set amount.
3. You must include a Social Security number for each qualifying child as well as one for yourself.

QUALIFYING CHILD

You can claim the $2,200 credit only for a "qualifying child." There are 5 tests for a qualifying child and you must meet all of them. Here are the 5 requirements for a qualifying child:

1. ***Age test.*** The child must be under age 17 by the end of the year. This age limit applies even if a child is disabled (but an older child may be a qualifying dependent for purposes of a $500 credit, as explained later).
2. ***Residence test.*** The child must have the same principal residence as you for more than half the tax year. There are some exceptions in certain cases for a child of divorced or separated parents, a kidnapped child, temporary absences, and for a child who is born or dies during the year.
3. ***Support test.*** The child does not provide more than half of his or her support.
4. ***Social Security number.*** No refundable or nonrefundable credit can be issued unless the child has a Social Security number. The Social Security number must be issued on or before the due date of your return. A Social Security card that is labeled "not valid for employment" (i.e., it is only good for purposes of receiving federal benefits, such as Medicaid) is not treated as a valid Social Security number for purposes of the child tax credit. You must also have a Social Security number. If you file jointly, one spouse must have a Social Security number.
5. ***Nationality.*** The child must be a U.S. citizen or national, or a resident of the U.S. The person can't be a resident of Canada or Mexico.

QUALIFYING DEPENDENT

You can claim the $500 nonrefundable child tax credit for a qualifying dependent, provided you have a Social Security number of that person. A "qualifying dependent" is a person who is not a qualifying child but who is viewed as

a dependent. More specifically, a dependent is a qualifying relative. There are 5 tests for being a qualifying relative, all of which must be met:

1. ***Relationship test.*** The person must be your child (including adopted or step); your grandchild or great-grandchild; in-law (son, daughter, father, mother, brother, or sister); parent or stepparent; sibling (including step and half); and aunt, uncle, niece, or nephew if related by blood.
2. ***Gross income test.*** For 2026, this means having gross income exceeding $5,300.
3. ***Support test.*** You must provide more than half of the person's support for the year.
4. ***Qualifying child test.*** The person cannot be a qualifying child for you or any other taxpayer.
5. ***Residency test.*** The qualifying dependent must be a U.S. citizen, national, or resident of the United States. The person can't be a resident of Canada or Mexico.

MAGI LIMIT

You must have modified adjusted gross income (MAGI) below a set amount. The credit you are otherwise entitled to claim is reduced or eliminated if your MAGI exceeds a set amount. MAGI for purposes of the child tax credit means AGI increased by the foreign earned income exclusion, the foreign housing exclusion or deduction, or the possession exclusion for American Samoa residents.

The credit amount is reduced by $50 for each $1,000 of MAGI or a fraction thereof over the MAGI limit for your filing status. The phaseout begins if MAGI exceeds the limits found in Table 1.1.

Example

In 2026, you are a head of household with 2 qualifying children. You are single and your MAGI is $210,000. Your credit amount of $4,000 ($2,000 × 2) is reduced by $500 ($210,000 − $200,000 = $10,000 excess MAGI ÷ [$1,000 × $50]). Your credit is $3,900 ($4,400 − $500).

TABLE 1.1 Phaseout of Child Tax Credit over MAGI Limits in 2026

Filing Status	MAGI Limit
Married filing jointly	$400,000
Other filing status	200,000

REFUNDABLE CREDIT

If the credit you are entitled to claim is more than your tax liability, you can receive the excess amount as a "refund." It's called the additional child tax credit (ACTC), even though it's only a portion of the regular child tax credit. The refund is limited to 15% of your taxable earned income (such as wages, salary, tips, commissions, bonuses, and net earnings from self-employment) over $2,500, for a maximum refundable amount of $1,700.

Planning Tips

The child tax credit and the credit for other dependents should be factored into income tax withholding from paychecks to enjoy the tax savings throughout the year. If you know you will become entitled to claim the credit (e.g., you expect the birth of a child), you may wish to adjust your withholding so that you don't have too much income tax withheld from your paycheck. Increase your withholding so that less income tax is withheld from your pay by filing a new Form W-4, *Employee's Withholding Certificate*, with your employer. There is a Tax Withholding Estimator at https://www.irs.gov/individuals/tax-withholding-estimator to help you complete Form W-4.

If you can't claim a credit for a qualifying child because the child doesn't have a valid Social Security number, you may be able to claim the credit for a qualifying dependent. For example, if there is another taxpayer identification number (e.g., Adoption Taxpayer Identification Number, or ATIN), you may be eligible for the $500 credit.

In figuring estimated taxes for 2027, keep in mind that the credit limit may be increased for inflation. Check the Supplement for details.

Pitfalls

If you claim the foreign earned income exclusion to exclude income earned abroad up to the annual dollar limit ($132,900 in 2026), you cannot receive the refundable additional child tax credit.

For 2026 returns filed in 2027, the IRS is not permitted to issue tax refunds for the refundable child tax credit before mid-February 2027. As a result, refunds usually aren't received until the third or fourth week in February, even for returns submitted in January 2027.

Where to Claim the Credit

On page 1 of Form 1040 or 1040-SR, enter dependents for whom you are claiming a child tax credit or credit for other dependents, along with their Social Security numbers and relationship to you. The additional child tax credit is figured on Schedule 8812 of Form 1040 or 1040-SR. The nonrefundable child tax credit or the credit for other dependents is entered directly on the return. The additional child tax credit is also entered directly on the return.

Earned Income Credit

Low-income taxpayers are encouraged to work and are rewarded for doing so by means of a special tax credit, called the earned income credit. The earned income credit is the second-largest program, after Medicaid, that provides assistance to low-income people. The amount of the credit varies with income, filing status, and the number of dependents, if any. The credit may be viewed as a "negative income tax" because it can be paid to taxpayers even if it exceeds their tax liability.

Benefit

If you are a working taxpayer with low or moderate income, you may qualify for a special tax credit of up to $8,231 in 2026. The amount of the credit depends on several factors, including your adjusted gross income, earned income, and the number of qualifying children. The credit is a percentage of the greater of earned income or adjusted gross income. Table 1.2 shows the maximum credit you may claim based on the number of your qualifying children, if any.

The credit is "refundable" because it can be received in excess of the tax owed.

Additional benefit. There is an extra earned income credit for Purple Heart recipients who lose Social Security disability benefits upon returning to work. The extra credit is equal to the amount of lost benefits for one year. This is a one-time benefit.

Looking Ahead

Starting in 2028, there is a new pre-certification process for each qualifying child in order to claim the credit. This will have to be done before the credit is claimed on the tax return. The IRS is going to set up a monitoring system to ensure that duplicate credit claims aren't being made (that 2 or more taxpayers aren't claiming a credit with respect to the same child).

TABLE 1.2 Maximum Earned Income Credit for 2026

Number of Qualifying Children	Maximum Earned Income Credit
No qualifying child	$ 664
1 qualifying child	4,427
2 qualifying children	7,316
3 or more qualifying children	8,231

Conditions

To be eligible for the credit, you must have earned income from being an employee or a self-employed individual. The amount of the credit you are entitled to claim depends on several factors.

QUALIFYING CHILDREN

You may claim the credit even if you have no qualifying child. But you are entitled to a larger credit if you have one qualifying child and a still larger credit for 2 or more qualifying children.

To be a qualifying child, the child must:

- Be a qualifying child as defined earlier in the chapter under the child tax credit
- Live in your U.S. household for more than half the year
- Qualify as your dependent if the child is married at the end of the year
- Be a U.S. citizen or resident (or a nonresident who is married to a U.S. citizen and elects to have all worldwide income subject to U.S. tax)

If you do not have a qualifying child, you must be at least age 25 but under age 65.

EARNED INCOME

Earned income includes wages, salary, tips, commissions, jury duty pay, union strike benefits, certain disability pensions, U.S. military basic quarters and subsistence allowances, and net earnings from self-employment (profit from your self-employment activities). Military personnel can elect to treat tax-free combat pay as earned income for purposes of the earned income credit.

Nontaxable employee compensation, such as tax-free fringe benefits or salary deferrals—for example, contributions to company 401(k) plans—is not treated as earned income.

Earned income does not include pensions and retirement plan distributions, long-term disability and military disability pensions, welfare, Social Security benefits (for retirement or disability), and unemployment benefits.

The credit is a percentage of earned income and is phased out at a set percentage. These rates are shown in Table 1.3. Once earned income reaches a plateau, the credit stays at the maximum amount (Table 1.2).

To qualify for the maximum credit, you must have earned income at or above a set amount. Table 1.4 shows the earned income you need to obtain the top credit (depending on the number of your qualifying children, if any).

TABLE 1.3 Earned Income Credit Percentage and Phase-out Rate

Number of Qualifying Children Income Credit	Credit Percentage	Phase-Out Rate
No qualifying child	7.65%	7.65%
1 qualifying child	34.00%	15.98%
2 qualifying children	40.00%	21.06%
3 or more qualifying children	45.00%	21.06%

TABLE 1.4 Earned Income Needed for Top Credit in 2026

Number of Qualifying Children	Earned Income Needed for Top Credit
No qualifying child	$ 8,680
1 qualifying child	13,020
2 or more qualifying children	18,290

ADJUSTED GROSS INCOME

If your adjusted gross income is too high, the credit is reduced or eliminated. Table 1.5 shows the AGI phaseout range for the earned income credit. This depends not only on the number of qualifying children, if any, but also on your filing status, as shown in the table.

JOINT RETURN

If you are married, you usually must file a joint return with your spouse in order to claim an earned income credit. This requirement is waived if your spouse did not live in your household for the last 6 months of the year or you have a decree, instrument, or written agreement of separation and did not live with a spouse by the end of the year. In this case, assuming you paid the household expenses in which a qualifying child lived for the full year, you qualify as single for purposes of the earned income credit (using "other taxpayers" limits on AGI).

TABLE 1.5 AGI Phaseout Range for the Earned Income Credit in 2026

Number of Qualifying Children	Married Filing Jointly	Other Taxpayers
No qualifying child	$18,140–$26,820	$10,860–$19,540
1 qualifying child	31,160–58,863	23,890–51,593
2 qualifying children	31,160–65,899	23,890–58,629
3 or more qualifying children	31,160–70,244	23,890–62,974

Example

You are married and file a joint return. You and your spouse have 1 qualifying child. In 2026, if your AGI is less than $31,160, your earned income credit is *not* subject to any phaseout. If your AGI is $58,863 or higher, you cannot claim *any* earned income credit; it is completely phased out. If your AGI is between these amounts (within the phaseout range), you may claim a reduced credit.

CHILDLESS INDIVIDUALS

The minimum age for claiming the earned income credit usually is 19. The minimum age for a full-time student is 24; it's 18 for a former foster child or homeless youth. The maximum age is 65.

If you have a qualifying child who lacks a Social Security number, you may claim the earned income tax credit as if you were childless.

Planning Tips

The credit is based on a set percentage of earned income. The good news is that you don't have to compute the credit. You merely look at an IRS Earned Income Credit Table, which accompanies the instructions for your return. If your return is prepared by computer, the computation is automatic based on the information—your filing status, AGI, earned income, number, if any, of qualifying children—you input.

You can have the IRS figure your credit for you (you don't even have to look it up in the table). To do this, just complete your return up to the earned income credit line and put "EIC" on the dotted line next to it. If you have a qualifying child, complete and attach Schedule EIC to the return. Also attach Form 8862, *Information to Claim Earned Income Credit after Disallowance*, if you are required to do so as explained next.

If your child does not qualify as your dependent because of the tie-breaker rule (discussed earlier in this chapter), you may claim the earned income credit with no qualifying child. For example, a grandmother has a home in which her daughter and the baby (granddaughter) live. Under the tie-breaker rule, while the baby could be a qualifying child of the grandmother and mother, she is the daughter's qualifying child. The grandmother can claim the earned income tax credit with no qualifying child, assuming all other requirements for the credit are met. Alternatively, if the daughter forgoes the dependency exemption, the grandmother can claim the grandchild as her dependent and the earned income tax credit, assuming that her AGI exceeds the daughter's AGI. In this instance, the daughter could claim the earned income tax credit with no qualifying child, assuming all other requirements for the credit are met.

Pitfalls

You lose eligibility for the credit if you have unearned income over $12,200 in 2026 from dividends, interest (both taxable and tax free), net rent or royalty income, net capital gains, or net passive income that is not self-employment income.

You lose out on the opportunity to claim the credit in future years if you negligently or fraudulently claim it on your return. (If you use a paid preparer, he or she is required to perform due diligence before allowing you to claim the earned income credit.) You are banned for 2 years from claiming the earned income credit if your claim was reckless or in disregard of the tax rules. You lose out for 10 years if your claim was fraudulent. If you become ineligible because of negligence or fraud, the IRS issues a deficiency notice. You may counter the IRS's charge by filing Form 8862, *Information to Claim Earned Income Credit after Disallowance*, to show you are eligible. If the IRS accepts your position and recertifies eligibility, you don't have to file this form again (unless you again become ineligible).

For 2026 returns filed in 2027, the IRS is not permitted to issue tax refunds for the refundable earned income tax credit before February 15, 2027. As a result, refunds usually aren't received until the third or fourth week in February, even for returns filed in January 2027.

Where to Claim the Earned Income Credit

You claim the earned income credit on Form 1040 or 1040-SR (no schedule is required).

Dependent Care Expenses

Many taxpayers must pay for the care of a child in order to work. According to the World Population Review, the cost of childcare in 2026 for an infant or toddler in the U.S. is $1,230 per month (nearly $15,000 annually) at a center. The tax law provides a limited tax credit for such costs, technically called the child and dependent care credit, but more commonly referred to as the dependent care credit. The amount of the credit you may claim depends on your income. It may be as much as 50% of eligible expenses. Or, if your employer helps with childcare costs, you may exclude the payments from your income.

Benefit 

If you hire someone to care for your children or other dependents to enable you to work or you incur other dependent care expenses, you may be eligible for a tax credit of up to $3,000. More specifically, this credit is a percentage of eligible dependent care expenses (explained later). The credit percentage

for 2026 ranges from a low of 20% to a high of 50%. The maximum amount of expenses that can be taken into account in figuring the credit is $3,000 for one qualifying dependent and $6,000 for 2 or more qualifying dependents.

If your employer pays for your dependent care expenses, you may be able to exclude this benefit from income up to $7,500.

Conditions for the Tax Credit

There are a number of conditions for claiming the dependent care credit; you must satisfy all 6 of them to claim the credit:

1. Incur the expenses to earn income.
2. Pay expenses on behalf of a qualifying dependent.
3. Pay over half the household expenses.
4. File a joint return if you are married.
5. Have qualifying expenses in excess of employer reimbursements.
6. Report information about the child care provider.

INCUR THE EXPENSES TO EARN INCOME

The purpose of the dependent care credit is to enable you to work. This generally means that if you are married, you both must work, either full time or part time.

A spouse who is incapacitated or a full-time student is not required to work in order to claim the credit; he or she is treated as having earned income of $250 per month if there is one qualifying dependent or $500 per month if there are 2 or more qualifying dependents.

Example

You are a single mother and a full-time student with 1 child. You are treated as having earned income of $3,000 for the year ($250 × 12). You can use this income in figuring your credit, even though you didn't actually receive this income.

PAY EXPENSES ON BEHALF OF A QUALIFYING DEPENDENT

This is for your child under the age of 13, your incapacitated dependent of any age, or your spouse who is incapacitated.

If your child has his or her 13th birthday during the year, you can take into account expenses incurred up to this birthday.

Only certain types of child care expenses can be taken into account in figuring the credit. Qualifying expenses can be incurred in your home or outside the

home (using a day care center). You cannot include amounts paid to you, your child who is under age 19 at the end of the year, your spouse, or any other person you can claim as a dependent.

EXAMPLES OF QUALIFYING EXPENSES

- Babysitter
- Day camp, including a specialty camp such as one for soccer or computers
- Day care center
- Housekeeper (the portion of compensation allocated to dependent care)
- Nursery school
- Private school (The costs for first grade and higher do not qualify unless the child is handicapped, provided the child spends at least 8 hours per day in your home.)
- Transportation, if supervised (so that it is part of care), such as to a day camp or after-school program not on school premises, but not the cost of personally driving a dependent to and from a dependent care center

You do not have to find the least expensive means of providing dependent care. For example, just because your child's grandparent lives in your home doesn't mean you must rely on the grandparent for childcare; you can pay an unrelated person to babysit in your home or take your child to a daycare facility.

The expenses you incur for dependent care must be greater than any amount you exclude as employer-provided dependent care.

PAY OVER HALF THE HOUSEHOLD EXPENSES

You (and your spouse) must pay more than half of the maintenance expenses of the household.

FILE A JOINT RETURN IF MARRIED

Generally, to claim the credit you *must* file a joint return if eligible to do so. But you can claim the credit even though you are still married if you live apart from your spouse for over half the year, you pay over half the household expenses for the full year, and your spouse is not a member of your household for the last 6 months of the year. In this case, you qualify to file as unmarried (single).

REPORT INFORMATION ABOUT THE DEPENDENT CARE PROVIDER

You must list the name, address, and employer identification number (or Social Security number) of the person you pay for dependent care. No employer identification number is required if payment is made to a tax-exempt charity providing the care.

If the person has not completed Form W-4, *Employee's Withholding Allowance Certificate*, as your household employee, you can obtain the necessary information by asking the provider to complete Form W-10, *Dependent Care Provider's Identification and Certification*, or by looking at a driver's license or other government-issued photo ID, business letterhead, or invoice. This may seem like a lot of bother and formality for a babysitter, but if you want to claim the credit, you must comply with this information-reporting requirement.

HOW TO FIGURE YOUR CREDIT PERCENTAGE BASED ON AGI

The amount of the dependent care credit you claim for 2026, which can be as much as 50% of eligible expenses, depends on your AGI. Fortunately, no matter how large your AGI, you are entitled to a minimum credit of 20% of eligible expenses.

The percentage is reduced by 1 percentage point for each $2,000 (or fraction thereof) of AGI over $15,000. To figure the exact percentage, use the following formula:

AGI in excess of $15,000 ÷ by $2,000 (rounded up) to find reduction

Then subtract the reduction from 50%

Example

You are single and have 1 qualifying child and adjusted gross income of $40,000. Applying the formula: $15,000 excess AGI divided by $2,000 = 12.5 (rounded to 13 reduction). Reduce 50% credit limit by 13%. Your credit is 37% of your dependent care expenses up to $3,000, for a credit of $1,110.

Table 1.6 shows you the maximum credit you may claim based on your AGI and number of dependents and Table 1.7 shows the maximum credit for joint filers.

TABLE 1.6 Dependent Care Credit Limits in 2026—Singles

AGI	Credit Percentage	1 Dependent	2 or More Dependents
$0–$15,000	50%	$1,500	$3,000
15,001–43,000	49–36%	1,470–1,080	2,940–2,160
43,001–75,000	35%	1,050	2,100
75,001–103,000	34%–21%	1,020–630	2,040–1,260
103,001+	20%	600	1,200

TABLE 1.7 Dependent Care Credit Limits in 2026—Joint Filers

AGI	Credit Percentage	1 Dependent	2 or More Dependents
$0–$15,000	50%	$1,500	$3,000
15,001–43,000	49–36%	1,470–1,080	2,940–2,160
43,001–150,000	35%	1,050	2,100
150,001–206,000	34%–21%	1,020–630	2,040–1,260
206,001+	20%	600	1,200

Conditions for the Exclusion

Benefits must be provided by your employer under a written dependent care plan that does not discriminate in favor of owners or highly compensated employees (for example, top executives cannot obtain greater benefits than you). The dollar limit in 2026 on this benefit is $7,500 (or $3,750 if you are married and file separately).

The same limits apply to a flexible spending arrangement (FSA), which is an employer plan to which you contribute a portion of your pay to be used for dependent care expenses. This salary reduction amount is *not* currently taxable to you; it becomes tax-free income that you withdraw from the FSA to cover eligible expenses.

Planning Tips

If you have the option of making salary reduction contributions to your company's flexible spending arrangement (FSA) for dependent care expenses, decide carefully on how much to contribute each month. Married couples filing jointly in 2026 are limited to the same amount in total as singles ($7,500). You can use the funds in the FSA only for dependent care expenses; you cannot, for example, use any of the funds for your medical expenses or other costs. Any funds not used up by the end of the year (or within the first 2½ months of the next year if your employer has a grace period) are forfeited; they do not carry over.

The IRS has not ruled clearly about whether virtual daycare expenses qualify for the credit. But if it can be shown that the cost was incurred to enable a parent to work and the virtual daycare—not the parent—is providing care, then it seems the expenses could be taken into account.

Pitfalls

If in the same month you and your spouse both did not work and were either full-time students or not physically or mentally capable of caring for yourselves, only one of you can be treated as having earned income ($250 or $500 as explained earlier in this chapter) in that month.

If you qualify to receive an exclusion for an employer's plan, you must reduce the amount of eligible expenses used in figuring the credit by the amount of the exclusion.

Example

You have 1 child and receive reimbursement from your employer's plan for 2026 of $2,500. In figuring your tax credit (assuming you are eligible for the maximum credit), you can use only $500 of eligible expenses ($3,000 – $2,500). In essence, if your excluded dependent care benefit in 2026 is $3,000 for 1 child or $6,000 if you have 2 or more children, you cannot claim any tax credit.

If you participate in a dependent care FSA, distributions from the plan are treated as employer reimbursements. Like excludable benefits, distributions from FSAs reduce the amount of expenses you can use to figure the credit.

Check with the administrator of the dependent care FSA you participate in to learn about possible carryovers or using up contributions after the year is over.

If you pay someone to care for your dependent in your home, you are the worker's employer. You are responsible for employment taxes. For more information about these employment taxes, see IRS Publication 926, *Household Employer's Tax Guide*, at www.irs.gov.

Where to Claim the Tax Credit or Exclusion

You figure the credit and the exclusion on Form 2441, *Dependent Care Expenses*. The amount of the credit is entered on Schedule 3 of Form 1040 or 1040-SR.

Report taxable dependent care benefits from Form 2441 on line 1e of Form 1040 or 1040-SR.

If you owe employment taxes for a dependent care worker, you must file Form 1040 or 1040-SR and complete Schedule H, *Household Employment Taxes*, which is attached to the return. You include employment taxes you owe on Schedule 2 of Form 1040 or 1040-SR.

Adoption Costs

One out of every 25 families in the United States has an adopted child. Each year, it's estimated that up to 100,000 children are adopted in the United States, with costs for a private adoption in 2026 as much as $65,000 or more. Taxpayers who adopt a child may qualify for a tax credit, a portion of which is refundable. The amount of the credit may or may not fully offset actual costs for the adoption. If an employer pays for adoption costs, a worker may be able to exclude this fringe benefit from income up to a set dollar limit. And, there's a waiver of the

10% early distribution penalty for withdrawals from retirement plans up to $5,000 per parent to pay adoption expenses (but the distribution itself is taxable).

Benefits 

If you adopt a child, you may be eligible to claim a tax credit for the expenses you incur. The maximum credit is $17,670 per child in 2026. The same dollar limit applies whether you are single or married. The credit is 100% of eligible adoption expenses up to this dollar limit. If you adopt a child that the state has determined as having special needs (e.g., a medical condition), the credit is $17,670 without regard to your actual adoption expenses. For 2026, $5,120 of the credit is refundable, which means you can receive it even if it's more than your tax bill. The credit, including one for a special needs child, is subject to income limits.

Example

In 2026, your income is $100,000; you pay $9,000 in attorney's and adoption agency fees to adopt a child who is not a special needs child (the adoption becomes final in 2026). You can claim a tax credit of $9,000 (100% of your eligible costs that do not exceed $17,670). If the child adopted is a special needs child, then the credit is $17,670, even though this is greater than the amount of actual adoption expenses. Of the allowable credit, $5,120 is refundable.

If your employer pays or reimburses you for adoption expenses, you may exclude this benefit from your income; it is tax free to you if you meet eligibility conditions. The exclusion has the same dollar limit and income limits as the credit.

If a tax-exempt organization makes a payment to help pay adoption costs, the payment is not taxable. The payment is viewed as a gift to the recipient.

If you take withdrawals from your 401(k) plan to pay for adoption expenses, you are not subject to the 10% early distribution penalty even though you're under age 59 ½. The penalty waiver only applies to distributions up to $5,000 for the adoption of an individual (other than a child of the taxpayer's spouse) who is under age 18 or who has a physical or mental incapacity making the person incapable of self-support. The distribution is taxable, but can be recontributed within 3 years to a retirement plan so that you can recoup any taxes paid on the distribution by filing an amended return.

Conditions

To claim the adoption credit or exclusion, 2 key conditions apply:

1. You must pay qualified adoption expenses.
2. Your modified adjusted gross income cannot exceed a set amount.

There is an additional condition for married persons; they must file jointly unless they are legally separated or live apart for the last 6 months of the year. This requirement applies even if only one spouse is adopting a child.

The determination of whether a child is a special needs child must be made by the state or an Indian tribal government; a taxpayer cannot make this call on his or her own.

QUALIFIED ADOPTION EXPENSES

Qualified expenses include any reasonable and necessary expenses related to the adoption. These include:

- Adoption agency fees
- Attorney's fees
- Court costs
- Travel expenses while away from home (including meals and lodging)

NONQUALIFIED EXPENSES

Not all adoption-related expenses can be taken into account. Expenses related to the following are nonqualified:

- Adopting your spouse's child
- Expenses paid using funds received from a government program
- Expenses that violate the law
- Surrogate parenting arrangement

MODIFIED ADJUSTED GROSS INCOME LIMIT

To be eligible for the full credit or the exclusion, your modified adjusted gross income (MAGI) in 2026 cannot exceed the amount listed in Table 1.8.

Example

You adopt a child in 2026 and your MAGI is $275,000. You can only claim a partial credit (assuming the child is not a special needs child) because your MAGI exceeds the threshold of $265,080 but not the limit of $305,080.

TABLE 1.8 MAGI Phaseout Range for the Adoption Credit in 2026

Credit Amount	MAGI
Full credit	Not more than $265,080
Partial credit	Over $265,080 but under $305,080
No credit	$305,080 or more

Modified adjusted gross income for this purpose is AGI increased by the foreign earned income exclusion; the foreign housing exclusion or deduction; and the exclusion for income from Guam, American Samoa, Northern Mariana Islands, or Puerto Rico.

Planning Tips

The amount of the adoption credit cannot be more than your tax liability for the year. Tax liability for this purpose means your regular tax, plus your tentative alternative minimum tax (without regard to the foreign tax credit), dependent care credit, credit for the elderly or disabled, either education credit, child tax credit, or mortgage interest credit.

If the credit exceeds your tax liability, you can carry the excess credit forward for up to 5 years beyond the year in which the credit arose. The carryforward is refundable to the extent of the annual limit ($5,100 in 2026). But there's no carryforward of expenses that exceed the credit limit.

If your employer has an adoption assistance program but you aren't entitled to some or all of the exclusion (e.g., your MAGI is too high or your expenses exceeded the dollar limit), plan to pay tax on the amount your employer pays or reimburses you. The employer is *not* required to withhold income tax on these payments. Employer-paid expenses are reported on your Form W-2.

There are no income limits for using the penalty waiver for distributions from qualified retirement plans to pay adoption expenses.

Obtain a taxpayer identification number for the child if he/she does not have one. Use Form W-7A, *Application for Taxpayer Identification Number for Pending Adoption*, to obtain a temporary tax ID for a child in a domestic adoption who does not have or is unable to obtain his or her own Social Security number.

Pitfall

The year for which you are entitled to claim the credit depends on the type of child you are adopting.

CHILD WHO IS A U.S. CITIZEN OR RESIDENT

If you adopt or are adopting a child who is a U.S. citizen or resident, use Table 1.9 to see the year for which to claim the credit for payments you make.

FOREIGN CHILD

You can take the credit only if the adoption becomes final. Use Table 1.10 to see the year in which to claim the credit.

Example

In 2025, you start the adoption process, hiring a lawyer and paying a retainer of $5,000. In 2025, the lawyer helps you work with an authorized adoption agency to which you pay a fee of $10,000 to adopt your daughter, a U.S. resident. The child is placed with you at that time. In 2026, you pay the lawyer an additional $5,000 and the adoption becomes final in this year. You may *not* claim any credit in 2025. In 2026, you may claim a credit up to $17,670, comprised of $15,000 [retainer and adoption fee] paid in 2025 and $2,670 of the $5,000 additional attorney's fee paid in 2026. The excess expenses of $2,330 [$5,000 – $2,670] are not carried over and cannot be used in the future.

Where to Claim the Adoption Credit, Exclusion, or Penalty Waiver

You figure the adoption credit on Form 8839, *Qualified Adoption Expenses*, which is attached to your return. The amount of the credit is entered on Schedule 3 of Form 1040 or 1040-SR. The refundable part of the adoption

TABLE 1.9 Year to Claim the Credit for Adoption of a U.S. Citizen or Resident Child

When You Pay Expenses	When You Claim Credit
Any year before year the adoption becomes final (or falls through)	Year after year of payment
Year adoption becomes final (or falls through)	Year adoption becomes final (or falls through)
Any year after year adoption becomes final (or falls through)	Year of payment

TABLE 1.10 Year to Claim the Credit for Adoption of a Foreign Child

When You Pay Expenses	When You Claim Credit
Any year before year adoption becomes final	Year adoption becomes final
Year adoption becomes final	Year adoption becomes final
Any year after year adoption becomes final	Year of payment

credit is entered directly on Form 1040 or 1040-SR (it's taken from line 8 of Form 8839).

To claim the credit, you must retain certain documents; they do not have to be attached to the return.

- For U.S. adoptions, attach a copy of the adoption order or decree.
- For adoptions finalized abroad, include the child's Hague Adoption Certificate, an IH-3 visa, or a foreign adoption decree translated into English. If the child's country of origin is not a party to the Hague Convention, then attach a copy of the translated decree or an IR-2 or IR-3 visa.
- If you adopt a special needs child, also attach the state determination of the child's special needs status certificate so you can claim the full $17,670, regardless of the adoption costs you paid.

If your employer paid or reimbursed you for qualified expenses, you must also complete Form 8839 to figure excludable benefits. Taxable benefits are reported on line 1f of Form 1040 or 1040-SR.

Distributions from qualified retirement plans for adoption expenses are reported to you on Form 1099-R and entered on line 5a of Form 1040 or 1040-SR; if the total distribution is for adoption expenses up to the dollar limit, enter zero on line 5b. You must also file Form 5329 to claim the penalty exception. If you timely recontribute the distribution for adoption expenses, file Form 1040-X for the year of the distribution to claim a tax refund.

Foster Care

Taxpayers who care for children in foster care and receive funds for expenses may not be taxed on those funds. Instead, they may be able to exclude the payments they receive from income.

Benefit 

Exclusion for foster care payments. If you receive foster care payments to care for a child placed with you by a state or local agency or a tax-exempt foster care placement agency, you are not taxed on those payments. They are fully excludable; there is no dollar limit.

Difficulty of care payments to foster parents are explained later in this chapter.

The exclusion for foster care payments is limited to payments received for 5 qualifying individuals who are over age 18. The exclusion for difficulty-of-care payments is limited to payments received for 10 qualifying individuals who are over age 18. There are no limits on the number of children age 18 or under for whom the exclusion may be claimed.

Deduction for out-of-pocket costs. See Chapter 6.

Condition

Foster care payments include only those made by a state or local government or qualified foster care placement agency for the care of a qualified foster child or a difficulty-of-care payment. Also, you and the foster child must live in the same home.

Planning Tips

If you are a foster care parent dealing with a private agency, make sure the placement entitles you to exclude payments received for the care of the child. Some other tax breaks may be claimed with respect to a foster child, such as the earned income credit. Check the other tax breaks throughout this chapter.

Pitfalls

Payments received from private agencies that are not tax-exempt entities, even though licensed by the state, are not excludable from income.

Payments made to a child's biological parent cannot be excluded, even if labeled "foster care payment" because such parent is never a foster parent.

Where to Claim the Exclusion

Foster care payments are not reported on the return if they are excludable. If you care for more than the allowable number of children over age 18, you must include the payments in income. Report this as "other income" on Schedule 1 of Form 1040 or 1040-SR.

Difficulty of Care Payments

If you are a foster parent receiving payments from a state or qualified agency to care for a child with special needs in your home or provide care in your home to an eligible disabled individual under a state Medicaid Home and Community-Based Services Waiver (Medicaid waiver program), the payments to you are tax free. The same is true for payments under a state's In-Home Supportive Care Program.

Benefit

You do not have to report as income any difficulty of care payments you receive from the state to provide care for an eligible individual in your home. There is no dollar limit on this benefit.

Condition

To be able to exclude the difficulty of care payments, you must meet 3 conditions:

1. The care must be provided in your home.
2. The payments must specifically be designated as being for the additional care that's needed for a person with a disability. This is an individual who otherwise would require care in a hospital, nursing facility, or intermediate care facility (an eligible individual).
3. Care must be limited to up to 10 individuals under age 19 and 5 individuals over age 18.

Planning Pointers

The types of care covered by difficulty of care payments are "personal care services." These include assistance with eating, bathing, dressing, toileting, transferring, maintaining continence, personal hygiene, light housework, laundry, meal preparation, transportation, grocery shopping, using the telephone, medication management, and money management.

"Habitation services" are also treated as difficulty of care payments. These are services to assist individuals in acquiring, retaining, and improving the self-help, socialization, and adaptive skills necessary to reside successfully in home and community-based settings.

Pitfalls

Difficulty of care payments do not cover skilled services, which may only be provided by a health care professional.

Check state rules to see whether payments under a Medicaid waiver program cover payments to a family member for providing personal care services to an eligible individual if the family member is legally responsible for the individual (for example, a minor child).

Where to Report Difficulty of Care Payments

Because the payments are fully excludable, they do not have to be reported on the tax return.

Child Support

Divorced or separated parents may be ordered by a court to make support payments for a child of the marriage. Even an unwed parent may be instructed to support his or her child. The recipient of child support payments, typically the parent with whom the child resides, is not taxed on these payments. The parent

making the payments cannot deduct them, but paying child support may entitle the parent to other tax write-offs discussed throughout this chapter.

Benefit

Child support payments are not taxable to the child, nor to the parent who receives them on behalf of the child. There is no dollar limit to this benefit. It does not matter whether child support payments are made pursuant to a divorce decree or separation agreement made before 2019 or after 2018 (when the rules for alimony payments were changed).

Conditions

Payments for child support should be fixed. If they are set by a decree of divorce or separate maintenance or a separation agreement, they are considered to be fixed.

In addition, if payments made to a parent will be reduced or terminated upon a contingency related to the child, then those payments are treated as being fixed for child support. Contingencies for this purpose include:

- Reaching the age of majority (generally age 18 or 21, depending on the law in your state)
- Leaving school
- Marrying
- Entering military service
- Moving out of the custodial parent's home
- Starting to work and/or attaining a set income level

Planning Tip

If a parent is required to pay both alimony and child support under a pre-2019 divorce decree and makes a single payment that is less than the total amount due, the first dollars are considered tax-free child support. This is relevant if the alimony is pursuant to a divorce decree or separation agreement executed before 2019 under which alimony payments are deductible.

Example

Ed owes his former spouse $1,000 each month to cover alimony of $600 and child support of $400. Assume they were divorced before 2020. In March 2026, Ed pays only $500. Of this amount, $400 is treated as child support; $100 is treated as alimony.

Pitfalls

The parent who makes child support payments cannot deduct them. They are not considered to be part of deductible alimony payments where applicable (explained in the next section).

If a reduction in child support payments to a parent is not specifically tied to the child's age of majority but is scheduled to occur within 6 months before or after such date, the reduction is treated as if it was tied to the child. This means that the amount subject to reduction is viewed as child support and not as deductible alimony if a pre-2019 divorce decree or separation agreement is involved. The same rule applies if you are making payments on behalf of more than one child and there are at least 2 reductions, each of which is within a year of a child's reaching the age of majority.

If you receive interest on past due child support, the interest is taxable. It is not treated as tax-free child support.

If you are due a refund of federal income tax because you overpaid it through withholding or estimated taxes, you won't receive it if you are delinquent on your child support payments. The IRS is authorized to divert your refund to the parent owed the child support payments as long as the state provides notice to you and a procedure you can follow to contest this action.

Where to Claim the Exclusion

Child support payments received are not reported on the return.

Alimony

Taxpayers who are required by a court to make payments to a spouse or former spouse can deduct such payments if the divorce or separation agreement was executed before January 1, 2019. The payments may be called alimony, support, or spousal maintenance, depending on state law (called "alimony" here for convenience). The tax law, in most cases, imposes symmetry on the treatment of alimony so that the government effectively comes out even, as explained below.

Benefit

If you have a divorce or separation agreement executed before 2019, and you make payments to a spouse or former spouse for alimony, support, or spousal maintenance, you can deduct the payments if certain conditions are met. There is no dollar limit on this deduction. The deduction is claimed as an adjustment to gross income; you do not have to itemize your other deductions to write off

alimony payments you make. There is no income limit on you for this deduction. But if you make payments pursuant to a divorce or separation agreement executed after December 31, 2018, you cannot deduct your payments.

Conditions

There are 4 conditions that must be met for payments made under a pre-2019 divorce decree or separation agreement to a spouse or former spouse to be considered alimony:

1. Amounts must be paid pursuant to a legal requirement, such as a court decree.
2. Payments must be made in cash.
3. You must live apart from your spouse or former spouse.
4. Your responsibility to make payments must terminate on the death of your spouse or former spouse.

Typically, alimony is deductible by the payer and is taxable to the recipient—the government effectively nets no additional tax revenue from the arrangement. But this symmetry is not required. If you meet all of the conditions, you can deduct your alimony payments even if your former spouse is not required to pay tax on them (for example, your former spouse lives abroad where alimony is exempt income).

PAYABLE UNDER A COURT DECREE

You can't deduct alimony under a pre-2019 divorce decree or separation agreement if you voluntarily make payments. You must either be ordered to do so under a decree of divorce, legal separation, or support or agree to make payments under a written separation agreement.

If the marriage is annulled and you are ordered to make payments, they can be treated as alimony if the other conditions are satisfied.

CASH PAYMENTS

You can deduct only payments under a pre-2019 divorce decree or separation agreement made in cash, not property. But you don't necessarily have to make these payments directly *to* your spouse or former spouse. Payments made *on behalf of* your spouse or former spouse qualify for the deduction if required by the divorce decree or separation agreement. For example, if you are ordered to pay your former spouse's rent with a check directly to the landlord, you can treat the payment as alimony if the other conditions are met.

If you continue to own the home in which your former spouse resides (i.e., own it by yourself or jointly with your former spouse) and you pay the mortgage and other expenses, only some of these expenses qualify as deductible

alimony—even if you are required to make the payments under the terms of a divorce decree or separation agreement. If you own the home, you benefit from the payment of the mortgage, real estate taxes, and other maintenance on the property and cannot deduct these payments. If you own the home jointly, only one-half of your payments can be treated as alimony because only one-half benefits your spouse or former spouse. (Of course, you can deduct mortgage interest and real estate taxes as itemized deductions as explained in Chapter 4.)

LIVING APART

To deduct payments under a pre-2019 divorce decree or separation agreement, you and your spouse or former spouse must not live in the same household. This means separate residences; merely having separate bedrooms in the same home is not good enough for payments to be treated as alimony.

Payments made while you are preparing to leave can be deducted. There is a one-month limit so that only payments made within one month prior to your departure can be treated as alimony. If it takes you longer to move out, your earlier payments are not deductible.

PAYMENT RESPONSIBILITY ENDS ON DEATH

Your responsibility to make payments to your spouse or former spouse must end if that person dies in order for payments under a pre-2019 divorce decree or separation agreement to be deductible alimony. If your obligation to make payments continues beyond the recipient's death (for example, you must continue to pay until total payments reach a set amount), you cannot treat *any* of the payments as alimony (even those made before death).

Generally, the divorce decree should state that your obligation to make payments ends on the recipient's death. But this isn't necessary as long as this condition is part of the law in your state.

The fact that your estate continues to be liable for payments after your death does not prevent you from treating your payments as alimony.

Planning Tips

If you have a pre-2019 divorce decree or separation agreement, don't make voluntary payments if you want to deduct them. If you want to ensure that increased payments qualify as deductible alimony, you need to amend the court order or separation agreement to incorporate the change. If a pre-2019 divorce decree or separation agreement is changed or amended, the old alimony rules continue to apply unless the revised document specifically says that the new rules (i.e., that payments are not deductible by the spouse who pays or taxable to the spouse who receives) should apply.

The Tax Court made it clear that paying health insurance premiums for an ex-spouse through a cafeteria plan may qualify as deductible alimony, even

though the payments are made on a pre-tax basis (a double tax benefit for the paying spouse).

Pitfalls

Payments made to someone who was never legally your spouse cannot be treated as alimony. For example, if you make payments to a domestic partner, you cannot deduct them even though they otherwise have all the earmarks of alimony. This does not apply to annulments.

Property settlements are not deductible.

Where to Claim the Deduction

The amount of deductible alimony payments is entered on Schedule 1 of Form 1040 or 1040-SR. There is no separate form or schedule to complete when deducting alimony. But you *must* include the recipient's Social Security number on your return (to allow the IRS to cross-check whether the recipient reported the alimony as income) and the date of the divorce or separation agreement (to allow the IRS to see whether alimony is deductible).

ABLE Accounts

If an individual becomes disabled before age 46, there is a special savings account that generally does not adversely impact eligibility for means-tested government programs (e.g., Medicaid). The account can be used on a tax-free basis for various disability-related expenses (including funeral and burial costs). See details in Chapter 2.

Trump Accounts

Trump Accounts for children up to age 18 are discussed in Chapter 8.