How summer day camp can save you taxes

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Although the kids might still be in school for a few more weeks, summer day camp is rapidly approaching for many families. If yours is among them, did you know that sending your child to day camp might make you eligible for a tax credit?

The power of tax credits

Day camp (but not overnight camp) is a qualified expense under the child and dependent care credit, which is worth 20% of qualifying expenses (more if your adjusted gross income is less than $43,000), subject to a cap. For 2016, the maximum expenses allowed for the credit are $3,000 for one qualifying child and $6,000 for two or more.

Remember that tax credits are particularly valuable because they reduce your tax liability dollar-for-dollar — $1 of tax credit saves you $1 of taxes. This differs from deductions, which simply reduce the amount of income subject to tax. For example, if you're in the 28% tax bracket, $1 of deduction saves you only $0.28 of taxes. So it's important to take maximum advantage of the tax credits available to you.

Rules to be aware of

A qualifying child is generally a dependent under age 13. (There's no age limit if the dependent child is unable physically or mentally to care for him- or herself.) Special rules apply if the child's parents are divorced or separated or if the parents live apart.

Eligible costs for care must be work-related, which means that the child care is needed so that you can work or, if you're currently unemployed, look for work. However, if your employer offers a child and dependent care Flexible Spending Account ("FSA") that you participate in, you can't use expenses paid from or reimbursed by the FSA to claim the credit.

Are you eligible?

These are only some of the rules that apply to the child and dependent care credit. Please contact us to determine whether you're eligible.

The Law Office of Eugene Gorrin, LLC
17 Watchung Avenue, Suite 204
Chatham, NJ 07928
973.701.9300
egorrin@gorrinlaw.com
www.gorrinlaw.com