

FYI – For Your Information

Child Care/Child Tax Credit

GENERAL INFORMATION

For tax years beginning on or after January 1, 2000, the child care/child tax credit will be calculated in one of three ways. The method of calculation will depend on whether there are excess state revenues in the prior year that are to be refunded to Colorado taxpayers under section 20 (7) (a) of Article X of the state constitution. If the excess revenue to be refunded is \$290 million or more, **Method One** will be in effect for the tax year. If the excess revenue to be refunded is less than \$290 million but greater than the anticipated credit, **Method Two** will be in effect for the tax year. If neither of these conditions exist, **Method Three** will be used for the tax year. The determination of which method will be used each year will be made in October or November of the tax year. [39-22-119 C.R.S.].

To qualify under **Method One**, a taxpayer must be a resident of Colorado with federal adjusted gross income of \$64,000 or less.

To qualify under **Method Two** or **Method Three**, a taxpayer must be a resident of Colorado with federal adjusted gross income of \$60,000 or less.

The Colorado child care credit portion of this credit is a percentage of the child care credit claimed for federal income tax purposes. The federal credit is a child and dependent care credit. It is allowed for expenses incurred in the care of children under the age of 13 and for expenses incurred in the care of disabled dependents over the age of 12. **However**, the Colorado child care credit is allowed

only with respect to the federal credit allowed for the care of **children under the age of 13**.

METHOD ONE (Tax years 2000 and 2001)

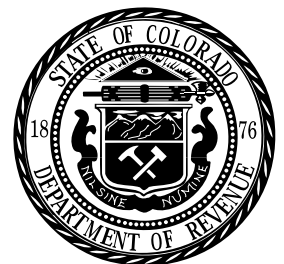
The credit will be the total of the following:

- 1) Child care credit – 70% of the federal child care credit claimed **minus** the total of the child tax credits computed in 2) and 3) below.
- 2) Child tax credit - \$300 times the number of qualified children five years of age or under.
- 3) Family home care operator child tax credit - \$300 times the number of qualified children of a family home care operator.

A “qualified child” for the *child tax credit* is a child five years of age or under at the end of the taxable year for whom a federal child tax credit was claimed.

A “qualified child” for the *family home care operator child tax credit* is a dependent child of the **operator** of a family child care home who is six years of age or older but not yet 13 years of age at the end of the taxable year for whom a federal child tax credit was claimed.

A “family child care home,” for the *family home care operator child tax credit*, is a facility for child care in a place of residence of a family or person for the purpose of providing less than twenty-four-hour care for children under the age of 18 years who are not related to the head of such home. [C.R.S. 26-6-102 (4)].



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METHOD TWO (Tax years 1998 and 1999)

The credit will be the larger of:

1. Child care credit - 50% of the federal child care credit claimed, or
2. Child tax credit - \$200 times the number of qualified children five years of age or under. A qualified child is a child five years of age or under at the end of the taxable year for whom a federal child tax credit was claimed.

METHOD THREE (Tax years 1996, 1997, 2002 and 2003)

Child care credit only - A percentage of the federal child care credit claimed as shown below.

If the federal adjusted gross income is:	The Colorado percentage is:
More than Not more than:	
\$0 \$25,000	50 percent
\$25,000 \$35,000	30 percent
\$35,000 \$60,000	10 percent

To the extent the Colorado child care/child tax credit exceeds the Colorado tax, the excess will be refunded. For tax years beginning before January 1, 1998, the excess credit could be carried forward for up to five years.

PART-YEAR AND NONRESIDENTS

Part-year Colorado residents should compute their Colorado child care credit as though they were full-year residents and pro-rate the credit in the ratio of their modified federal adjusted gross income subject to tax by Colorado over their total modified federal adjusted gross income (their Colorado Form 104PN, Line 34 percentage up to 100%). Nonresidents are not eligible for the Colorado child care/child tax credit.

EXAMPLES

Example A: Ellen Brown is single with one dependent child, age 3. Ellen's federal adjusted gross income was \$28,500 for the year and her federal child care credit claimed was \$470. Her total credit under Method One is \$329, consisting of a \$300 child tax credit and a \$29 (70% of \$470 minus \$300) child care credit. Her Colorado child care/child tax credit under Method Two is the larger of the \$200 child tax credit or 50% of \$470, which is \$235. Her credit under Method Three is 30% of \$470, or \$141.

Example B: Joe Green claims a federal child and dependent care credit with respect to his mother who is 69 years old and who is Joe's disabled dependent. Joe may not claim the Colorado child care/child tax credit (see paragraph four of this FYI).

Example C: Bob and Alma Tanner have a federal adjusted gross income of \$55,000 and claim a federal child and dependent care credit of \$1,200 half of which is for their 6 year old daughter in day care and the other half is for Alma's mother. The Tanner's Colorado child care credit under Method One is based on 70% of \$600, the child care portion of the federal child and dependent care credit, or \$420. The credit under Method Two is 50% of \$600, or \$300. The credit under Method Three is 10% of \$600, or \$60.

Example D: Don and Barb Nickles have one dependent child, age 8, who receives child care in the family child care home that Barb operates. Their federal adjusted gross income is \$50,000. They did not claim a federal child care credit. The family home care operator child tax credit under Method One is \$300 since their child receives care in Barb's family child care home and is over age 5. There is no credit available under method two because the child is over age 5 and no federal child care credit was claimed. There is also no credit under Method Three because there was no federal child care credit claimed.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are also available on the Web at *www.taxcolorado.com*

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.