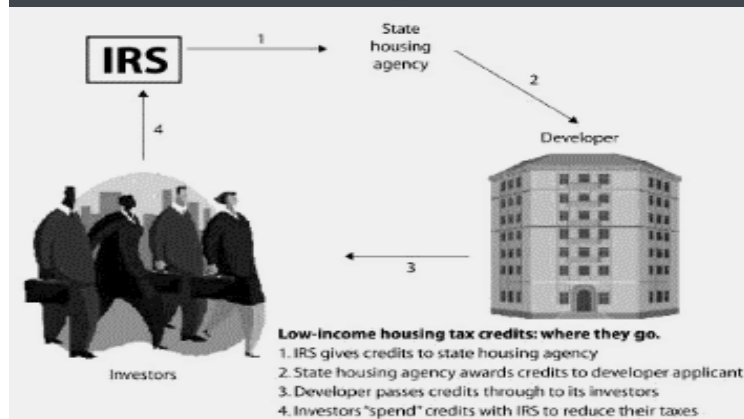


# [Tax Credits]

[Refundable/Nonrefundable Tax Credits]

## Religious Incentives & Activities





**INSTALL NOW**

**TAX CREDIT**

**UP TO**

**\$1,500**

**★★★★★**

*to claim on your tax return*

## [What Are Refundable Tax Credits vs. Non-Refundable Tax Credits?](#)

**A tax credit can be refundable or non-refundable.**

To better explain the difference, I'll have to start with an example:

- Let's say you owe \$500 in taxes before looking at any of your tax credits. Boo!
- You find that you are entitled to a tax credit of \$1,000. Yay!
  - If the tax credit is **refundable**, then the government would send you a \$500 check. You owe \$500, you have a refundable \$1000 credit, so you are entitled to the difference.
  - If the tax credit **non-refundable**, then you get nothing. You owe \$500, you have a non-refundable \$1000 credit, but since it's non-refundable, you don't get the difference.

That's why refundable tax credits are so awesome... unfortunately, there aren't very many refundable tax credits. In fact, as of this writing there are only five – the [Additional Child Tax Credit](#), the [Earned Income Credit](#), the [Excess Social Security and RRTA Tax Withheld Credit](#), the [First-time Homebuyer credit](#), and the [Health Coverage Tax Credit](#). Every other credit is non-refundable.

### **Refundable credits**

Refundable credits may eliminate any tax you owe and provide you with a refund. So even if your tax bill is zero, you could get money back from the Internal Revenue Service thanks to a refundable credit. These credits include:

Earned income tax credit  
Additional child tax credit  
Credit for taxes withheld on wages and other amounts

Nonrefundable credits can take your tax down to nothing, but you can't get money back from the government. Popular nonrefundable credits are:

Child tax credit  
Child- and dependent-care credit  
Credit for the elderly or disabled  
Retirement savings contributions credit  
Adoption expenses credit  
Hope and Lifetime Learning education credits

These credits can't be used to get a refund on your tax return. When your tax bill reaches zero, any leftover credit amount is wasted. With the adoption credit, however, you can carry forward unused amounts from year to year until the credit is absorbed or the carry-forward period expires, whichever is first.

The choice of your tax form also could affect your credit claims. Form 1040EZ filers can only claim the earned income credit. To get the benefit of the other credits, you must use Form 1040 or Form 1040A, and some of these credits require you to fill out additional forms.



A tax credit can substantially reduce the amount of tax you owe, or even make your tax refund bigger. However, not all tax credits are alike. Tax credits can be refundable or nonrefundable, and sometimes partly refundable.

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### Nonrefundable Tax Credits

A nonrefundable credit essentially means that the credit can't be used to increase your tax refund or to create a tax refund when you wouldn't have already had one. In other words, your savings cannot exceed the amount of tax you owe. For example, if the only credit you're eligible for is a \$500 Child and Dependent Care Expenses credit, and the tax you owe is only \$200 -- the \$300 excess is nonrefundable. This means that the credit will eliminate the entire \$200 of tax, but you don't receive a tax refund for the remaining \$300. All nonrefundable tax credits are listed under the "Taxes and Credits" section of the 1040 and 1040A forms, or under the "Payments, Credits, and Tax" section if using the 1040EZ.

### Refundable Tax Credits

Refundable tax credits, on the other hand, are treated as payments of tax you made during the year. When the total of these credits is greater than the tax you owe, the IRS sends you a tax refund for the difference.

Your tax return form will list all refundable tax credits, such as the Earned Income Credit, in the same section you report your tax payments.

### Partially Refundable Tax Credit

As of this writing, only the American Opportunity credit, is partially refundable, up to 40 percent. When you claim this credit for education expenses, Form 8863 separately calculates the refundable and nonrefundable portions, which means you report the amounts in two different sections of your return.

For example, if you calculate a \$2,000 American Opportunity credit, a maximum of \$800 may be reported as a refundable tax credit with the remaining \$1,200 reported as a nonrefundable credit.

### Putting It All Together

To illustrate how these credits work, assume that your tax return reports \$2,400 of tax before taking the Child and Dependent Care and American Opportunity credits used in the examples above. You first reduce the tax by the \$1,700 of nonrefundable credits you claim (\$500 for the Child and Dependent Care Credit, plus \$1,200 for the American Opportunity Credit). This brings your tax bill down to \$700 (\$2,400 - \$1,700). You then reduce the \$700 by the \$800 refundable portion of your American Opportunity credit. This not only eliminates the entire \$700 of tax, but also gives you a \$100 tax refund for the excess.

Remember, when you use TurboTax to prepare your taxes, we'll ask you simple questions, determine which credits you qualify for, and handle all the calculations to determine what's refundable and what's not.

<https://turbotax.intuit.com/tax-tools/tax-tips/Tax-Deductions-and-Credits/What-Is-the-Difference-Between-a-Refundable-and-a-Nonrefundable-Credit-INF20170.html>