

2001

Instructions for Schedule 2 (Form 1040A)

Child and Dependent Care Expenses for Form 1040A Filers

Purpose of Schedule

If you paid someone to care for your child or other qualifying person so you (and your spouse if filing a joint return) could work or look for work in 2001, you may be able to take the credit for child and dependent care expenses. But you must have had earned income to do so. If you can take the credit, use Schedule 2 to figure the amount of your credit.

If you (or your spouse if filing a joint return) received **any dependent care benefits** for 2001, you **must** use Schedule 2 to figure the amount, if any, of the benefits you may exclude from your income on Form 1040A, line 7. You must complete Part III of Schedule 2 before you can figure the credit, if any, in Part II.

Additional Information

See **Pub. 503** for more details about the credit.

Definitions

Dependent Care Benefits. These include amounts your employer paid directly to either you or your care provider for the care of your qualifying person(s) while you worked. These benefits also include the fair market value of care in a day-care facility provided or sponsored by your employer. Your salary may have been reduced to pay for these benefits. If you received dependent care benefits, they should be shown in box 10 of your 2001 W-2 form(s).

Qualifying Person(s). A qualifying person is:

- Any child **under age 13** whom you can claim as a dependent (but see **Exception for children of divorced or separated parents** below). If the child turned 13 during the year, the child is a qualifying person for the part of the year he or she was under age 13.
- Your disabled spouse who is not able to care for himself or herself.
- Any disabled person not able to care for himself or herself whom you can claim as a dependent (or could claim as a dependent except that the person had gross income of \$2,900 or more). But if this person is your child, see **Exception for children of divorced or separated parents** below.

To find out who is a dependent, see the instructions for Form 1040A, line 6c.



To be a qualifying person, the person **must** have shared the same home with you in 2001.

Exception for children of divorced or separated parents.

If you were divorced, legally separated, or lived apart from your spouse during the last 6 months of 2001, you may be able to take the credit or the exclusion even if your child is not your

dependent. If your child is not your dependent, he or she is a qualifying person only if **all five** of the following apply.

1. You had custody of the child for a longer time in 2001 than the other parent. See **Pub. 501** for the definition of custody.
2. One or both of the parents provided over half of the child's support in 2001.
3. One or both of the parents had custody of the child for more than half of 2001.
4. The child was under age 13 or was disabled and could not take care of himself or herself.
5. The other parent claims the child as a dependent because—
 - As the custodial parent, you signed **Form 8332** or a similar statement agreeing not to claim the child's exemption for 2001 or

- Your divorce decree or written agreement went into effect before 1985 and it states that the other parent can claim the child as a dependent and the other parent gave at least \$600 for the child's support in 2001. But this rule does not apply if your decree or agreement was changed after 1984 to say that the other parent cannot claim the child as a dependent.

If this exception applies, the other parent cannot treat the child as a qualifying person even though the other parent claims the child as a dependent.

Qualified Expenses. These include amounts paid for household services and care of the qualifying person while you worked or looked for work. Child support payments are **not** qualified expenses. Also, expenses reimbursed by a state social service agency are **not** qualified expenses unless you included the reimbursement in your income.

Household services. These are services needed to care for the qualifying person as well as to run the home. They include, for example, the services of a cook, maid, babysitter, housekeeper, or cleaning person if the services were partly for the care of the qualifying person. Do not include services of a chauffeur or gardener.

You may also include your share of the employment taxes paid on wages for qualifying child and dependent care services.

Care of the qualifying person. Care includes the cost of services for the qualifying person's well-being and protection. It does not include the cost of clothing or entertainment.

You may include the cost of care provided outside your home for your dependent under age 13 or any other qualifying person who regularly spends at least 8 hours a day in your home. If the care was provided by a dependent care center, the center must meet all applicable state and local regulations. A dependent care center is a place that provides care for more than six persons (other than persons who live there) and receives a fee, payment, or grant for providing services for any of those persons, even if the center is not run for profit.

You may include amounts paid for items other than the care of your child (such as food and schooling) **only** if the items are incidental to the care of the child and cannot be separated from the total cost. But **do not** include the cost of schooling for a child in the first grade or above. Also, **do not** include any expenses for sending your child to an overnight camp.

Medical expenses. Some disabled spouse and dependent care expenses may qualify as medical expenses if you itemize deductions. But you must use Form 1040. See Pub. 503 and **Pub. 502** for details.

Earned Income. Earned income includes the following amounts. If filing a joint return, figure your and your spouse's earned income separately.

- The amount shown on Form 1040A, line 7, minus (a) any amount included for a scholarship or fellowship grant that was not reported to you on a W-2 form and (b) any amount received as a pension or annuity from a nonqualified deferred compensation plan or a section 457 plan. This amount may be reported in box 11 of your W-2 form. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity. For purposes of Part III of Schedule 2, earned income does not include any dependent care benefits shown on line 10 of Schedule 2.

- Certain nontaxable earned income such as meals and lodging provided for the convenience of your employer. See Pub. 503 for details. However, including this income will only give you a larger credit or exclusion if your (or your spouse's) other earned income is less than the amount entered on Schedule 2, line 3 or line 14, whichever applies.

Special situations. If you are **filing a joint return**, disregard community property laws. If your spouse died in 2001 and had no earned income, see Pub. 503. If your spouse was a student or disabled in 2001, see the instructions for line 5.

Who May Take the Credit or Exclude Dependent Care Benefits?

You may take the credit or the exclusion if **all six** of the following apply.

1. Your filing status is single, head of household, qualifying widow(er) with dependent child, or married filing jointly. But see **Married Persons Filing Separate Returns** on this page.

2. The care was provided so you (and your spouse if you were married) could work or look for work. However, if you did not find a job and have no earned income for the year, you cannot take the credit or the exclusion. But if your spouse was a student or disabled, see the instructions for line 5.

3. You (and your spouse if you were married) paid over half the cost of keeping up your home. To find out what costs are included, use TeleTax topic 602 (see page 10 of the Form 1040A instructions) or see Pub. 503.

4. You and the qualifying person(s) lived in the same home.

5. The person who provided the care was not your spouse or a person whom you can claim as a dependent. If your child provided the care, he or she must have been age 19 or older by the end of 2001.

6. You report the required information about the care provider on line 1 and, if taking the credit, the information about the qualifying person on line 2.

Married Persons Filing Separate Returns. If your filing status is married filing separately and **all** of the following apply, you are considered unmarried for purposes of figuring the credit and the exclusion on Schedule 2.

- You lived apart from your spouse during the last 6 months of 2001, and

- The qualifying person lived in your home more than half of 2001, and
- You provided over half the cost of keeping up your home.

If you meet **all** the requirements to be treated as unmarried and meet items **2** through **6** listed earlier, you may take the credit or the exclusion. If you do not meet all the requirements to be treated as unmarried, you **cannot** take the credit. However, you may take the exclusion if you meet items **2** through **6**.

Part I Persons or Organizations Who Provided the Care

Line 1

Complete columns (a) through (d) for each person or organization that provided the care. You can use **Form W-10** or any other source listed in its instructions to get the information from the care provider. If you do not give correct or complete information, your credit (and exclusion, if applicable) may be disallowed unless you can show you used due diligence in trying to get the required information.

Due Diligence. You can show a serious and earnest effort (due diligence) to get the information by keeping in your records a Form W-10 completed by the care provider. Or you may keep one of the other sources of information listed in the instructions for Form W-10. If the provider does not give you the information, complete the entries you can on line 1 of Schedule 2. For example, enter the provider's name and address. Enter "See Page 2" in the columns for which you do not have the information. Then, on the bottom of page 2, explain that the provider did not give you the information you asked for.

Columns (a) and (b). Enter the care provider's name and address. If you were covered by your employer's dependent care plan and your employer furnished the care (either at your workplace or by hiring a care provider), enter your employer's name in column (a). Next, enter "See W-2" in column (b). Then, leave columns (c) and (d) blank. But if your employer paid a third party (not hired by your employer) on your behalf to provide the care, you must give information on the third party in columns (a) through (d).

Column (c). If the care provider is an individual, enter his or her social security number (SSN). Otherwise, enter the provider's employer identification number (EIN). If the provider is a tax-exempt organization, enter "Tax-Exempt."

Column (d). Enter the total amount you **actually paid** in 2001 to the care provider. Also, include amounts your employer paid to a third party on your behalf. It does not matter when the expenses were incurred. **Do not** reduce this amount by any reimbursement you received.

Part II Credit for Child and Dependent Care Expenses

Line 2

Complete columns (a) through (c) for each qualifying person. If you have **more than two** qualifying persons, attach a statement to your return with the required information. Be sure to put your name and social security number (SSN) on the statement. Also, enter "See Attached" on the line next to line 3.

Column (a). Enter each qualifying person's name.

Column (b). You **must** enter the qualifying person's SSN unless he or she was born and died in 2001. Be sure the name

and SSN entered agree with the person's social security card. Otherwise, at the time we process your return, we may reduce or disallow your credit. If the person was born and died in 2001 and did not have an SSN, enter "Died" in column (b) and attach a copy of the person's birth certificate. To find out how to get an SSN, see **Social Security Number (SSN)** on page 20 of the Form 1040A instructions. If the name or SSN on the person's social security card is not correct, call the Social Security Administration at 1-800-772-1213.

Column (c). Enter the qualified expenses you incurred and paid in 2001 for the person listed in column (a). Do not include in column (c) qualified expenses:

- You incurred in 2001 but did not pay until 2002. You may be able to use these expenses to increase your 2002 credit.
- You incurred in 2000 but did not pay until 2001. Instead, see **Credit for Prior Year's Expenses** on this page.
- You **prepaid** in 2001 for care to be provided in 2002. These expenses may only be used to figure your 2002 credit.

Line 5

Spouse Who Was a Student or Disabled. Your spouse was a **student** if he or she was enrolled as a full-time student at a school during any 5 months of 2001. A school does not include a night school or correspondence school. Your spouse was **disabled** if he or she was not capable of self-care. Figure your spouse's earned income on a monthly basis.

For each month or part of a month your spouse was a student or disabled, he or she is considered to have worked and earned income. His or her earned income for each month is considered to be at least \$200 (\$400 if more than one qualifying person was cared for in 2001). If your spouse also worked during that month, use the higher of \$200 (or \$400) or his or her actual earned income for that month. If, in the same month, both you and your spouse were either students or disabled, only one of you can be treated as having earned income in that month.

For any month that your spouse was not a student or disabled, use your spouse's actual earned income if he or she worked during the month.

Line 9

Do you have qualified expenses for 2000 that you did not pay until 2001?

- Yes.** See **Credit for Prior Year's Expenses** next.
- No.** See **Credit Limit** below.

Credit for Prior Year's Expenses. If you had qualified expenses for 2000 that you did not pay until 2001, you may be able to increase the amount of your 2001 credit. To figure the credit, see the worksheet under **Amount of Credit** in Pub. 503. If you can take a credit for your 2000 expenses, enter the amount of the credit and "CPYE" next to line 9. Also, enter the

name and social security number of the person for whom you paid the prior year's expenses next to this amount. Then, add the credit to the amount on line 9 and replace the amount on line 9 with that total. Also, attach a statement showing how you figured the credit. See **Credit Limit** next.

Credit Limit. Is the amount on line 9 more than the amount on Form 1040A, line 26?

- No.** Your credit is not limited. Enter on Form 1040A, line 27, the amount from Schedule 2, line 9.
- Yes.** Your credit is limited. Enter on Form 1040A, line 27, the amount from Form 1040A, line 26. Also, replace the amount on Schedule 2, line 9, with the amount from Form 1040A, line 26.

Part III Dependent Care Benefits

Line 11

If you had a flexible spending account, any amount included on line 10 that you did not receive because you did not incur the expense is considered forfeited. Enter the forfeited amount on line 11. **Do not** include amounts you expect to receive at a future date.

Example. Under your employer's dependent care plan, you chose to have your employer set aside \$5,000 to cover your 2001 dependent care expenses. The \$5,000 is shown in box 10 of your W-2 form. In 2001, you incurred and were reimbursed for \$4,950 of qualified expenses. You would enter \$5,000 on line 10 and \$50, the amount forfeited, on line 11.

Line 13

Enter the total of all qualified expenses incurred in 2001 for the care of your qualifying person(s). It does not matter when the expenses were paid.

Example. You received \$2,000 in cash under your employer's dependent care plan for 2001. The \$2,000 is shown in box 10 of your W-2 form. Only \$900 of qualified expenses were incurred in 2001 for the care of your 5-year-old dependent child. You would enter \$2,000 on line 10 and \$900 on line 13.

Line 16

If your filing status is married filing separately, see **Married Persons Filing Separate Returns** on page 2. Are you considered unmarried under that rule?

- Yes.** Enter your earned income (from line 15) on line 16. On line 18, enter the **smaller** of the amount from line 17 or \$5,000.
- No.** Enter your spouse's earned income on line 16. If your spouse was a student or disabled in 2001, see the instructions for line 5. On line 18, enter the **smaller** of the amount from line 17 or \$2,500.