Abstract: Among the many challenges of parenthood is what to do with the kids when school lets out. Parents who choose to send a child to day camp may qualify for a valuable tax break: that is, the child and dependent care credit. This article explains why tax credits are so valuable and how eligibility for this one is determined.

Sending the kids to day camp may bring a tax break

Among the many challenges of parenthood is what to do with your kids when school lets out. Babysitters are one option, or you might consider sending them to a day camp. There's no one-size-fits-all answer, but if you do choose a day camp, you could be eligible for a tax break. (Note: Overnight camps don't qualify.)

Dollar-for-dollar savings

Day camp can be a qualified expense under the child and dependent care tax credit. The credit is worth 20% to 35% of the qualifying costs, subject to an income cap. As of this writing, the maximum credit for 2022 is expected to revert to the 2020 level of $2,100 for one child. This is much lower than for 2021, when the credit was temporarily expanded due to COVID-19.

Tax credits are particularly valuable because they reduce your tax liability dollar-for-dollar — $1 of tax credit saves $1 of taxes. Deductions simply reduce the amount of income subject to tax. So, if you're in the 24% tax bracket, $1 of deduction saves you only $0.24 of taxes.

Qualifying for the credit

Only dependents under age 13 generally qualify. Eligible care costs are those incurred while you work or look for work.

Expenses paid from or reimbursed by an employer-sponsored Flexible Spending Account can't be used to claim the credit. The same is true for a Dependent Care Assistance Program.

Determining eligibility

Additional rules apply to this credit. Contact us if you have questions about your eligibility for the credit and the exceptions.