



# 2004 Instructions for Schedule 2 (Form 1040A)

## Child and Dependent Care Expenses for Form 1040A Filers

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 2004, 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 2004, 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.

### What's New

You may be able to include nontaxable combat pay in earned income when figuring the amount of dependent care benefits you can exclude from income. For details, see the instructions for line 17.

### 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 daycare 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 on your 2004 Form(s) W-2 in box 10.

**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* on this page). 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 \$3,100 or more or filed a joint return). But if this person is your child, see *Exception for children of divorced or separated parents* on this page.

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 2004.*

**Exception for children of divorced or separated parents.** If you were divorced, legally separated, or lived apart from the other parent during the last 6 months of 2004, 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 2004 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 2004.

3. One or both of the parents had custody of the child for more than half of 2004.

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—

a. As the custodial parent, you signed Form 8332 or a similar statement agreeing not to claim the child's exemption for 2004, or

b. 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 2004. 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 can 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 can 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 can 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.

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## Who Can Take the Credit or Exclude Dependent Care Benefits?

You can 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), 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. The cost includes rent, mortgage interest, real estate taxes, utilities, home repairs, insurance on the home, and food eaten at home.

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 2004.

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 2004, and
- The qualifying person lived in your home more than half of 2004, 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 can 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 can take the exclusion if you meet items 2 through 6.

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## 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. 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 2004 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.

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## 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" in the space to the left of line 3.

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

**Column (b).** You must enter the qualifying person's SSN. 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 2004 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 18 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 2004 for the person listed in column (a). Prepaid expenses are treated as paid in the year the care is provided. Do not include in column (c) qualified expenses:

- You incurred in 2004 but did not pay until 2005. You may be able to use these expenses to increase your 2005 credit.
- You incurred in 2003 but did not pay until 2004. Instead, see the instructions for line 9.
- You prepaid in 2004 for care to be provided in 2005. These expenses can only be used to figure your 2005 credit.



*If you paid qualified expenses for the care of two or more qualifying persons, the \$6,000 limit does not need to be divided equally. For example, if you incurred and paid \$2,500 of qualifying expenses for the care of one qualifying person and \$3,500 for the care of another qualifying person, you can use the total, \$6,000, to figure the credit.*

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## Line 4

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

1. 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 Form W-2, and (b) any amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457(b) plan. This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

2. Certain nontaxable earned income such as meals and lodging provided for the convenience of your employer and nontaxable combat pay. See Pub. 503 for details.

## Special Situations

If you are filing a joint return, disregard community property laws. If your spouse died in 2004 and had no earned income, see Pub. 503. If your spouse was a student or disabled in 2004, see the instructions for line 5.

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## 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 2004. 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 \$250 (\$500 if more than one qualifying person was cared for in 2004). If your spouse also worked during that month, use the higher of \$250 (or \$500) 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.

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## Line 9

**Credit for prior year's expenses.** If you had qualified expenses for 2003 that you did not pay until 2004, you may be able to increase the amount of your 2004 credit. To figure the credit, see the worksheet under *Amount of Credit* in Pub. 503. If you can take a credit for your 2003 expenses, enter the amount of the credit and "CPYE" in the space to the left of 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.

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## Part III Dependent Care Benefits

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### Line 13

If you had a flexible spending account, any amount included on line 12 that you did not receive because you did not incur the expense is considered forfeited. Enter the forfeited amount on line 13. 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 2004

dependent care expenses. The \$5,000 is shown on your Form W-2 in box 10. In 2004, you incurred and were reimbursed for \$4,950 of qualified expenses. You would enter \$5,000 on line 12 and \$50, the amount forfeited, on line 13.

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### Line 15

Enter the total of all qualified expenses incurred in 2004 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 2004. The \$2,000 is shown on your Form W-2 in box 10. Only \$900 of qualified expenses were incurred in 2004 for the care of your 5-year-old dependent child. You would enter \$2,000 on line 12 and \$900 on line 15.

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### Line 17

Earned income for figuring the amount of dependent care benefits you are able to exclude from your income includes the following amounts. If filing a joint return, figure your and your spouse's earned income separately.

1. 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 Form W-2, and (b) any amount received as a pension or annuity from a nonqualified deferred compensation plan or a nongovernmental section 457(b) plan. This amount may be reported in box 11 of your Form W-2. If you received such an amount but box 11 is blank, contact your employer for the amount received as a pension or annuity.

2. Nontaxable combat pay if you elect to include it in earned income. However, including this income will only give you a larger exclusion if your (or your spouse's) other earned income is less than the amount entered on line 16. To make the election, include all of your nontaxable combat pay in the amount you enter on line 17 (line 18 for your spouse if filing jointly). But this election cannot be made on the return of a taxpayer whose tax year ended before October 5, 2004, due to his or her death. The amount of your nontaxable combat pay should be shown in box 14 of Form(s) W-2 with code Q.



*For purposes of line 17, earned income does not include any dependent care benefits shown on line 12.*

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## Special Situations

If you are filing a joint return, disregard community property laws. If your spouse died in 2004 and had no earned income, see Pub. 503. If your spouse was a student or disabled in 2004, see the instructions for line 5.

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### Line 18

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 17) on line 18. On line 20, enter the smaller of the amount from line 19 or \$5,000.
- No.** Enter your spouse's earned income on line 18. If your spouse was a student or disabled in 2004, see the instructions for line 5. On line 20, enter the smaller of the amount from line 19 or \$2,500.