



EXTENSION

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Tax credit: What it is, how it works and who qualifies

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A tax credit is a way to lower the amount of taxes you owe. It can either reduce your tax bill, or in some cases, increase your refund. Tax credits are different from tax deductions. A tax deduction lowers the amount of income subject to tax, while a tax credit directly reduces the amount of tax you owe, which often provides a greater benefit. There are three types of tax credits:

- Refundable credits can give you money back if the credit is more than what you owe. For example, if you owe \$500 and qualify for a \$700 refundable credit, you'll get \$200 back.
- Non-refundable credits can only reduce your tax bill to zero, but you won't get any extra money back. For example, if you owe \$1,000 and qualify for a \$1,500 non-refundable credit, your tax bill will drop to zero, but you won't get the extra \$500 back.
- Partially refundable credits allow a portion of the credit to be refunded, even if it exceeds what you owe. For example, if you owe \$300 in taxes and qualify for a \$2,000 partially refundable credit—where up to \$1,000 is refundable—you would first reduce your tax bill to zero. Then, you could receive up to \$1,000 of the remaining credit as a refund, but the extra \$700 (\$2,000 - \$300 - \$1,000) would not be refunded.

Understanding which tax credits you can get is really helpful when it's time to file your taxes. The next section gives a quick look at the most common ones you might qualify for.

1. Tax Credits for People with Children

Child Tax Credit

If you have children under 17, you may be able to get this credit to reduce your taxes.

- Amount: \$2,000 per child.
- Eligibility:
 - Your modified adjusted gross income must be below \$400,000 for married couples filing jointly or \$200,000 for all other filers (single, head of household, etc.).
 - The higher your income, the less you'll qualify for.
- Partially refundable: For 2024, up to \$1,700 of the credit can be refunded if it exceeds the taxes you owe.

Child and Dependent Care Credit

This credit helps pay for childcare or care of a dependent while you work.

- Amount: up to \$3,000 for one dependent or \$6,000 for two or more.

- Eligibility:
 - You must earn income from a job.
 - You must pay for the care so you can work or look for work.
 - The dependent must be under 13 or unable to take care of themselves.
 - Eligible expenses include childcare, daycare, preschool and after-school care but not food, clothing or education expenses.
 - There's no specific income limit, but the credit amount gets smaller as your income increases.
 - Refundable: No.

2. Tax Credits for Low-to-Middle-Income Households

The Earned Income Tax Credit

This credit helps workers with low to moderate incomes by lowering their taxes.

- The amount of the credit depends on your filing status (single, married, etc.) and how many children you have. Below are the maximum amounts you can earn in 2024 to qualify for the credit:

Number of children	Maximum earned income tax credit	Maximum income: Single or head of household filers	Maximum income: Married joint filers
0	\$632	\$18,591	\$25,511
1	\$4,213	\$49,084	\$56,004
2	\$6,960	\$55,768	\$62,688
3 or more	\$7,830	\$59,899	\$66,819

- Eligibility:
 - You must earn income from a job.
 - If you don't have children, you must be between 25 and 64 years old.
 - If you have children, they must be under the age of 19, or under 24 if they are a full-time student.
 - If your child is permanently disabled, the age requirements don't apply.
- Refundable: Yes.

3. Tax Credit for Education

American Opportunity Tax Credit

This credit helps reduce the cost of higher education for students in their first four years of college.

- Amount: Up to \$2,500 per student.
- Eligibility:
 - The student must be enrolled in at least one academic semester and have no felony or drug convictions.
 - Eligible expenses include tuition, fees and course materials but not living expenses or transportation.
 - There are income limits for this credit.
- Parents or qualified caregivers can claim the credit if they qualify and include the student as a dependent on their tax return.
- Partially refundable: For 2024, up to \$1,000 of the unused credit may be refunded (40% of the remaining credit, up to \$1,000).

Lifetime Learning Credit

This credit helps pay for any college-level courses, even if you're not working toward a degree.

- Amount: Up to \$2,000 per return.

- Eligibility:
 - Great for graduate students or anyone taking classes to develop new skills.
 - Eligible expenses include tuition and fees but not living expenses or transportation.
 - There are income limits for this credit.
- You can claim both the American Opportunity Credit and the Lifetime Learning Credit on the same tax return, but you can't use both for the same student.
- Refundable: No.

4. Tax Credits for Green Purchases

Energy Efficient Home Improvement Credit

This credit helps cover costs for home improvements that save energy, such as windows, doors, and heat pumps.

- Amount: Up to \$3,200.
- Refundable: No.

Solar Tax Credit

If you install solar panels or other solar systems at your home, you may qualify for this credit.

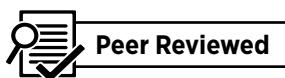
- Amount: Up to 30% of the cost of solar energy systems
- Refundable: No.

Electric Vehicle Tax Credit

This credit helps lower the cost of buying an electric or plug-in hybrid vehicle.

- Amount:
 - Up to \$7,500 for a new electric vehicle.
 - Up to \$4,000 for a used electric vehicle.
- Eligibility:
 - The vehicle must meet certain rules, including battery size and cost limits.
 - There are income limits for this credit.
- Refundable: No.

In conclusion, tax credits can significantly reduce your tax bill and may even increase your refund. However, it's crucial to understand the details of each credit, such as eligibility and whether they are refundable. For more details on tax credits, visit the IRS Tax Credits webpage: <https://www.irs.gov/credits-deductions>. If you need help, the IRS provides reliable resources through programs like Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE), which offer free help to those who qualify. To find a location near you, visit: <https://irs.treasury.gov/freetaxprep/>.



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