Credits

8528. What is a refundable tax credit and what are some examples?

On Form 1040, after the amount of tax owed is computed, the taxpayer is entitled to subtract certain payments and credits from the tax to arrive at the amount of tax that is actually payable.

*Refundable credit* is a tax credit that can result in a refund or credit even if the taxpayer owes no tax or it exceeds the amount of tax owing. The refundable credits include:

…Taxes withheld from salaries and wages.[[1]](#footnote-1)

…Overpayments of tax.[[2]](#footnote-2)

…The excess of Social Security withheld (two or more employers).[[3]](#footnote-3)

…The earned income credit.[[4]](#footnote-4)

…The 72.5 percent health care tax credit for uninsured workers displaced by trade competition.[[5]](#footnote-5)

…The unused long-term minimum tax credit.

*Example*: In 2014, Ashley, a single mother is entitled to an earned income tax credit of $3,500. Her income tax liability before the application of the credit is $1,000. Other than the earned income tax credit, Ashley has no other credits. Because the earned income credit is a refundable credit, Ashley is entitled to a refund of $2,500 ($3,500 credit minus $1,000 tax liability).

1. . IRC Sec. 31(a). [↑](#footnote-ref-1)
2. . IRC Sec. 35. [↑](#footnote-ref-2)
3. . Treas. Reg. §1.31-2. [↑](#footnote-ref-3)
4. . IRC Sec. 32. [↑](#footnote-ref-4)
5. . IRC Sec. 35. [↑](#footnote-ref-5)