**8529. How does a nonrefundable tax credit work and what are some examples?**

A nonrefundable credit is a credit that is limited by the amount of the taxpayer’s tax liability for the year. A taxpayer is only entitled to claim nonrefundable tax credits to the extent that the combined amount of the credits does not exceed total income tax liability for the tax year. So unlike refundable credits (Q8528), a nonrefundable credit can never result in a refund or credit.

However, because certain nonrefundable credits in excess of a taxpayer’s tax liability for a tax year may be carried forward into future tax years (and others cannot be carried over), it is important to consider the order in which a taxpayer claims the nonrefundable credits.[[1]](#footnote-1) The American Taxpayer Relief Act of 2012 (ATRA) extended many expiring credits for 2012 and 2013 (as indicated below). As of the date of this publication, however, Congress has yet to act in order to extend most of these credits for 2014 and beyond.

The following tax credits are classified as *nonrefundable credits*:

…Personal credits which consist of the child and dependent care credit;[[2]](#footnote-2) the credit for the elderly and the permanently and totally disabled,[[3]](#footnote-3) the qualified adoption credit,[[4]](#footnote-4) the nonrefundable portion of the child tax credit,[[5]](#footnote-5) the American Opportunity (extended under ATRA through 2017), Hope Scholarship, and Lifetime Learning credits,[[6]](#footnote-6) the credit for elective deferrals and IRA contributions (the “saver’s credit,” which became permanent under PPA 2006);[[7]](#footnote-7)

…The nonbusiness energy property credit (retroactively extended under ATRA for 2012 and 2013)[[8]](#footnote-8); and the residential energy efficient property credit;[[9]](#footnote-9)

…Other nonbusiness credits;[[10]](#footnote-10)

…The general business credit is the sum of the following credits determined for the taxable year: (1) the investment credit determined under IRC Section 46) (including the rehabilitation credit); (2) the work opportunity credit determined under IRC Section 51(a) (retroactively extended under ATRA for 2012 and 2013); (3) the alcohol fuels credit determined under IRC Section 40(a); (4) the research credit (retroactively extended under ATRA for 2012 and 2013) determined under IRC Section 41(a); (5) the low-income housing credit determined under IRC Section 42(a); (6) the enhanced oil recovery credit under IRC Section 43(a); (7) in the case of an eligible small business, the disabled access credit determined under IRC Section 44(a); (8) the renewable electricity production credit under IRC Section 45(a) (extended only through 2009 under EIEA 2008); (9) the empowerment zone employment credit determined under IRC Section 1396(a) (retroactively extended under ATRA for 2012 and 2013); (10) the Indian employment credit as determined under IRC Section 45A(a) (retroactively extended under ATRA for 2012 and 2013); (11) the employer Social Security credit determined under IRC Section 45B(a); (12) the orphan drug credit determined under IRC Section 45C(a); (13) the new markets tax credit determined under IRC Section 45D(a) (retroactively extended under ATRA for 2012 and 2013); (14) in the case of an eligible employer (as defined in IRC Section 45E(c)); the small employer pension plan startup cost credit determined under IRC Section 45E(a); (15) the employer-provided child care credit determined under IRC Section 45F(a); (16) the railroad track maintenance credit determined under IRC Section 45G(a) (retroactively extended under ATRA for 2012 and 2013); (17) the biodiesel fuels credit determined under IRC Section 40A(a) (retroactively extended under ATRA for 2012 and 2013); (18) the low sulfur diesel fuel production credit determined under IRC Section 45H(a); (19) the marginal oil and gas well production credit determined under IRC Section 45I(a); (20) for tax years beginning after September 20, 2005, the distilled spirits credit determined under IRC Section 5011(a); (21) for tax year beginning after August 8, 2005, the advanced nuclear power facility production credit determined under IRC Section 45J(a); (22) for property placed in service after December 31, 2005, the nonconventional source production credit determined under IRC Section 45K(a); (23) the energy efficient home credit determined under IRC Section 45L(a) (extended through 2013); (24) the energy efficient appliance credit determined under IRC Section 45M(a) (extended through 2013); (25) the portion of the alternative motor vehicle credit to which IRC Section 30B(g)(1) applies; and (26) the portion of the alternative fuel vehicle refueling property credit to which IRC Section 30C(d)(1) applies (extended through 2013).[[11]](#footnote-11)

A credit was also available for new qualified plug-in electric drive motor vehicles acquired and placed in service after 2009. The amount of the credit can vary from $2,500 to $7,500 depending on battery capacity (and subject to phase-out based on number of vehicles sold by the manufacturer). The portion of the credit attributable to property of a character subject to an allowance for depreciation is treated as part of the general business credit. The balance of the credit is generally treated as a nonrefundable personal credit.[[12]](#footnote-12) An alternative credit is available for certain plug-in electric cars placed in service after February 17, 2009 and before 2014 (retroactively extended under ATRA for 2012 and 2013). This credit is equal to 10 percent of cost, up to $2,500.[[13]](#footnote-13)

1. . See, for example, IRC Secs. 23 (adoption expense credit), 25 (mortgage interest credit) and 25D (residential energy efficient property credit) for examples of nonrefundable credits that may be carried over to succeeding tax years. [↑](#footnote-ref-1)
2. . IRC Sec. 21. [↑](#footnote-ref-2)
3. . IRC Sec. 22. [↑](#footnote-ref-3)
4. . IRC Sec. 23. [↑](#footnote-ref-4)
5. . See IRC Sec. 24. [↑](#footnote-ref-5)
6. . IRC Sec. 25A, as amended by ATRA, Sec. 103. [↑](#footnote-ref-6)
7. . IRC Sec. 25B. [↑](#footnote-ref-7)
8. . IRC Sec. 25C, as amended by ATRA, Sec. 401. [↑](#footnote-ref-8)
9. . IRC Sec. 25D. [↑](#footnote-ref-9)
10. . See e.g., IRC Secs. 53, 901. [↑](#footnote-ref-10)
11. . IRC Sec. 38(b). [↑](#footnote-ref-11)
12. . IRC Sec. 30D, as amended by ARRA 2009. [↑](#footnote-ref-12)
13. . IRC Sec. 30, as amended by ARRA 2009 and ATRA. [↑](#footnote-ref-13)