Guide · Taxes for owners 8 min read

Tax Credits for Families and Small Businesses: What You Qualify For in 2026

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The short answer

A tax credit cuts your tax bill dollar for dollar, so a $1,000 credit is worth $1,000 at any income. For 2026 the main family credits are the $2,200 Child Tax Credit (up to $1,700 refundable), the Earned Income Credit (up to $8,231), the Child and Dependent Care Credit (now up to 50% of expenses for lower incomes) and the $2,500 American Opportunity Credit. Starting in 2025 and 2026, several of these require a Social Security number for the parent, not only the child.

Credits versus deductions

A deduction lowers the income you're taxed on, so its value depends on your bracket: a $1,000 deduction saves $220 in the 22% bracket. A credit lowers the tax itself: a $1,000 credit saves $1,000. A refundable credit goes further and can be paid to you even if you owe no tax.

Credits for families

Child Tax Credit

$2,200 per qualifying child under 17 in 2026, of which up to $1,700 is refundable. It phases out above $200,000 of income ($400,000 married filing jointly). The child must be your dependent, live with you more than half the year

and have a Social Security number valid for work.

New since 2025: the parent claiming the credit also needs a work-eligible Social Security number; on a joint return, at least one spouse must have one. A child without a qualifying SSN may still qualify for the $500 Credit for Other Dependents.

Earned Income Tax Credit

Qualifying children	Maximum credit (2026)
None	$664
One	$4,427
Two	$7,316
Three or more	$8,231

You need earned income from work, investment income of $12,200 or less, and valid Social Security numbers. The credit is fully refundable. The IRS estimates about one in five eligible workers don't claim it, often because they didn't think they needed to file. If you earned cash or gig income, filing a return may be worth thousands.

Child and Dependent Care Credit

A credit for care that lets you work: daycare, after-school programs, day camps and care for a disabled spouse or dependent. Qualifying expenses are capped at $3,000 for one person and $6,000 for two or more. From 2026 the credit rate starts at 50% for lower incomes and steps down as income rises, to 20% for most households earning over about $150,000. For many middle- and higher-income families that means $600 for one child or $1,200 for two. The provider's tax ID must be on your return.

American Opportunity Tax Credit

Up to $2,500 per student for the first four years of college, covering tuition, fees and course materials. Up to $1,000 is refundable. It phases out between $80,000 and $90,000 of income ($160,000 to $180,000 married filing jointly). From 2026 you (and your spouse, if filing jointly) and the student need valid Social Security numbers; an ITIN no longer qualifies.

For immigrant families: the 2025 and 2026 law changes mean a parent filing with an ITIN can lose the Child Tax Credit and education credits even when the children are citizens. If anyone in your household is applying for or eligible for an SSN, the timing can change what you can claim. Review it before you file.

Credits for small business owners

Retirement plan start-up credits

Start-up costs: 100% of the cost of setting up and running a new plan for employers with 50 or fewer employees, up to $5,000 a year for three years (the cap depends on how many non-highly-paid employees you have).

Automatic enrollment: $500 a year for three years for adding it.

Employer contributions: up to $1,000 per employee earning $100,000 or less, phasing down after the first two years.

You need at least one non-highly-compensated employee. A Solo 401(k) with only you doesn't qualify.

Small Business Health Care Tax Credit

Up to 50% of the premiums you pay (35% for nonprofits) if you have fewer than 25 full-time-equivalent employees, average wages under an inflation-adjusted limit (around $69,000 for 2026), and pay at least half of employee premiums. The catches: coverage must be bought through the SHOP Marketplace, and you can claim it for only two consecutive years, so many small employers find it isn't worth switching plans.

Research and development credit

Businesses that develop or improve products, processes or software, including AI tools, may qualify. Qualified small businesses (under $5 million of gross receipts and no more than five years of receipts) can apply up to $500,000 a year against payroll tax, which helps startups that aren't yet profitable. Separately, the 2025 law restored immediate deduction of domestic research costs. Qualifying activity has to involve real technical uncertainty and experimentation, so document it as you go.

Work Opportunity Tax Credit

The WOTC, worth $1,200 to $9,600 per eligible hire, expired for employees who started work after December 31, 2025. Congress has proposed extending it but hadn't passed an extension at the time of writing. Hires made in 2025 can still generate credit on their first-year wages paid in 2026.

Quick reference

Credit	Refundable?	2026 maximum
Child Tax Credit	Up to $1,700	$2,200 per child
Credit for Other Dependents	No	$500
Earned Income Credit	Yes	$8,231
American Opportunity	Up to $1,000	$2,500 per student
Child and Dependent Care	No	$3,000 (at the 50% rate)
Retirement plan start-up	No	$5,000 a year, plus auto-enrollment and contribution credits
Small Business Health Care	No	50% of premiums, two years

Sources: IRS Rev. Proc. 2025-32; P.L. 119-21 (the One Big Beautiful Bill Act); IRS Publications 596 and 503; Form 8881 and 8941 instructions.

Frequently asked questions

Can I claim the Child Tax Credit with an ITIN?

Starting with 2025 returns, the person claiming it needs a work-eligible Social Security number (on a joint return, at least one spouse), and so does the child. A child without one may qualify for the $500 Credit for Other Dependents instead.

Do I have to file a return to get the Earned Income Credit?

Yes. It's paid through your tax return, so you have to file even if your income is below the filing requirement. Many eligible cash and gig workers miss it for that reason.

Is the Work Opportunity Tax Credit available in 2026?

Not for employees who started after December 31, 2025, unless Congress extends it. Hires from 2025 can still generate credit on first-year wages paid in 2026.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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