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Congratulations on the Birth of Your New Tax Exemption! (Tax Breaks for New Parents)

Article By:

Matthew Koch

Planning for a new baby is a constant stream of decisions and questions concerning diapers, cribs, colors, daycare and more, all in the service of preparing your life for a new bundle of joy. What new parents forget in the hustle and bustle of bringing a new life into the world is that the state and federal revenue services both have a little joy of their own to add to the equation in the form of tax breaks.

The first step in maximizing the tax break potential of your new addition is to apply for your child's Social Security number. Taxpayers need this to claim her or him as a dependent at tax time, and failing to provide the number can trigger a small fine or delay a refund. Taxpayers can request a Social Security number when they apply for their child's birth certificate, or taxpayers can file with the Social Security Administration with proof of the age, identity and citizenship of their child.

The most commonly understood tax break for parents is the dependency exemption. For the 2015 tax year, this exemption amount will be $4,000. For those in the 25% tax bracket, this exemption will save $1,000 at tax time. Taxpayers subject to the alternative minimum tax, however, cannot use this exemption.

The Child Tax Credit is another gift from the government - it's a direct credit of $1,000 per child. In other words, a taxpayer's tax bill is directly reduced by $1,000 for each child that taxpayer has, and this continues until the child is 17. This credit does phase out for higher-income families. Single filers start to lose the credit at $75,000 of modified adjusted gross income ("MAGI"), and married filers lose the credit at $110,000 of MAGI if filing jointly and $55,000 of MAGI if filing separately. For every $1,000 of MAGI above the applicable threshold, the Child Tax Credit is reduced by $50.

Married parents will not see a change in filing status, but single parents with a first child would be able to file as Head of Household, providing a larger standard deduction and better tax brackets. Taxpayers must provide more than half the cost of the living expenses for a dependent or other qualifying person to file as Head of Household, and, barring extraordinary circumstances, a taxpayer's newborn child qualifies as such a dependent or qualifying person.

The Earned Income Credit helps to offset taxes for low and moderate income taxpayers. The tax credit on a joint return for married taxpayers without children ends when their MAGI on the joint return reaches a threshold of $20,330 for the 2015 taxable year, but having one child pushes that threshold to $44,651. Three or more children raises the threshold to $53,267.

Contemplating child care? There is a federal credit for that. Taxpayers can use up to $3,000 of care expenses for one qualifying individual which is then used to figure a tax credit based on the amount of the taxpayers' adjusted gross income, but the credit will typically be somewhere between 20 and 35 percent of the allowable expenses. Taxpayers may also be eligible for a child or dependent care reimbursement account (sometimes known as a flex plan) through their employer, which will allow taxpayers to use up to $5,000 of pre-tax income a year from their salary for child care expenses, bypassing federal income and Social Security taxes on the amount. While taxpayers cannot use both the child care credit and a child care reimbursement account to double-dip, taxpayers can claim the child care credit on expenses over the limit of the child care reimbursement account.

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