Tax and financial planning tips: Welcoming a new child

Welcoming a new child into your life is a great joy, but it also means big financial changes. These young family members can affect your tax situation.

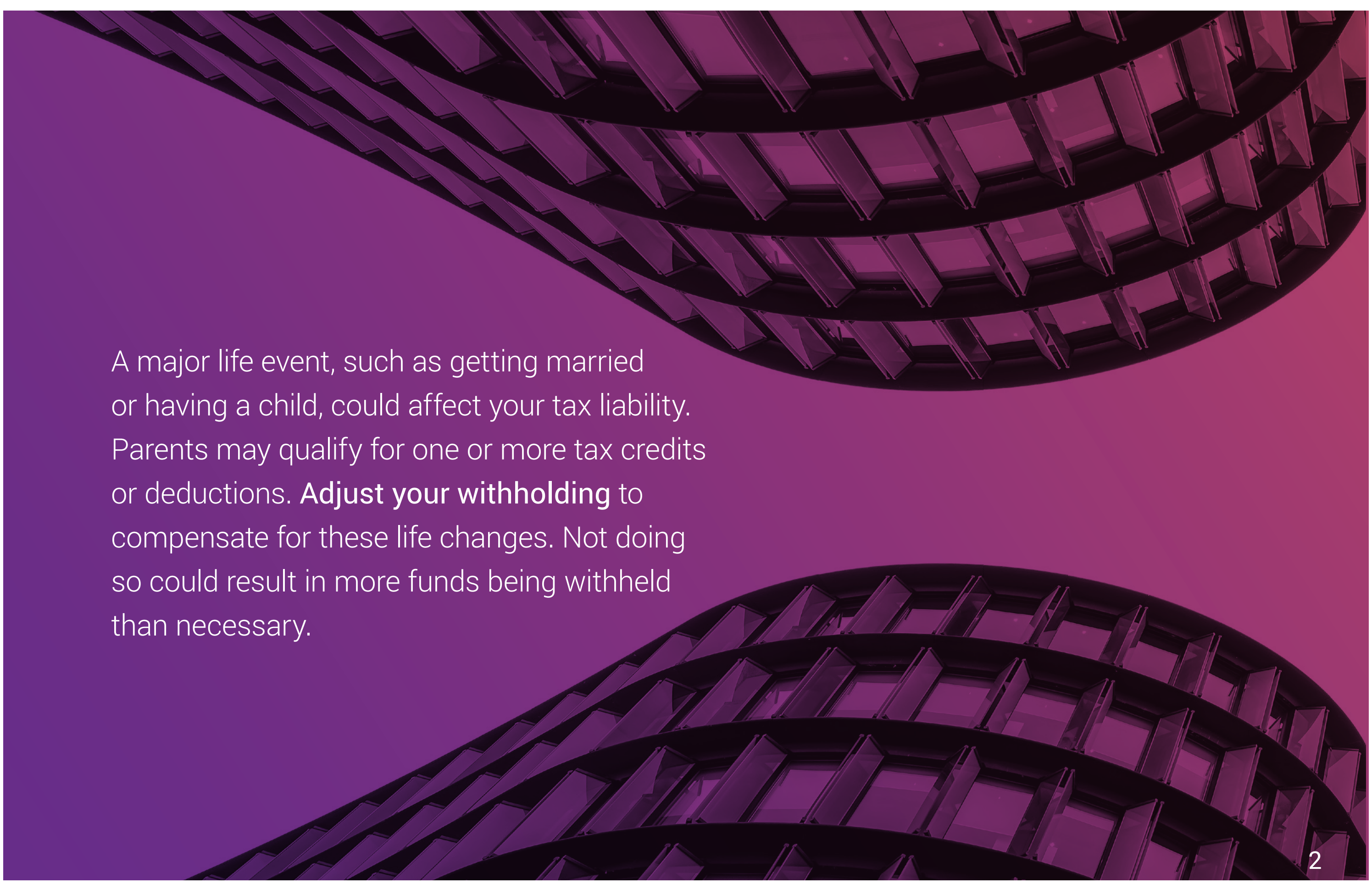
To start things right, here are some tips to keep in mind.

Tax returns and withholdings

Having a baby — or adopting a child — could affect your filing status. For example, a single adult with a baby may be able to change his or her filing status to head of household. In some cases, changing your filing status could mean a better tax rate. If you're married and used to filing separately, you may have to change your filing status to claim certain credits and deductions.

Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
10%	Up to $9,700	Up to $19,400	Up to $13,850	Up to $9,700
12%	$9,701–$39,475	$19,401–$78,950	$13,851–$52,850	$9,701–$39,475
22%	$39,476–$84,200	$78,951–$168,400	$52,851–$84,200	$39,476–$84,200
24%	$84,201–$160,725	$168,401–$321,450	$84,201–$160,700	$84,201–$160,725
32%	$160,726–$204,100	$321,451–$408,200	$160,701–$204,100	$160,726–$204,100
35%	$204,101–$510,300	$408,201–$612,350	$204,101–$510,300	$204,101–$306,175
37%	$510,301+	$612,351+	Over $510,301+	Over $306,176+

*Effective for tax year 2019



A major life event, such as getting married or having a child, could affect your tax liability. Parents may qualify for one or more tax credits or deductions. **Adjust your withholding** to compensate for these life changes. Not doing so could result in more funds being withheld than necessary.

What credits are available?

The **child and dependent care tax credit** allows married couples filing jointly to claim up to $3,000 in child care expenses per qualifying individual (up to $6,000 total). The qualifying individual must be under the age of 13 and claimed on the tax return as a dependent. Married couples claiming the credit must both be working and file jointly. How much you can claim depends on your income. It's important to note a parent must have custody of the child for more than half of the year to qualify for this credit.

Note: An eligible child must be under the age of 18 at the time the qualified expense is paid or a person who is physically or mentally incapable of taking care of themselves.

An **adoption tax credit or income exclusion** could be an option for you if you adopted a child or tried to adopt a child. The non-refundable tax credit is available for certain qualified adoption expenses. Qualified adoption expenses don't include expenses that someone pays to adopt the child of their spouse. How much a person can claim is dependent on income and is capped at $14,080. In addition, parents may be able to exclude from their gross income up to $14,080 of qualified adoption expenses paid by an employer under an adoption assistance program. Both a credit and an exclusion for expenses may be claimed, but not for the same expense.

The **earned income tax credit** is a refundable credit for people who earn low to moderate incomes. Even if you didn't qualify for this credit before, you may now qualify as limits are set higher for those with children.

> Many parents can claim tax credits to offset the amount of tax they owe after having a child, but each credit comes with specific qualification requirements. Your CPA can help you decide the best route to make sure you don't leave any money on the table.

Many parents can claim tax credits.

A **child tax credit** is worth up to $2,000 per qualifying child, with a refundable portion up to $1,400. To qualify for the child tax credit, a child must be under the age of 17 and claimed as a dependent.

A $500 credit for dependents who are ineligible for a child tax credit is also available.

What about the cost of child care?

Child care can get expensive, but there are ways to reduce the overall cost with a little tax-friendly planning.

Financial planning tip — Start saving early for education by opening up a 529 plan account for your child. A 529 plan is an excellent choice for college savings since contributions grow tax-deferred and the distributions are income-tax-free if they are used for qualified education expenses.

You may want to take advantage of an employer's dependent care flexible spending account. These accounts help you pay for child care by allowing you to divert up to $5,000 of your salary on a pre-tax basis and use it to be reimbursed for these child care expenses.

Parents or guardians of minor children may qualify for the **child care tax credit.** If you paid someone else to watch your child, you may be able to claim a credit of up to $3,000 for one child or dependent, and $6,000 for two or more.

If you choose to hire a nanny to care for your child, you may be subject to **household employment taxes**. Your CPA can help you navigate these taxes to ensure you're compliant.

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Other smart financial planning moves

Guardians and wills

A will provides instruction on how, when and on what terms your assets will be distributed to your family and other beneficiaries at your death. Updating or creating a will becomes particularly important when having children as it is the legal document where a guardian is appointed for minor children.

Review beneficiary designation forms

Retirement accounts and life insurance policies pass according to the beneficiary designations rather than a will. Review beneficiary forms for retirement accounts and life insurance policies to ensure the proper individuals are listed, especially after children are born.

Life and disability insurance

Consider obtaining life and disability insurance as a way to protect you or your spouse's income stream in the event of a death or disability. This is important for young families whose financial security is dependent on their ability to earn income.

What else should I know?

Getting a Social Security number for your child should be at the top of your to-do list. A Social Security number is required to claim your child as a dependent on your income tax return. You'll also need their Social Security number to apply for government services for your child.

For most parents, obtaining a Social Security number is a straightforward process that can be done soon after birth. This process is more complicated if you're adopting a child from another country. You'll have to wait until the adoption is final and the child is in the United States before you can apply for a Social Security number.

> Parents must apply for the child's Social Security number at their local Social Security Administration office.

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