Tax Breaks Every Parent Should Take Advantage Of

What to know about the child tax credit and other tax deductions and exemptions that can save you money

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Kids are expensive, so if you have them, it's worth studying up on tax breaks for which your family may be eligible, especially if you're new parents who haven't claimed dependents before. Here are 12 deductions, exemptions and ways to save tax-free dollars from tax expert Barbara Weltman, attorney and author of "J.K. Lasser's 1001 Deductions and Tax Breaks 2016: Your Complete Guide to Everything Deductible."

Remember, while many tax breaks have limitations, those limitations are based on your adjusted gross income, not actual earnings. Don't miss out on important savings because you think you make too much.

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Dependency exemption. This is a biggie. Claiming kids as dependents allows you to deduct $4,000 per child from your income. Kids must have a Social Security number, so be sure to request your new baby's number before you leave the hospital. Be aware: Divorced parents can't both claim the exemption, nor can they divide it — it's awarded to one tax filer. Also, the exemption phases out for high-income earners.

Child tax credit. For each child under 17, you can claim a $1,000 tax credit if you earn less than $110,000 per household or $75,000 per single head of household. The credit applies to foster children and stepchildren as well.

Earned Income Tax Credit (EITC). This credit has a few eligibility rules and is dependent on how much you make and how many kids you have. Meant for low income families, it's a refundable tax credit, meaning you may get money back even if you had little or no tax withheld. "Keep in mind, you must file your tax return," Weltman says. "You may think you don't earn enough money to file, but you won't get the credit if you don't."

For example, parents with two children who earned up to $23,630 in a year may qualify for the full $5,548 credit. (The full credit varies depending on how many kids you have.) If the household income is between $23,630 and $49,974, you may be eligible for a partial credit. If you earn more than $49,974, you're not eligible.

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Adoption tax credit. If you adopted recently, you could receive a credit of up to $13,400 per child. For 2015, families with a modified adjusted gross income of $201,010 or less qualify for the full credit. Read up on income limits and timing for claiming this credit.

Child and Dependent Care credit. Working parents may be able to claim this credit for childcare for qualifying children — primarily those under 13. Teens over 13 with special needs may also qualify. The credit is dependent on income, but even high-income families can claim some credit. Expenses taken into account in figuring the credit are capped at $3,000 for one child and $6,000 for two or more.

Dependent Care flexible spending account (FSA) aka Childcare Reimbursement Account. Some employers offer this FSA that allows you to deposit pre-tax dollars for childcare expenses. Weltman cautions that the Dependent Care FSA may bar you from claiming any Child and Dependent Care credits. You have to coordinate these tax breaks.

Health care for your child. Keep track of medical expenses that you pay out of pocket for you and your kids because you can deduct qualified healthcare costs if they're greater than 10 percent of your adjusted gross income. You must itemize expenses when you do your taxes, and medical expenses paid from a health savings account or FSA can't be deducted. Special schooling for a disabled child is eligible.

Health Premium tax credit. If you've purchased health insurance through a government exchange (federal or state) and you fall within a certain income range, you may receive a tax credit you can apply toward your monthly healthcare premium. Use this subsidy calculator to see if you qualify. (If you purchased directly from an insurance company, you don't qualify.)

529 ABLE (Achieving a Better Life Experience) account. This savings plan for disabled children is brand new, with some similarities to a 529 education savings plan. It's designed for families with a young person diagnosed before age 26 with a developmental disability, mental illness or condition such as cerebral palsy. The ABLE account allows families to save up to $14,000 per year in a tax-free account (donations are not tax deductible). The money you spend on qualifying expenses is tax exempt. Although not broadly available yet, states are working on implementation. "The purpose is to allow families to save for expenses without losing eligibility for federal assistance such as Medicaid or Supplemental Security Income," Weltman explains.

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Joanna Nesbit is a freelance writer specializing in education, parenting, lifestyle and family travel.

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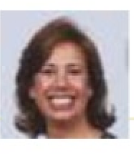


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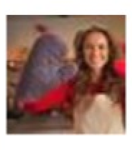
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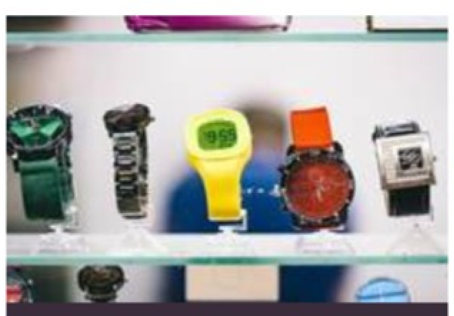
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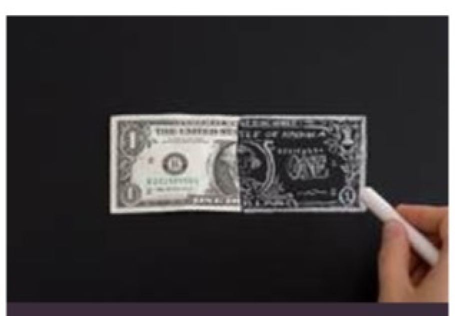
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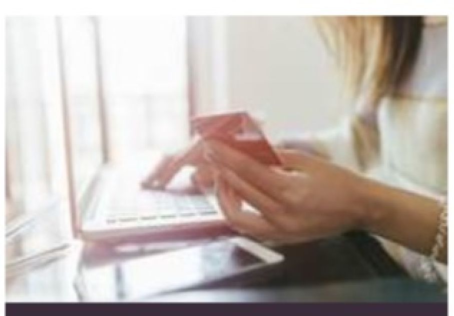
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