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TAXES

Four Income Tax Breaks for New Parents

You just welcomed a new bundle of joy into the world. But once the euphoria has worn off, you'll start to realize—if you haven't already—that kids are expensive.

Ken Berry • Aug. 14, 2023



Congratulations! You just welcomed a new bundle of joy into the world. But once the euphoria has worn off, you'll start to realize—if you haven't already—that kids are expensive. Fortunately, the tax law provides several tax breaks for new parents, some of which were highlighted in a recent IRS post (IRS Tax Tip 2023-89, 7/10/23). Here are four examples.

1. Child Tax Credit: This is a partially refundable tax credit available to parents with dependent children under age 17. For 2023, the Child Tax Credit (CTC) is \$2,000 for each qualifying child if your modified adjusted gross income (MAGI) is \$200,000 or less for single filers or \$400,000 for joint filers. The maximum refundable portion of \$1,600 in 2023 is reduced by \$50 for each \$1,000 above the threshold. Note: Recent legislative enhancements to the CTC have expired, but could be revived.

2. Dependent care credit: Similarly, a dependent care credit can be claimed for costs of caring for under-age-13 children so you (and your spouse, if you're married) can work. The credit for parents with an adjusted gross income (AGI) above \$43,000 is 20% for the first \$3,000 of qualified expenses for one child or \$6,000 for two or more children, for a maximum credit of \$600 or \$1,200, respectively. Note: As with the CTC, recent legislative enhancements to the dependent care credit have expired, but could be revived.

3. Adoption credit: For 2023, parents can claim a maximum credit of \$15,950 for qualified expenses incurred to adopt an eligible child. An eligible child is one who is under age 18 or physically or mentally incapable of self-care. The credit begins to phase out for taxpayers with a MAGI above \$239,230. Once your MAGI reaches \$279,230, your credit is zero. Note: Generally, the credit is available in the year that qualified expenses are paid or incurred. However, if the adoption isn't finalized by the end of the year, the credit may be claimed in a subsequent year.

4. Higher education credits: College is a long way off, but there are potential tax credits to look forward to. Usually, parents may qualify for two higher education credits, subject to phase-outs.

- **AOTC:** The maximum annual American Opportunity Tax Credit (AOTC) of \$2,500 is available for up to the first four years of study for each student. For example, if you have two kids in college at the same time, the maximum AOTC is \$5,000.
- **LLC:** In comparison, the maximum Lifetime Learning Credit (LLC) is \$2,000. Also, unlike the AOTC, the LLC applies to each taxpayer. So, for two children in school, the maximum credit remains \$2,000. Conversely, the LLC is available for all years of study—not just the first four years.

Each credit is subject to a phase-out based on MAGI. Most important, you can generally choose one of the credits, but not both, in the same tax year.

Reminder: These are only four tax breaks that may be available to parents of newborns and young children. Others may apply to your situation. Obtain guidance from your professional tax advisors.

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