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Kids Help Parents 'Cash in' at Tax Time

By **Sandra Cutting, CFP, EA**

A child is a joy, a challenge – and yes, a tax deduction that can reduce your taxable income by a whopping \$3,500.

But to claim your child as an exemption, these requirements must be met:

- **Relationship:** The child must be your son or daughter (including a stepchild, adopted child, or eligible foster child), or your sister or brother (steps included), or descendants of any of these.
- **Age:** The child must be under the age of 19. Or, if he or she is in school full-time, under the age of 24.
- **Residency:** The child must live with you for more than half of the year.
- **Support:** The child must not pay more than half of his or her own support.
- **Citizenship status:** The child must be a U.S citizen or resident, or resident of Canada or Mexico.
- **Marital status:** If your child is married, he or she must not file a joint return with his or her spouse.

If your child doesn't meet all of these requirements but you still provide more than half of the child's support and other requirements are met, you may still be eligible for the exemption.

Child Tax Credit

You may be able to reduce the amount of tax owed by up to \$1,000 if you have a qualifying child under the age of 17.

The total amount of the Child Tax Credit is \$1,000 times the number of dependent children under 17. But, the credit does have some limitations:

- You lose some of the credit if your income is more than \$75,000 (\$110,000 if married filing jointly).
- The credit is nonrefundable. This means that if your total tax before the child tax credit is \$600, you'll only get a \$600 credit (taking your tax down to \$0) no matter how many children you have.

But, if the credit reduces your tax to \$0, you may be due a refund of the remaining credit amount. To qualify for the additional Child Tax Credit, you must have wages or

self-employment income of more than \$12,050. Even if you don't make that income requirement, in some cases you are eligible for an additional credit if you have three or more children and paid Social Security taxes.

If you're just missing out on the credit because your income is a little too high, you can take steps to get your income below the \$75,000 or \$110,000 threshold. Options may include putting money in your employer's 401(k) or cafeteria plan or making contributions to a traditional IRA.

Adoption Credit

Did you adopt a child in 2008? A credit of up to \$11,650 may be claimed for the associated costs. If you adopted a special needs child, the amount may be claimed regardless of the actual fees.

Keep in mind, if your 2008 tax due is less than the adoption credit, you can't get the balance as a refund. But, you can carry the remaining amount forward to your 2009 return.

Child Care Credit

Are you paying someone to care for your child while you work or go to school? A credit of 20 percent to 35 percent of the amount paid – up to \$3,000 of expenses for one child or \$6,000 for two or more kids – may be claimed against your tax.

If you have a flexible spending account or cafeteria plan available at work, see if the pre-tax savings are more valuable to you than the Child Care Credit.

Earned Income Credit

This credit can put up to \$4,824 back in your pocket, even if you don't ordinarily have to file a return or pay any tax. If you have one child and your income is less than \$36,995, or if you have two children and your income is less than \$41,646, you may qualify for the Earned Income Credit.

You can even get some of the credit before tax time by asking your employer to include part of the eligible amount in your paychecks.

For more information about smart tax filing, contact your tax or financial professional.

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