



2019.20 Training

Subject: Claiming Tax Credits for a New Baby or Adopted Child | Talking Points

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Having or adopting a new child represents an enormous change in your life, but what does it mean for your taxes? Because of the 2017 Tax Cuts and Jobs Act (TCJA, or tax reform), the rules have drastically changed for new parents.

Can I claim my new child as a dependent?

Tax reform did away with personal and dependent exemptions, meaning you can no longer receive an exemption for any dependent or yourself. Previously, the exemption amount was \$4,050 per dependent and taxpayers, and there was no limit to the number of dependents for whom you could claim it. All other benefits associated with a dependent remain the same and there is even a new one. So what are the tax benefits for dependents?

Claiming the new standard deduction

Although the personal and dependent exemptions are no longer available, the standard deduction has almost doubled for each filing status, covering some of the missing exemption amount.

The new standard deduction, by filing status, is:

Status	Amount
Single	\$12,000
Married Filing Jointly or Qualifying Widow(er)	\$24,000
Married Filing Separately	\$12,000 (may be \$0 due to spouse filing status)
Head of Household	\$18,000

Can I claim any credits or deductions for my adopted child?

Adoptive parents can still claim the Credit for Qualified Adoption Expenses, also known as the Adoption Credit, for all qualified adoption expenses paid. For the 2018 tax year, this nonrefundable credit is worth up to \$13,810 and can be claimed for costs related to the adoption of an eligible child (under age 18 and not a spouse's child). These expenses can include fees, court costs, legal fees, agency fees, travel expenses, and expenses required by the state as a condition of the adoption. Any unused portion of the credit can be carried over for five years.

If the adopted child was born in the US or is a resident alien, you can claim the credit the year after you incurred the related expenses. But if the adoption is finalized the same year you began incurring related expenses, you can claim the Adoption Credit that year. If you incur adoption expenses in the year after the adoption is finalized, you can claim the credit for the year you incurred these expenses.

Even if the adoption is unsuccessful, you can still claim the credit.

If you adopt a "special needs" child, such as a child from foster care, you may claim the full credit even if you did not spend any money for the adoption. A "special needs" child is not necessarily a child with medical issues; the term also covers family groups and others with special circumstances. State and local agencies determine who qualifies as a "special needs" child.

Can I claim the Earned Income Tax Credit (EITC) if I have, or adopted, a new child?

A new child raises the amount of income you can earn and the amount of the EITC you may be eligible for. If you were previously ineligible for the EITC, having a child may allow you to claim it.

Can I claim a credit for daycare expenses?

If you've incurred childcare expenses, you can claim a portion of these by claiming the Child and Dependent Care Credit. The amount of expenses you can claim are based on the number of qualifying individuals who are receiving care. The allowable amount of expenses are up to \$3,000 for one child and \$6,000 for two or more children. If you are paying for care for two or more children, the \$6,000 can be split in anyway. For example, you have an 18 month old and a 10-year old. You pay \$8,000 a year for the 18-month old and \$1,000 for the 10-year old, you can claim a credit on a total of \$6,000 of the \$9,000 you paid. This credit is even allowed when you have daycare expenses for older children (and other dependents) if the individual needs the care because they are unable to care for themselves.

The credit is a percentage of the allowed expenses and is based on adjusted gross income (AGI), the maximum credit is 35% of the expenses and the lowest credit is 20% of the expenses. This credit has no maximum income limit so taxpayers with higher incomes can claim the credit.

How did tax reform change the rules around having a child?

If you've had a child, you can claim child-related tax benefits, such as the Child Tax Credit the credit for Child and Dependent Care Expenses. There is no longer an exemption deduction for dependents.

Can I claim childcare expenses on my tax return?

Yes, you can claim a credit for your childcare expenses – the Child and Dependent Care Credit – though the amount of credit is based on your income.