

Tax Benefits of Claiming Children

Claiming children on your income tax return can help reduce your tax liability or increase the amount of your income tax refund.

Dependency exemption

The Tax Cuts & Jobs Act eliminated the dependency exemption for tax years 2018 through 2025. There are several other tax credits that parents can take advantage of.

Child Tax Credit

If your 2023 income is under the phase-out range, you will get an extra \$2,000 credit for each child under the age of 17. The phase-out range begins at \$400,000 for married taxpayers filing joint (\$200,000 for all other filers). Ending phase-out amounts vary. If your credit is in the phase-out range, you might consider increasing your tax deferred retirement contributions to lower your income. If your credit is more than your tax, some or all of the excess may still be available for refund.

The TC&JA also created a new “partial credit” of \$500 for dependents age 17 and over.

Earned Income Credit

If you are a low-income wage earner with a qualifying child, you may qualify for the Earned Income Credit. This credit will be refunded to you even if you owe no tax.

Child Care Credit

Child care expenses for your qualifying child are eligible for either of the following:

- A tax credit of 20-35% (based on income) of the first \$3,000 spent on child care. (\$6,000 for two or more children)
- A \$5,000 exclusion from income under an employer plan.

Taxpayers with more than one child and lower income will benefit more from the credit, but most taxpayers will benefit most from the exclusion from wages. The qualifying child needs to be your dependent unless you are divorced or separated. In the case of divorce or separation, the custodial parent gets the Child Care Credit. The non-custodial parent gets no tax benefit for paying for child care.

American Opportunity Tax Credit

Your children in college might qualify you for the American Opportunity Tax Credit. The credit is 100% of the first \$2,000 spent for tuition and required materials, and 25% of the second \$2,000. The maximum credit is \$2,500 per student for all four years of college. To qualify, your income needs to be under \$90,000 (\$180,000 MFJ) Also, if your tax is reduced to 0, you may still get 40% of the credit refunded.

Adoption Credit

Adoption credit is a tax credit for qualified adoption expenses paid to adopt an eligible child. The credit is nonrefundable, which means it's limited to your tax liability for the year. The adoption tax credit lets families who were in the adoption process during 2022 to claim up to \$14,890 in eligible adoption expenses for each eligible child. Taxpayers can apply the credit to international, domestic, private, and public foster care adoptions.