TaxUpdate

★ ★ ★ ★ SPECIAL EDITION

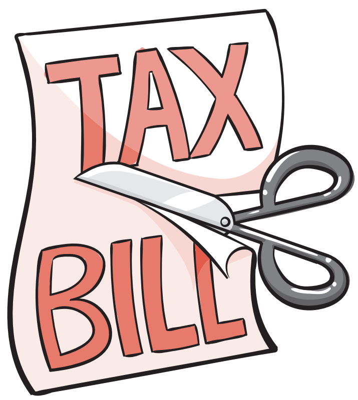
LEVERAGING THE TAX CODE TO BUILD CHILDREN'S WEALTH

The tax code is filled with incentives that can help reduce the cost of raising children while creating opportunities to build wealth for their future. These tax breaks and planning strategies can provide significant savings and give the next generation a financial head start – but only if you know they exist. Use this guide to expand your understanding of these opportunities AND discover one or two ideas you can put to work for your family's benefit.

The Basic Tax Breaks

The best place to start is a quick review of the parts of the tax code most see on their tax return each year related to children and dependents. Usually these tax benefits focus on reducing the cost of raising a child. Spend a minute or two reviewing them and ensuring you are covering these savings;

- **Child Tax Credit.** This credit can reduce your tax bill by up to $2,200 for each qualifying child under age 17. The credit begins to phase out for higher-income taxpayers at $400,000 for married couples, $200,000 for everyone else.
- **Child and Dependent Care Credit.** When you use daycare or preschool so you and your spouse can work or look for work you may qualify for up to a $1,050 credit for one child, or $2,100 for two or more children.



AND this potential benefit can also be provided by your employer!

- **Earned Income Tax Credit.** This credit provides additional tax savings for lower and moderate-income workers. Families with qualifying children can receive up to $8,231. You may qualify even if you owe little or no federal income tax.
- **Adoption Credit.** Get up to a $17,670 tax break when adopting a child. Eligible costs include adoption fees, court costs, attorney fees, and travel expenses.
- **Head of Household filing status.** You can decrease your taxable income by $24,150 if you're unmarried and provide more than half the cost of maintaining a home for a qualifying child or dependent.
- **Credit for Other Dependents.** This credit provides a $500 tax break If your child doesn't qualify for the Child Tax Credit. This usually happens with older children, college students, elderly parents, or other qualifying dependents.

Now that you have the basics, read on. This is where tax planning and wealth building ideas for children can be found.

The $1 Million Idea

There is no minimum age for opening a Roth account, you only need to have earned income.

Remember this tax law, as it can help your child build a fund for a richer future.

- **STEP 1: Create earned income.** This could be mowing lawns, babysitting, dog walking, pet sitting and more. Even income from a lemonade stand is earned income.
- **STEP 2: Record the earned income.** Document the earned income. A W-2 is best, but a notebook and bank deposits can support their earnings.
- **STEP 3: Open a Roth IRA.** A parent or grandparent opens the account as custodian, then contributes to the child's Roth IRA on behalf of a child with earned income. Consider matching your child's earnings with gifts so they can keep their lawn mowing money while still funding the Roth.
- **STEP 4: Invest and grow.** Contribute the maximum allowed or the child's total earned income, whichever is less. The 2026 contribution limit is $7,500.
- **STEP 5: Understand the rules.** Roth deposits are in after-tax dollars (not a problem for most kids as their earnings typically are not high enough to be taxed.) And any withdrawals of earnings prior to age 59½ are subject to an early withdrawal penalty. But the deposits themselves are not taxed as the tax was already paid.

Over time, this practice can build a Roth IRA that is in excess of $1 million dollars and will be tax-free for your child in their retirement years.