



Tax Breaks for Parents

Parents used to joke about children being “little deductions” off their taxes every April. Those little deductions have risen to some pretty significant tax breaks. You just have to know they are available. The possible deductions include the Dependent Exemption, the Child Tax Credit, the Additional Child Tax Credit, the Dependent Care Tax Credit, and the Earned Income Tax Credit. That’s a lot of deductions.

1. The Dependent Exemption, good on your 2010 tax return for \$3,650 off your taxable income for each child in the family who qualifies as a dependent, means the total income you pay taxes on is reduced by \$3,650 for each child.

2. The Child Tax Credit, good on your 2010 tax return for \$1,000 for every dependent child under the age of 17, is even better than an exemption because it means the actual

amount of tax you owe is reduced by \$1000 for each child.

3. The Additional Child Tax Credit is an additional credit some parents qualify for. If this applies to you, it means you are entitled to an additional credit. It may also give you a refund.

4. The Dependent Care Tax Credit helps parents with children under the age of 13 cover some child-care expenses. You can claim a credit equal to 20 percent or more of child-care expenses up to \$3,000 per child. For example, if you claim \$3,000 for one child in child-care costs for the year, you would be entitled to a credit of at least \$600. If you claim \$3000 for two children, you would be entitled to a credit of \$1200.

5. The Earned Income Tax Credit is a tax credit for parents who work

(Continued on page 4)

Financial Tips for New Parents

The prospect of being a new parent is one of the most exciting and most frightening prospects in life. While babies don’t, unfortunately, come with an instruction manual, they do come with expenses and responsibilities that can be overwhelming for new parents. With all the excitement of a new arrival, finances sometimes get pushed aside. Who really wants to balance the checkbook when there are all those cute baby items begging you to “Buy me”?

New parents have what seems like a million things to do before the baby arrives. There’s that new crib to buy along with blankets, diapers, clothes, car seats, bottles, pacifiers—the list goes on and on. According to the Department of Agriculture, the average cost of a baby for a middle-income family can be upwards of \$11,000 a year.

In this newsletter, we’ll cover some of the most important things to remember when a baby is on the way and give you some tips that our Family Financial Education Foundation friends have compiled on ways to get the things you need without breaking the budget. After all, this is a time you should be able to enjoy, so we want to help you keep worries to a minimum. ■

Communicate with Your Partner

The most important thing you can do when you discover a new baby is about to arrive is talk. Finances is one of the leading reasons for divorce in America and the biggest reason finances is such an issue is because partners don't talk to one another and make decisions together. The theoretical conversations you may have had a few times in the past will now become very real. Lots of decisions will have to be made. Nothing should be assumed unless you have discussed it together. Following are half a dozen discussion subjects to get you started. They are big subjects so allow yourselves time to talk through them thoroughly. Your Family Financial Foundation Education counselor can help you with information you need to have these discussions.

1. Will one of you stay home? If so, for how long? Could your family survive on just one income? Have you ever done so before?

2. How will you make sure you live within your means? Can you resist

the temptation to use your new arrival as an excuse to purchase things you can't afford such as a new car or a bigger home? Not everything has to fit the stereotype. Decide what's important to you within the constraints of what you can actually afford. How will you both commit to not overspend? See the article in this newsletter with tips for saving money to help you make some decisions here.

3. Do you have an emergency fund? If not, what will you do to get started? There's no time like the present to establish an emergency fund. Do what is possible. Remember, you're trying to set aside savings for necessary living expenses only, not your full monthly income. Things happen. The car breaks down, you need a new washing machine, or one of you is laid off. Pare down the expenses and budget together now to set aside some money.

4. Do you have life insurance? You'll need to be sure that if something unfortunate happens to you, your child can still maintain the lifestyle you've

been providing. Only life insurance can provide that financial security. You don't want to go broke buying insurance, but if you can afford it, make sure you have enough.

5. What is available through the benefits your employer(s) provides? Which of your jobs offers the best family medical coverage? Which includes your preferred doctors or gives you the most choices? Which plan will give you the best deal when it comes to labor and delivery? Find out about the health insurance reimbursement account (a flexible spending account [FSA]). An FSA requires only minor paperwork and could save you 25% or more on your medical expenses through the tax savings you will get. When is your next annual enrollment date? For many employers, changes can be made before the enrollment date when a family change such as a new baby takes place.

6. Have you thought about making a will? An important reason to have a will when you have children is to name a guardian who would raise your child if you and your spouse weren't around. Revisit the beneficiary selections of any accounts you have. This is a good time to get out the paperwork on any retirement and investment accounts to make sure that, should the worst happen, your family is protected. While you and your spouse probably want to name each other as beneficiaries, you will likely want to name your child as a secondary beneficiary so that he or she receives the money if something happens to both of you. Be sure to find out what your accounts allow in this area. Different types of accounts have different rules when it comes to passing money on to a minor. If the account requires that the money is paid out in a lump sum, a hefty tax bill could take a chunk out of your child's inheritance. You could name someone you trust to act as a "custodian." The custodian can make legal choices that make sure your child receives the best result. ■

Ways to Keep Shopping Impulses under Control

- Always keep an ongoing list of things you need to buy on your next trip to any store. Review the list before you leave, and remember to take it with you!
- Make as few trips to the store as possible each month, and avoid the malls entirely.
- Give yourself a time limit for how to quickly get in and out of the store, along with a personal challenge to not buy anything that's not on your list.
- Avoid sales except for necessities. It's too easy to justify impulse items when they're on sale.
- Beware of give-away gimmicks that entice us to buy things we don't need.
- Ask a friend to be a shopping buddy to help you stick to your budget.
- Develop a desire for meaningful experiences rather than things. ■

Money-saving Tips for New Parents

Here are some of the best ideas we've collected for saving money. Remember, too, that generous friends and family will probably bestow you with some very nice gifts of clothing, toys, gift cards, maybe even cash, so resist the temptation to run out and buy a lot of things. You may want to wait until after the baby is born to see what you really need.

1. Start a gently used baby co-op with friends and family. In an ideal world, you might wish everything could be new, but the truth is babies outgrow clothing, chairs, and even blankets in a very short time. We found one group of friends who have a baby shower every time a new baby is expected. Instead of buying something new, they gather up all their gently used baby clothing, accessories, and furniture and bring it to the shower. Some items have been through the whole group more than once, but every baby ends up with a closetful of clothes and the new mother doesn't have to buy a thing.

2. Wait until you actually need an object to buy it. You may need far less than you've been told you will. For example, household objects are more fun than most of those store-bought toys all the mothers in the neighborhood are telling you about. One mother told us she put all her plastic storage bowls and lids in a box, and her toddler spent hours taking them out and putting them back in the box. As a bonus, the bowls and lids are not toxic, not sharp, and don't have small parts that can come off in a little mouth. One exception to this is clothes. Take advantage of end of season sales to stock up on next year's needs. Buy summer clothing for next year in the fall sales. This takes a little planning, but is a great way to save money.

3. Are you buying for you or for the baby. Fancy crib bedding is for your benefit and not really necessary. If you can afford it, great, but if it's

going to make a hole in your budget that you can't fill, settle for something more generic at a lower price. The most important thing for your baby is that you keep the bedding clean. He or she won't mind if the crib sheets don't have a designer look. That goes for baby furniture as well. There is no need to sink hundreds of dollars into a fancy oak crib, no matter how gorgeous it looks in the store. Popular low-price and discount stores often have furniture for a fraction of the price. It may not be as chic as the cribs in the fancier stores, but you'll be glad you didn't spend the money when you move your toddler to a twin bed in a year or two.

4. If you can find used baby items at a thrift store, that's even better. Many cities now have thrift stores that deal exclusively in baby items. One father told us he found a great stroller at a baby thrift store for only \$25. Now that's a real deal! Websites like Craigslist.com are also great resources for finding second-hand items available in locations close

to you. The site lists individuals that have items for sale as well as businesses. You contact the seller personally to make the purchase so you don't have to worry about entering your banking or credit card information online. Ebay.com is also another good resource, especially for finding used fancy clothing for weddings or holidays.

5. Talk to friends and family about what worked and what didn't work. Other parents are a great source of baby product information. Find someone who has similar tastes and spending habits to you. A friend who buys every new gadget is not going to give you good tips on essentials. Your friends may have disagreements on what they like, but at least you'll get an idea of what worked for different people and be able to make an informed decision. Another way to stunt your new appetite for spending is to ask yourself: Did this exist a few years ago? With all of the new products being marketed to parents, it can be tempting to spend money on unnecessary products. One way to judge an item's use is to ask whether

(Continued on page 4)

Budget More Than Your Money

When children come into the home, more than your budget is affected. So is your time. It doesn't take long to realize that you won't be able to get all the things done that you could before you had a baby. This can lead to a lot of frustration for some parents. When dad arrives home from work to find the floor strewn with toys and dinner only half ready, mom can feel like she's underachieving. One way to help combat those feelings is to allow yourself a set amount of time for each task you want to do during the day. A lot can be accomplished in 30 minutes so that might be a good place to start. First, make a list of what you'd like to get done in a day. Second, pick the four most important things on the list. Third, choose two hours during the day when you are most likely to have time that's not required by the baby. Fourth, during those two hours, set the timer for 30 minutes and work on your first task. When the timer goes off, stop that task whether you're finished or not and move on to the next task. You might be surprised by how much you get accomplished.

Another thing that helps is to write down all the tasks you do during the day as you do them. Include things like bathed the baby, fed the baby, baby's laundry, etc. At the end of the day, you'll see that you've actually done a great deal. You can feel better about how you're spending your time. ■

ARTICLES

TIPS & TRICKS

Money-saving Tips for New Parents *(Continued from page 3)*

it existed a few years ago or when you were a baby. If not, it's very possible you can get along just fine without it.

6. Join baby product clubs and communities.

Most major baby products companies, e.g., Gerber, Similac, Pampers, Huggies, and others have websites where you can sign up to receive coupons for and samples of their products. If you sign up, you'll receive coupons in the mail or by e-mail. Parents we talked to reported getting coupons for savings as high as \$5.00. That's pretty low effort on your part for some nice savings opportunities. Some companies like Similac send the coupons in the form of a check so low-price stores like Costco accept the checks. This gives you a double savings—the amount of the coupon and the lower price the discount store offers.

7. Check the weekly mail promotions for deals on diapers and other baby essentials.

Newborns use as many as 10 diapers a day, which can be quite an expense. If you don't take the paper, perhaps you could ask someone who does—a friend or family member—to save the coupons for you. Drugstores also send out circulars now with good savings on products. If you can't find someone to save the coupons for you, you may be able to pick up copies of the circulars at the store itself. You can also ask the customer service department at your local grocery store if they have any special baby clubs. They may have money-back rebates when you purchase certain quantities of baby products. Another good source for coupons for baby supplies is your pediatrician's office. Next time you visit, ask about coupons or sam-

ples they have available.

8. Make your own baby food (much easier than it sounds). Did you know you can make your own baby food and it is more nutritious and definitely less expensive than store-bought baby food? Parents often feel there must be something especially good about baby food from famous brands that justifies the high price. Not true. There is nothing magical about baby food. Adult foods that are similar in consistency to baby foods are just as good, but cost much less. One jar of baby food carrots, for example, costs about the same as a whole pound of fresh carrots. Baby food in jars offers convenience, but you can find small plastic storage containers that work just as well and you can use them over and over again.

A really great method for storing homemade baby food is in the freezer. Freeze food that you puree, such as steamed vegetables and fruits, in ice cube trays. This way you will have premeasured one-ounce portions of food. Just fill the trays and cover them with plastic wrap to freeze. After the food is frozen, remove the cubes from the tray and store them in plastic freezer bags marked with the date. When you're ready to thaw the food for eating, place the amount you need in the refrigerator. It will thaw in about four hours.

Don't thaw food at room temperature. If you need the food faster than four hours, you can thaw the food by placing the cubes in a small bowl and then placing the small bowl in a larger bowl that has hot water in it. This method takes about twenty minutes. If the pureed food is a little too thick for your baby, just add water or formula to the desired consistency. ■

Tax Breaks for Parents

(Continued from page 1)

and have low wages. It reduces the amount of tax you owe and may even give you a refund.

Information for all of these credits is available in publications from the Internal Revenue Service, which we have listed below. Your Family Financial Education Foundation counselor can also help you find this information.

Dependent Exemption,
Publication 501

Child Tax Credit, Publication 972

Additional Child Tax Credit,
Publication 972

Dependent Care Tax Credit,
Publication 503

Earned Income Tax Credit,
Publication 596

All of these publications are available online at irs.gov or you may call 1-800-829-3676 to request a free copy by mail. ■

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Mon.-Thurs.: 7:00 a.m.-8:00 p.m.

Friday: 7:00 a.m.-7:00 p.m.

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