# The New Tax Credit for Parents - Transcript

**Tom Mullooly:** In episode 105 we talk about how the government's going to help you if you have kids.

Welcome to the Mullooly Asset Show, I'm your host Tom Mullooly, and this is episode number 105. Thanks for watching. So we get lots of calls, and emails, and questions that come in, great topics about the market, about investing, about financial planning. Today we want to talk about something that's tucked away in the new tax bill that you may not be aware of, you should know it though if you have children that are under the age of 17, but before I get into that, it's important to understand the difference between a tax deduction, and a tax credit. Two very different things, people kind of use them sometimes interchangeably, and they're wrong.

So a tax deduction is going to reduce the amount of income that you're going to pay taxes on. A tax credit works very different. With a tax credit, you hold that off until the very end, you calculate your taxes, and then at the bottom when you figure out what your taxes are, that's when you apply a tax credit. So a tax credit has a lot more power to most tax filers than any amount of tax deductions.

Prior to the new tax law that was recently signed, married couples with children, they of course got their standard deduction, now that's all changing, plus they would get $1,000 tax credit for each child. The $1,000 tax credit would phase out if you're say a married couple and had adjusted gross income of $110,000 or more. So the credit gets phased out if you make too much money under the old tax law. Also, under the old tax law, your deduction might be eliminated if you're subject to alternative minimum taxes. And the question I used to ask people when I got started in the business was, are you subject to AMT? And they would be what's that? And I said then you're not subject to AMT.

If you knew what AMT was you were probably a candidate for it, but it was an alternative minimum tax, so if you're not subject to AMT, don't worry about it.
Okay, under the new tax law, it's now a $2,000 tax credit per child, and they raised the income limit on who gets the credit. Get this, pay attention, it went from $110,000 for a married couple up to $400,000. This is a gigantic deal, understand that. Now a lot more people are going to qualify for this tax credit. So say you have three kids in your home that are under age 17, that's $6,000 in tax credits, that's a lot, that's really good. So, the credit is no longer permitted however if you're in the year that your child turns 17, so if you have triplets, that may not work for you in a while.

But, also understand that if you have children in your household that are now 17 or older, you may also qualify for another tax credit, this one's just $500. But, hey there's a lot of things in this new tax bill that are worth taking a look at, and really the ink is just drying on a lot of this stuff. We have clients that own their own businesses, they're getting final answers from the IRS on whether they're going to qualify for certain deductions, things like this tax law, people aren't just talking about this.

So it's not out there. There's going to be a lot of surprises, and good surprises. When people get to do their taxes in the Spring.

Good question, and thanks for watching episode 105, we'll see you on the next one.