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Tax & Business Alert

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WHY THE CHILD TAX CREDIT IS SO VALUABLE

If you're a parent, or soon will be, you're no doubt aware of how expensive it is to pay for food, clothes, activities and education. Fortunately, the federal child tax credit is available to help many taxpayers with children under the age of 17, and there's a dependent credit for those who are eligible with older children.

AN EXPANDED BREAK

Before the Tax Cuts and Jobs Act (TCJA) kicked in for the 2018 tax year, the child tax credit was $1,000 per qualifying child. But it was reduced for eligible married couples filing jointly by $50 for every $1,000 (or part of $1,000) by which their adjusted gross income (AGI) exceeded $110,000 ($75,000 for unmarried taxpayers). To the extent the $1,000-per-child credit exceeded a taxpayer's tax liability, it resulted in a refund of up to 15% of earned income (wages or net self-employment income) above $3,000. For taxpayers with three or more qualifying children, the excess of the taxpayer's Social Security taxes for the year over the taxpayer's earned income credit for the year was refundable. In all cases, the refund was limited to $1,000 per qualifying child.

Starting with the 2018 tax year, and applying through the 2025 tax year, the TCJA doubled the child tax credit to $2,000 per qualifying child under 17. If you're eligible, it also allows a $500 credit (per dependent) for any of your dependents who aren't qualifying children under 17. There's no age limit for the $500 credit, but tax tests for dependency must be met. Under the TCJA, the refundable portion of the credit is increased to a maximum of $1,400 per qualifying child. In addition, the earned income threshold is decreased to $2,500 (from $3,000 under prior law), which has the potential to result in a larger refund. The $500 credit for dependents other than qualifying children is nonrefundable.

The TCJA also substantially increased the "phaseout" thresholds to qualify for the credit. Starting with the 2018 tax year, the total credit amount allowed to a married couple filing jointly is reduced by $50 for every $1,000 (or part of a $1,000) by which

QUALIFYING CHILD MUST HAVE AN SSN

In order to claim the child tax credit for a qualifying child, you must include the child's Social Security number (SSN) on your tax return. Under previous law, you could also use an individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN).

If a qualifying child doesn't have an SSN, you won't be able to claim the $2,000 (or $1,400 refundable) credit. However, you can claim the $500 dependent credit for that child using an ITIN or an ATIN. The SSN requirement doesn't apply for non-qualifying-child dependents but, if there's no SSN, you must provide an ITIN or ATIN for each dependent for whom you're claiming a $500 credit.

their AGI exceeds $400,000 (up from the prior threshold of $110,000). The threshold is $200,000 for other taxpayers. So, if you were previously prohibited from taking the credit because your AGI was too high, you may now be eligible to claim the credit.

DON'T MISS OUT

The changes made by the TCJA generally increase the value of these credits and widen their availability to more taxpayers. Please contact us for further information or ask about it when we prepare your tax return. ■

CLAIMING THE HOME OFFICE DEDUCTION

Many people have found themselves working from home during the COVID-19 pandemic. If you're one of them, you might wonder, "Can I claim the home office deduction on my 2020 tax return?"

The short answer is: Only if you're self-employed. Employees can no longer claim home office expenses, and even self-employed taxpayers must follow strict rules to claim a deduction.

COPIOUS WRITE-OFFS

If you qualify, you can deduct the "direct expenses" of the home office. This includes the costs of painting or repairing the home office and depreciation deductions for furniture and fixtures used there.

You can also deduct the "indirect" expenses of maintaining the office. This includes the allocable share of utility costs, depreciation and insurance for your home, as well as the allocable share of mortgage interest, real estate taxes and casualty losses.

In addition, if your home office is your "principal place of business," the eligible costs of traveling between your home office and other work locations are deductible transportation expenses, rather than nondeductible commuting costs.

DEDUCTION TESTS

You can deduct your expenses if you meet any of these three tests:

1. Principal place of business. You're entitled to deductions if you use your home office, exclusively and regularly, as your principal place of business. Your home office is your principal place of business if it satisfies one of two tests. You satisfy the "management or administrative activities test" if you use your home office for administrative or management activities of your business, and you meet certain other requirements. You meet the "relative importance test" if your home office is the most important place where you conduct business, compared with all the other locations where you conduct that business.

2. Meeting place. You're entitled to home office deductions if you use your home office, exclusively

and regularly, to meet or deal with patients, clients or customers. The patients, clients or customers must physically come to the office.

3. Separate structure. You're entitled to home office deductions for a home office, used exclusively and regularly for business, that's located in a separate unattached structure on the same property as your home. For example, this could be in an unattached garage, artist's studio or workshop.

You may also be able to deduct the expenses of certain storage space for storing inventory or product samples. If you're in the business of selling products at retail or wholesale, and if your home is your sole fixed business location, you can deduct home expenses allocable to space that you use to store inventory or product samples.

LIMITATIONS APPLY

The amount of home office deductions for self-employed taxpayers is subject to various limitations. Proper planning is key to claiming the maximum deduction for your home office expenses. Contact us if you'd like to discuss your situation. ■

CONSIDER TAXES BEFORE MOVING OUT OF STATE

With so many people working remotely these days, it's become common to think about moving to another state — perhaps for better weather or to be closer to family. Many retirees also look at an across-the-border move to better control living expenses. If you've found yourself harboring such notions, be sure to consider taxes before packing up your things.

IDENTIFY APPLICABLE TAXES

It may seem like a no-brainer to simply move to a state with no personal income tax, but you must consider *all* taxes that can potentially apply to state residents. In addition to income taxes, these may include property taxes, sales taxes, and estate or inheritance taxes.

If the states you're considering have an income tax, look at what types of income they tax. Some states, for example, don't tax wages but do tax interest and dividends. And some states offer tax breaks for pension payments, retirement plan distributions and Social Security payments.

PREPARE FOR DOMICILE

If you make a permanent move to a new state and want to escape taxes in the state you came from, it's important to establish legal domicile in the new location. Generally, your domicile is a fixed and permanent home location where you plan to return, even after periods of residing elsewhere.

Each state has its own rules regarding domicile. You don't want to wind up in a worst-case scenario: Two states could claim you owe state income taxes if you established domicile in the new state but didn't successfully terminate domicile in the old one. Additionally, if you die without clearly establishing

domicile in just one state, both the old and new states may claim that your estate owes income taxes and any state estate tax.

The simplest and most obvious way to establish domicile is to buy or lease a home in the new state and sell your previous home (or rent it out at market rates to an unrelated party). Then change your mailing address on passports, insurance policies and other important documents. Getting a driver's license in the new state and registering your vehicle there also helps. Be sure to take these and other steps as soon as possible after moving.

DO THE RESEARCH

When looking into whether the grass is greener in another state, do some research and contact us. We can help you avoid unpleasant tax surprises. ■

WHAT'S YOUR FINANCIAL PERSONALITY?

We all want to keep our finances on track, but doing so can be difficult without a clearly expressed plan. Everyone's strategy doesn't have to be complex, but it does generally need to cover two major facets: paying down debt and saving money.

If you're like most Americans, you probably have multiple credit cards, as well as perhaps a mortgage and student loan debt. The inevitable question becomes: Which facet should take priority? Should you pay off your debts first, then focus on saving for the short and long term? Or should you create a cash reserve before you tackle debt? Can you do both at the same time? The answer depends on you and your situation.

Often, the best first step in figuring out how to develop a personal financial plan for saving versus paying down debt requires an honest, introspective look at how you deal with money. Everyone has a financial personality that has developed over time based on

factors such as how you learned about money as a child, current occupational status and risk tolerance.

Think about what you do when you want something you don't have the cash to buy. Do you buy it anyway using credit, deny yourself the purchase entirely or wait until you've saved up the money? Your approach to spending and saving should point the way to developing a sound strategy that balances controlling debt — or, preferably, eliminating it — and building savings. ■

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