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Tax and Personal Finance Tips for New Parents

Expanding your family? Whether you're in the planning stages or your bundle of joy has already arrived, raising a child is one of life's greatest joys — and biggest expenses. And we're not just talking about the costs of college. From diapers to daycare, from braces to bicycles, parents are often shocked by the constant outflow of cash that starts days after bringing baby home.

While there's nothing you can do to avoid incurring these expenses, you can definitely soften their impact by educating yourself about what to expect and planning ahead. Below you'll find a helpful list of mistakes to avoid, resources not to miss, and steps you can take to boost the chances that bringing up baby will be less of a drain, and more of a pleasure.

Start with a Realistic Budget

Has anybody ever told you that all you need for a baby is a drawer for a bed, a bottle, and a bunch of cloth diapers? There are plenty of people who sing that song, and we have news for you — they're wrong. If you've already given birth then you're already familiar with some of the bills, but if you're still in the planning stages, make sure that you include these expenses as you prepare:

- Prenatal and postnatal doctor visits for both mom and baby
- Birth and delivery costs
- Baby clothes, nursery furniture, car seats, playpen, glider, highchair, strollers, baby bath, etc.
- Childcare
- Diapers and wipes, baby medications and ointments, shampoos, etc.
- Formula and bottle-feeding supplies or breast pumps and milk-storage bags, or both

And that's just for the first year or two of parenting. As your child gets older you will need to add on the costs of toys, clothing, bicycles, braces, summer camps, birthday parties …. And if one of the two of you plan to stay home with your child – even part-time – that will significantly impact your disposable household income.

While the government reports that the average cost of raising a child from birth through adulthood is $233,610, those averages include the people who spend the very most, as well as those who spend the very least. To get a realistic sense of how much you can expect to pay, talk to your friends, and ask them to share what they're spending, especially when it comes to childcare. Those figures can be truly eye-popping.

Take Advantage of Tax Breaks

Plenty of people kid around about their child representing a tax break, but there is truth behind the joke. The government has created several credits and deductions to help alleviate some of the financial burdens of raising a child, but these breaks are not automatic. You have to fill out your tax forms properly and claim the advantages to which you are entitled. Make sure that you are familiar with everything that is available to you. These may include:

- **Child tax credit** – if you have a dependent child and your annual household income falls within the government's guidelines, you can cut the taxes that you owe significantly

- **Child and dependent care credit** – if you and your partner or spouse file your taxes jointly and pay to have your child cared for by a daycare, nanny, or babysitter, or even to have them attend a summer camp or a before-or-after school program so that you can work or look for work, you can claim a significant portion of these expenses on your income tax.

- **Earned income tax credit** – depending upon income, parents with one or more dependent children may be eligible for the earned income tax credit (EITC), which cuts tax liability

Most Important of All is to Start Thinking Ahead

Perhaps the most essential advice any new parent can be given is to start planning for the future now – and maybe even yesterday. There are plenty of people who spend the early years of their child's life saying that they don't know how they're going to pay for college – and not doing anything about it. The people who start putting small amounts of money away on a regular basis when their kids are small – and who keep doing so throughout their child's life – are the ones who sleep soundly as college grows nearer. It is never too soon to create a financial plan for your own retirement as well as to address your child's education, as well as to cushion against an emergency. Your comprehensive financial plan should include:

- A retirement fund, whether it's an employer-sponsored 401(k) or an IRA that you set up for yourself
- An emergency fund to help you through anything from a job loss to auto repairs or unexpected medical expenses. Most people suggest having at least three months' worth of living expenses available, and some say saving enough for six months without an income.
- A college fund. Opening a 529 college savings account and making consistent deposits is something you'll thank yourself for later.
- A life insurance policy and a will. It's nice to run on the assumption that you'll always be around to support your family. But accidents and unexpected illnesses happen, and far too many people who don't include life insurance in their economic plans leave behind families that have to deal with their grief and economic situation. It's also a good idea to take care of basic legal documents like a will, an advance healthcare directive, and power of attorney.

The Basics

If you're in the planning stages, it's a very good idea to start saving now, ahead of the costs you're about to incur for doctor's bills, hospital fees, and anything not covered by insurance, as well as for income not earned during last weeks of pregnancy/post-partum. You'll also want to investigate the benefits and family leave policy that your employer offers.

Preparing for a new family member can be overwhelming. For assistance with putting yourself on the right financial path, contact us today. We can help you review your current situation and create a plan that will work for today as well as for the future.

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