VALUATION OBSERVATIONS

Some practical observations from a practicing business appraiser.

VLC

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Vol. 6, No. 2

NOT TO BE OVERLOOKED TAX CREDITS

As the old saying goes, the only thing for certain in life is death and taxes. Fortunately, death only occurs once. However, tax filing is required every year…and tis the season. Kudos to the IRS for giving us a few breaks here and there to make it a little less painful.

The **Earned Income Credit** is probably the most overlooked credit available. This can be quite useful for newly divorced individuals. The amount of the credit can be as high as $4,400, depending on your filing status and how many "qualifying children" you have. The credit is available if a non-married person's "earned income" is less than $35,263 with 2 qualifying children, less than $31,030 with 1 qualifying child, or less than $11,750 with no children.

The most important thing to remember about the Earned Income Credit (EIC) is that not all taxable income is considered "earned income". The beauty here is that alimony and child support are NOT earned income. Although interest, dividends, and capital gains are not earned income either, such investment income is limited to $2,700 to remain eligible for the EIC.

Let's say you have a client who will be receiving $60,000 a year in spousal support plus another $48,000 in child support for her two children. This is certainly not chump change. Although the child support is not taxable, the spousal support is subject to income tax. Consider also that she received a stock portfolio in the property settlement. So long as her investment income from the stock portfolio does not exceed the limit, she could be eligible for a credit up to $4,400 on her tax bill, even with over $60,000 taxable income. That's not too bad!

The **Child/Dependent Care Credit** can offer an additional reduction of the tax bill. If you provide more than half the cost of keeping up your home and have costs associated with the care of a dependent who is under the age 13, you may be eligible for this credit also. However, child and dependent care expenses must be work related to qualify for the credit. To be work related, the expenses must allow you to either work, or actively look for work. It matters not whether the work is full time or part time. But, the expenses are not considered work related merely because you had them while you were working. The dependent care expenses must enable you to be gainfully employed. For example, you are not gainfully employed if you do unpaid volunteer work.

What types of expenses fall under this category? The main objective is that the expenses are incurred for the dependent's well-being and protection. Household services meet the test if they are at least partly for the well-being and protection of a qualifying person. But only the portion of household services that is specific to the care of the dependent will count towards the credit. Schooling costs can be counted towards the credit if the child is in a grade level below the 1st grade, and the amount paid for schooling is incident to and cannot be separated from the cost of the care.

For example: Your 5-year old child goes to kindergarten in the morning. In the afternoon, she attends an after-school day care program at the same school. Your total cost is $3,000, of which $1,800 is for the after-school program. Only the $1,800 qualifies for the credit. But keep in mind that any person or organization that provides care for the dependent must be identified to get the credit. This means that the care provider will need to claim the income on his/her tax return, because the IRS does match up the social security numbers.

The **Child Tax Credit** is available for dependents who are less than 17 years old as of the close of the year. This is in additional to the credit for child and dependent care expenses and the earned income credit. The amount of the credit can be as high as $1,000 per child. There is also an additional child tax credit for those taxpayers who get less than the full amount of the child tax credit due to either number of children or income limitations. This additional child tax credit may even give you a refund even if you do not owe any tax at all.

Education Credits may be useful for not only dependents of your clients, but your clients as well. Many people go back to school after a divorce. The Hope Scholarship credit is a tax credit up to $1,500 (subject to AGI phaseouts and adjusted for inflation) per student for qualified tuition and related expenses paid by the taxpayer for students enrolled for the first two years of a postsecondary degree or certificate program at an eligible educational institution on at least a half-time basis

The Lifetime Learning credit is a tax credit in an amount equal to 20% of up to $10,000 (also subject to AGI phaseouts) of the qualified tuition and related expenses paid during the taxable year by the taxpayer for education furnished to certain individuals, including post graduate course work and courses to acquire or improve job skills. This credit may be claimed for an unlimited number of years.

If you would like additional information, or have a question, please do not hesitate to call.

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Terri Lastovka is the founder of Valuation & Litigation Consulting, LLC. Her practice focuses on business valuations and litigation consulting in the areas of domestic relations, gift and estate tax, probate, shareholder disputes, economic damages, and forensic accounting. She draws from a wide range of experiences, including public accounting, law, banking, and CFO. She has received extensive training from the American Society of Appraisers in the area of business valuation and works closely with members of the bar to effectuate practical settlements. Terri also serves as the Director of Legal & Finance for Journey of Hope, a grass roots non-profit organization providing financial support to cancer survivors.