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The Basics



Can you afford NOT to have a kid?

Child-rearing bills don't end for 18 years or more, but neither do the tax credits and deductions that can save you \$60,000 on raising your little one.

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By [Gina Roberts-Grey](#)

MSN Money

Many couples have put off plans to procreate.

The [latest numbers](#) from the U.S. Department of Health and Human Services show that births hit a two-year low in 2008, dropping almost 10% nationally since 2006. California, Georgia, Illinois, New Jersey and Ohio showed the biggest drops.

Historically, the nation's birthrate has risen and fallen with the economy, plunging to record lows during the Great Depression, booming in the post-World War II years, then dipping again during the [stagflation](#)-battered early 1970s.

Tiffanv Seidler of Evanston, Ill., understands that uncertainty. "Even though we want them, we

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many people in Franklin, Ill., understand that uncertainty. Even though we want them, we just can't afford to have kids," she says. "I hope we can someday, but right now, I just don't think we can."



Raising a family on a budget

Research isn't exactly reassuring. The Center for Nutrition Policy and Promotion, a division of the U.S. Department of Agriculture, says a second child born in 2008 will cost middle-income parents \$221,190 -- and that doesn't include college. (See "Raising your \$221,000 baby.")

But some experts say we might be looking at the numbers from the wrong angle - that the cost of a child is calculated unfairly unless it also factors in how much a child saves parents.

"This report is only providing one piece of the financial puzzle," says Clint A. Costa, a certified public accountant in Chicago. "It's not balanced with things like the tax credits and deductions parents might be eligible for."

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The real bottom line

No one's suggesting you have a baby just to save on taxes, but Costa says things such as child care credits, dependent exemptions and child tax credits should be considered when prospective parents run the numbers. Taken together, they can knock about a third off the cost of raising a child.

Here's a rough breakdown of some numbers Costa says should be considered before hitting the snooze button on your biological clock:

Dependency exemption. Over the next 17 years, parents of a child born in 2009 can deduct at least \$3,500 a year from their income, assuming the exemption remains unchanged. But it's likely to rise; Costa projects an average of \$4,500 a year. If the parents are in the 25% tax bracket, that's a savings of \$19,125. State exemptions vary, but even a \$1,250 child exemption

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in a state with a 5% income tax rate would be worth \$1,063 over 17 years.

- Total savings: \$20,188.

Child tax credit. The \$1,000 child credit is a dollar-for-dollar reduction in taxes owed. Over a child's first 17 years, that's \$17,000 saved. Local child tax credits also vary by state. New Yorkers, for example, can claim [up to \\$333 a year](#).

- Total savings: \$22,661 (federal plus average state credit based on New York).

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Child and dependent care credits. Although many conditions apply, in general, most child care expenses qualify for an annual \$600 per child federal credit until a child reaches age 13. This adds up to \$7,800. States also cut parents a break. According to the Tax Policy Center of the Urban Institute and Brookings Institution, [the average state credit](#) (.pdf file) is \$454 a year. That's \$5,902 for 13 years. You can see what your state offers [here](#).

- Total savings: \$13,702.

Continued: Parents tend to earn more

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Friday, October 09, 2009 3:27:01 AM

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The thing this article doesn't take into account is human nature.

Singles and childless couples tend to blow money on stuff they don't really need--stuff that doesn't really contribute to their happiness or well being. They tend not to save money or plan their finances for the long term. When people have kids, it gives them the kick in the pants they need to start saving for retirement and other goals. Obviously, there's a limit to this. But a reasonable argument can be made that one or two kids might actually be good for your wallet.

Having a kid or two might also give some people the kick in the pants they need to get focused on their careers, so they can earn more as well.

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College savings plans. To help offset some college expenses, parents can open a [529 savings account](#) for their child. The savings grow tax-free. Our middle-income couple in the 25% bracket tucking away \$2,500 a year will enjoy a \$12,750 tax savings by the time their child graduates from high school, assuming the investment returns 6.4% a year.

- Total savings: \$12,750.

Specialty credits. Parents in the North Star State may be able to claim an education credit for as much as 75% of what they spend on school supplies and other [education-related expenses for children in kindergarten through 12th grade](#). Those in Illinois can claim [up to a \\$500 tax credit](#). And Iowans may be able to claim [a credit of up to \\$250](#) for tuition and textbooks through graduation.

- Total savings: \$5,200 (based on an average state credit).

While any one family may not be able to take full advantage of all those savings, Costa says that at least \$61,776 needs to be lopped of the \$221,190 estimate. On top of that, parents

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should be able to deduct some portion of the \$17,250 in health care expenses the Agriculture Department report warns them to expect.



Raising a family on a budget

Sure, the nearly \$160,000 remaining when Costa's savings estimate is subtracted is still hefty bill to foot, but there's plenty of **fat left to be trimmed**. And there are financial benefits associated with kids.

Are parents really poorer?

"People without kids don't have to plan, or pay for, braces, school fundraisers and chorus trips that pop up," says David Budin, a Cleveland father of two grown children. "Not to mention all they save on things like diapers."

While those who opt out of the diaper brigade don't have to budget for baby clothes and textbooks, that doesn't mean they've got greater earning potential.

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The [U.S. Census Bureau's American Community Survey 2007](#) (.xls file) found that parents tend to earn more than childless adults. Fathers are 13% more likely to earn \$50,000 to \$74,999, and 17% more likely to earn \$100,000 or more than their kid-free counterparts, while mothers were 10% more likely to make \$50,000 to \$74,999 (though less likely to make more than \$100,000) than women without kids, according to the report.

The surprising disparity in paychecks, analysts say, is usually the result of parental obligations. "Parents are driven to earn because they've got more than their own mouth to feed," says Michael Kay, a CPA, a certified financial planner and the president of [Financial Focus](#) in Livingston, N.J.

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Kay says there are also significant differences in the ways parents and childless couples approach money. "Childless couples tend to act as if there is less pressure. They are focused

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on themselves, while couples with children think more about the what-ifs: What if their children or grandchildren need their financial assistance? What kind of legacy should they leave?"

And that, he says, often translates to thriftiness and prudent nest-egg building. "Parents doing proper planning tend to be better savers because they *have* to be," says Kay.

Earning less, spending more . . . because they can

Child-free couples tend to be spenders.

H. Jude Boudreaux, the director of financial planning at Bellingrath Wealth Management in New Orleans, says couples without children tend to "fund their lifestyle out of cash flow and end up often overspending on consumables such as going out to eat."

Not that there's anything wrong with splurging. Boudreaux says if you can afford to, that's fine. "But childless couples splurging shouldn't be interpreted as them having -- or earning -- more money than parents," he says. It's often nothing more than them allocating money to wants instead of needs.

For example, Boudreaux says childless couples are more apt to forgo having life insurance. "People without kids aren't constantly reminded of the need," he says.



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That doesn't mean **DINKs** are richer, just different. "In fact, in many cases parents have equal or even heftier nest eggs," Boudreaux says.

Published Oct. 9, 2009

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