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Tax Newsletter

How Much Is the Dependent Care Credit?

New law revises credit calculation

The new law signed on July 4—the One Big Beautiful Bill Act (OBBBA)—revamps the structure for determining the amount of the dependent care credit. Under the new format, some taxpayers will benefit from a bigger credit, while the credit for others will remain the same. The OBBBA changes take effect in 2026.

Prior law: The dependent care credit, officially called the “child and dependent care credit (CDCC), is available to parents who pay childcare costs for kids under age 13 so they can work. (It may also be claimed by college or grad school students and job-seekers.) Furthermore, the CDCC is not just for children. The costs of caring for another relative you help support—say, an elderly parent—may also qualify.

The credit amount is based on a taxpayer’s adjusted gross income (AGI). Previously, the sliding scale started at 35% for an AGI below the threshold of \$15,000. The 35% credit was then gradually reduced by one percentage point for each \$2,000 (or fraction thereof) of AGI above \$15,000 until it reached 20%. Using this structure, the credit equaled 20% of qualified expenses for filers with an AGI above \$43,000.

Furthermore, the tax law imposes an annual dollar cap on the amount of qualified expenses. The limit is \$3,000 for one child or \$6,000 for two or more children. So, if you had an AGI of \$100,000 and incurred \$10,000 in childcare costs for two children, your credit was \$1,200.

New law: The OBBBA provides a bigger credit for certain low-to-middle income families by revising the sliding scale, beginning in 2026. First, the maximum credit increases from 35% to 50% for a taxpayer with an AGI of up to \$15,000. Then the credit is reduced by one percentage point for each \$2,000 (or fraction thereof) of AGI above \$15,000 until it reaches 35%.

The maximum credit percentage of 35% continues to apply to middle-income taxpayers with a designated AGI range, based on whether they are single or joint filers. Then the credit begins to be gradually reduced again from 35% to a floor of 20%.

Accordingly, the maximum credit jumps from \$1,050 to \$1,500 for a taxpayer with one child and from \$2,100 to \$3,000 for two or more children. For single filers with an AGI above \$105,000 or joint filers with an AGI above \$210,000, the maximum credit remains \$600 or \$1,200, respectively.

The other basic rules are unchanged. Generally, if you file jointly and one spouse had no earned income, you cannot claim the credit. However, if the spouse is a full-time student or disabled, they are treated as having monthly earnings of \$250 for one child or \$500 per month for two or more children.

The list of qualified expenses is extensive ranging from day care centers to after-school programs to babysitters and more. The cost of day camp (but not overnight camp) may also qualify.

Practical advice: Do not take anything for granted. Check in with your professional tax advisors to help determine your CDCC amounts for 2025 and 2026.

Introduction to New Trump Accounts

Meet the latest entry into the legion of tax-favored financial accounts: the Trump account.

How it works: The government will provide initial “seed money” of \$1,000 for each child with a Social Security number (SSN) born between January 1, 2025, and December 31, 2028. Contributions of up to \$5,000 are allowed each year until the child turns age 18.

Trump accounts will operate much like IRAs. The funds are invested and can grow tax-deferred until they are withdrawn. If distributions are made to pay college tuition or up to \$10,000 of first-time homebuyer expenses, they are not subject to a 10% tax penalty for withdrawals before age 59½. In comparison, however, Section 529 plans that provide tax-exempt payouts for qualified expenses may be preferable for education savings.

This is just a brief introduction. The IRS will provide more details on Trump accounts shortly.

Five Tips for Better Financial Health Rx for Improving Your Outlook

Now that we have passed the mid-point of the year, it may be a good time to get a financial check-up. Unfortunately, if you are like many people, you may not be as “fiscally fit” as you would like to be. Following are five practical suggestions for improving your financial health.

1. Rebalance your portfolio. Due to the inherent volatility of the equities markets, it is easy for a portfolio to quickly become skewed one way or another. To bring things back in line, review your investments periodically and reallocate funds to reflect your main objectives, aversion to risk and other personal preferences. This will help position you to better handle the inevitable ups and downs of the markets. Also, keep revising the investment mix as your situation changes. Stay on top of the latest developments.

2. Salt away more for tomorrow. Look ahead by feathering your retirement nest egg. For instance, you can contribute up to \$23,500 to a 401(k) account in 2025 or \$31,000 if you are age 50 or older. Even better: For those between the age of 60 and 63, you can add a “super catch-up contribution” for a grand total of \$34,750. Furthermore, your employer may provide “matching” contributions up to a stated percentage of compensation. Finally, you can supplement a 401(k) with contributions to IRAs or other qualified plans.

3. Downsize your debt. One surefire method for improving your financial health is to spend less and save more. Start by chipping away at your personal mountain or molehill of existing debt. This may mean giving up some luxuries like taking lavish vacations or eating out frequently at high-end restaurants, but it is generally worthwhile in the long run. Pay extra attention to certain credit card debts with high interest rates. If possible, you might consolidate several debts into one with a reasonable interest rate.

4. Fine-tune your estate plan. Now that the estate exemption has been boosted to \$15 million, beginning in 2026, you might make adjustments to your existing estate plan, as well as accommodating changes in your life. For instance, your will may need to be updated due to births, deaths, marriages or divorces in the family or other changes in your personal circumstances. Similarly, review trust documents, powers of attorney (POAs) and healthcare directives or create new ones to facilitate your estate plan.

5. Plan for emergencies. Despite your best intentions, you cannot foresee every twist and turn that will occur before now and the end of the year. Remember how the pandemic unexpectedly disrupted our lives a few years ago? To avoid a potential financial disaster, set aside funds to sustain you during a crisis or a personal event like a job loss or severe health issue. The experts recommend a three-month safety net at a bare minimum and longer if you can afford to do so.

These are just five financial tips that make good common sense. Rely on your professional advisors for specific guidance.

Avoid Fall-Out From Pricing Wars Strategies for business survival

It is often difficult for small business owners to set prices or fees for their goods or services. Unfortunately, there is no magic formula that is guaranteed to work. Plus, recent political and economic developments—including imposition or threats of tariffs—further complicate matters. But there are several fundamental principles you may observe to increase your chances for success.

First and foremost, be aware that the lowest price is not always the best price. One or more larger companies with greater resources than you have may be able to outlast your firm if you compete on price alone. If you set prices too low, you may find that the bids you do win are not profitable enough to sustain your business over the long haul. Eventually, your company could be swallowed up or go under.

Instead of trying to undercut the competition, consider these factors:

- **Competitive analysis:** Look beyond the pricing of other companies in your area. Analyze the entire package they are offering and how it compares to yours. Are they targeting a specific segment of the market? Do they include any value-added services? How are they distinguished from your company and vice versa?
- **Ceiling price:** This is the highest price that the market will bear. Based on feedback from customers and industry data, determine what your ceiling is. Depending on the circumstances, the current highest price may not be the ceiling price.
- **Elasticity:** If the demand for your products or services is not very elastic, you can maintain a higher ceiling on prices. This reflects a limited number of competitors, the perception of quality and whether consumers are accustomed to seeking the lowest price for offerings in your industry.

Once you fully understand the nuances of your industry, review your pricing structure. Generally, you will not have to live and die with the lowest prices, unless you're drawn into a "price war." As the name implies, a price war can be extremely combative and result in business casualties. The problem starts when you or a competitor lowers prices to seize a larger market share. It can escalate into a series of price reductions.

It is easy to say one should not get caught up in a price war, but reality may dictate otherwise. At least you may minimize the likelihood if you take these three steps.

1. **Emphasize exclusivity:** Relying on products or services that are exclusive to your company may provide protection from reduced prices.

2. Trim the product line: You may provide products or services that require a high level of customer service and maintenance. Cut back on lines that are not generating a large profit. Find out what the customers really want.

3. Develop your "brand." Try to be unique and stand out from the competition. If there is a price war, a strong brand can help you survive.

Finally, leave the steep price-cutting to the corporate giants. A small business with reasonable pricing strategies can escape the pitfalls of rock-bottom pricing. Stay above the fray.

Facts and Figures

Timely points of particular interest

IRS Verification—The IRS will never email you initially. But it may text you or send a notice through snail mail. To verify authenticity, the IRS advises these four steps. (1) Log into the secure IRS Online Account to see if the letter or notice is in their file. (2) Review common IRS letters and notices online. (3). Contact IRS customer service directly to authenticate the message. (4) Verify any collection notice from a private collection agency has the same Taxpayer Authentication Number as the Notice CP40 you received from the IRS.

Finish Line—Under the One Big Beautiful Bill Act (OBBBA), the tax ride for electric vehicle (EV) credits is coming to an end. Previously, you could claim a credit of up to \$7,500 for qualified new vehicles, including plug-in hybrids, and up to \$4,000 for a qualified used vehicle. These credits were scheduled to remain in place until 2033. But now the OBBBA eliminates the EV credit for any vehicle acquired and placed in service after **September 30, 2025**. Factor this into your car-buying decisions.

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