

Claiming Dependents On Your Income Tax Return

by Abby Donevant, CFP®

Claiming dependents on your tax return can be very beneficial because it allows an additional personal exemption. The exemption is similar to a tax deduction because it reduces your taxable income, which allows you to pay taxes on less income. The exemption amount for 2010 is \$3,650. There are many questions about the rules for claiming children or relatives as dependents. The rules for dependents are discussed in the Internal Revenue Service's Publication 501. The IRS allows taxpayers to claim a person as a dependent if they cannot be claimed as a dependent by another taxpayer, the dependent does not file a joint tax return, and the dependent is a citizen of the United States. Dependents must meet one of two tests: the qualifying child test or the qualifying relative test.

Qualifying Child Test |

The most common dependent claimed on a tax return is a child. Five tests have to be met for a child to be claimed as a dependent:

1 Relationship | The child must be your child, stepchild, foster child, or a descendant (i.e., grandchild). The child can also be your sibling, half-sibling, step-sibling, or a descendant (i.e., niece or nephew). An adopted child is always considered to be your child.

2 Age | The child must be either under 19 years of age at year-end, a full time student under age 24 at year-end or permanently disabled regardless of age.

3 Residency | The child is required to live with you for at least half of the year. Exceptions for temporary absences include illness, education, business, vacation or military service.

4 Support | You are required to provide more than half of the child's necessary living expenses during the year. If the child provides more than half of his/her own support, the child cannot be claimed as a dependent. You cannot include any support paid by the child with the child's own wages (even if you paid the wages) as part of your contribution to the child's support.

5 Joint return | The child cannot file a joint return for the year. There is an exception to this rule: the exception is that a child who has no tax liability may file a joint return for the sole purpose of claiming a tax refund.

6 Special Test | The special test applies to qualifying children who can be claimed by more than one taxpayer (i.e. the child has divorced parents). Please note that only one taxpayer is allowed to claim the child as a dependent.

Qualifying Relative Test |

If the potential dependent does not meet the requirements under the qualifying child test, possibly he/she will qualify as a dependent through the qualifying relative test. Four tests need to be met for a potential dependent to qualify as a qualifying relative:

1 Not a Qualifying Child Test | You cannot claim the child as a dependent under this test if a child is your qualifying child or someone else's qualifying child.

2 Member of Household or Relationship Test | The potential dependent must live with you in order to be a qualifying relative. If the potential dependent does not live with you, he/she has to be your relative. The relative can be your child, stepchild, foster child, or a descendant of any of these three categories. The relative can be your sibling, half-sibling or step-sibling. The relative can be your parent, grandparent or other direct ancestor, but not a foster parent. The relative can be your step-parent or a child of your sibling. The relative can be your aunt or uncle. Last of all, the relative can be your in-law. Any of these relationships that were established by marriage are not ended by death or divorce.

3 Gross Income Test | The potential dependent must have less than \$3,650 of gross income for the year.

4 Support Test | The taxpayer is required to provide more than half of the potential dependent's support during the year. To determine if the support test has been met, a taxpayer would compare the amount he/she contributed to the potential dependent's support with the entire amount of support the potential dependent received from all sources (wages, social security, state support). Sometimes, multiple taxpayers provide more than half of the support of a relative (i.e. multiple children providing support for a parent). When this occurs, one taxpayer can claim an exemption for the qualifying relative's support if the individual taxpayer provides more than 10% of the qualifying relative's support,



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and if the other taxpayers providing support sign a statement agreeing not to claim the exemption for the tax year.

See worksheet 1, page 20 on IRS publication 501
www.irs.gov/pub/irs-pdf/p501.pdf

Claiming dependents can be very beneficial to taxpayers because taxpayers are allowed an additional exemption for each dependent claimed. Claiming dependents can also lead to other tax benefits, such as the child tax credit, the child and dependent care tax credit, and the earned income tax credit. It is important to remember to include the Social Security number of any dependent claimed on your Form 1040 or Form 1040A. To find out more about exemptions for dependents, visit Publication 501 at the IRS's website:

www.irs.gov/pub/irs-pdf/p501.pdf

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