

Qualifying for the dependency exemption

We are often asked how to qualify to claim a dependency exemption for someone. For 2007, you will qualify if that person is either a "qualifying child," or a "qualifying relative."

A qualifying child is someone who (1) lives in your home for over half the year, (2) is your child, stepchild, adopted child, or foster child, or your brother or sister or stepsibling (or a descendant of any of these), (3) is under 19 years old (or a student under 24), and (4) does not provide over half of his or her own support for the year. To be your dependent, the qualifying child must be a U.S. citizen or a resident of the U.S., Canada, or Mexico and must not file a joint return for the year.

"Student" means full-time student for at least five months of the year (thus, a college senior graduating in May or June can qualify in the year of graduation).

If an individual may be and is claimed as a qualifying child by two or more taxpayers, special "tie-breaking" rules apply.

A person who is not a qualifying child can be a qualifying relative if the following five-part test is met. (Note that a child who does not meet the above tests as a qualifying child may be a qualifying relative.)

1. The first part is the **support requirement**, under which you must provide more than 50% of the individual's support for the year. Support is measured by amounts spent for the individual's support and by the value of support items provided. For example, say \$6,000 is spent on the support of an individual who lives in your home. You provide \$2,500 of the \$6,000. Assume as well that the rental value of the housing you provide is \$2,000 for the year. Under these facts, the total support for the individual is \$8,000 (the \$6,000 actually spent plus the value of the housing provided), and you have provided \$4,500 (\$2,500 in cash expenses plus the housing). Thus, you would meet the support test.

"Support" includes the cost or value of basic needs such as food, clothing, shelter, insurance, education, etc. but isn't limited to "necessities" in a narrow sense of the term. IRS says "recreation" is a necessity and the Tax Court takes an expansive view, including such costs as summer camp and a daughter's wedding.

A scholarship received by a full-time student and applied toward his education is not considered support if the individual is your child. So, for example, if you cover \$4,000 out of \$6,000 of a child's support costs and he receives a \$10,000 college tuition scholarship, you can still pass the support test. Total support is not increased to \$16,000 by the scholarship.

The other four parts of the test are simpler:

2. Relationship or member of household. The individual must either be a relative of yours *or* a member of your household. The list of qualifying relatives is fairly broad, including parents, grandparents, children, grandchildren, siblings, aunts and uncles (blood relations), and nephews and nieces. Children-, parents- and siblings-in-law qualify as well, as do stepchildren and stepparents. An adopted child or foster child can also qualify.

If your potential dependent is a "distant" relative, please call and I'll determine if he or she can qualify under the tax guidelines.

3. Gross income. The individual cannot have gross income equal to or above the exemption amount (\$3,300 in 2006 and \$3,400 in 2007).

4. Joint return. The individual you are seeking to claim as your dependent cannot be filing a joint return for the year. However, if the only reason a joint return is filed is to get a refund and no return is otherwise required, this test is satisfied.

5. Citizenship. The individual must be a U.S. citizen or resident. Residents of Canada and Mexico can also qualify.

The dependency exemption isn't allowed unless you include the dependent's social security number on your return. This rule applies even to a newborn dependent child. That means that to get the dependency exemption for the year the child is born you have to get a social security number for the child in time to include the number on your return.

Having someone qualify as your dependent doesn't always result in tax savings. From the dependent's standpoint, he loses his personal exemption on his own return and may be limited to a smaller standard deduction than non-dependent taxpayers. However, you cannot avoid these negatives simply by "electing" not to claim the dependent. To avoid them you would have to fail one of the above tests, e.g., adjust the amount of support you provide so it fails to exceed 50% of the total.

Additionally, from your standpoint, if your adjusted gross income (AGI) exceeds a certain amount, the tax benefits of the exemption are reduced (eliminated at the highest AGI levels). This reduction starts when AGI is over \$225,750 in 2006 (\$234,600 for 2007) for married couples filing jointly; the figure is \$188,150 (\$195,500 for 2007) for taxpayers who qualify as head of household.

Special rules regarding the exemption for a child apply where the parents are divorced or separated.