



of San Diego

HOME

PLANNER RESOURCES

CLAIMING TAX BENEFITS FOR SUPPORTING ELDERLY RELATIVES

Many people today provide financial support to their parents or other elderly relatives. Often they can offset some of their financial sacrifice by claiming certain tax benefits.

To take advantage of one or more of these tax breaks, you must start with four key tests. First, you must provide over half of the person's support for the tax year. Support includes food, clothing, shelter, medical expenses and transportation. You can meet this requirement even if, as explained later, you share that support with others such as your siblings.

Second, the person you support must be a relative, or someone who has lived with you the entire year, though a non-relative will still qualify even if he or she spent some of the year in a nursing home, assisted-living facility or similar facility. Third, the person must be a U.S. citizen or a resident of the United States, or a resident of Mexico or Canada.

Fourth, the older person cannot have filed a joint income-tax return for the same tax year unless it was filed only to claim a refund. In cases where the person has filed a joint return, it may be smarter from a tax standpoint to have them file separate returns (though this strategy may not work as well in community property states).

If you and the older person can pass these four tests, you can include their medical expenses you paid for as part of your overall medical deduction claim. As you may know, you can deduct only medical expenses that exceed 7.5 percent of your adjusted gross income. If your AGI is \$50,000, for example, you can claim all medical expenses above the first \$3,750. People often don't exceed their minimum, especially those with higher incomes, but the addition of a relative's medical expenses may push them above the threshold.

Beyond the medical expense deduction, you may qualify to claim your parent or elderly relative or friend as a dependent, allowing several more tax doors to open. To do this, the potential dependent must meet a fifth criterion, the gross income test. This is often the most difficult of the five to pass. The potential dependent's gross income cannot be higher than the personal exemption amount for that tax year, which in 2003 is \$3,050.

For example, if the person receives private pension benefits or investment income that exceeds that amount, you cannot claim them as a dependent even if you provide over half their support and meet the other criteria. Fortunately, not all income is included as gross income. Social Security retirement benefits and tax-free interest from municipal bonds, for example, are exempt.

If a parent or relative meets all five criteria, you can claim them as an exemption deduction, just as you can claim an exemption deduction for yourself, your spouse and your children. The exemption deduction amount for 2003 is \$3,050.

You can claim this exemption deduction even if others, such as brothers and sisters, help you out and none of you alone contributes more than half of the support. To accomplish this, you must use a multiple support agreement (federal tax Form 2120), which designates one of you as the person to receive the exemption deduction, assuming that person has contributed at least ten percent of the relative's support.

The supporters can take turns claiming this deduction, or you might let the person claim it every year who would receive the highest dollar benefit from the claim, which is usually the person in the highest tax bracket. They, in turn, could gift some of that tax savings to the other supporters in proportion to their financial support.

A dependent status also allows the support person to set aside pre-tax dollars in an employer's flexible spending account to pay for medical expenses. They also could set aside dollars in a flexible spending account for dependent care, such as an at-home caregiver or adult day care. They'll have to weigh the overall tax benefits of this against taking the dependent care credit.

Single taxpayers might receive an additional benefit if they support a dependent relative—they may qualify for head-of-household status. This status allows them a higher standard deduction and it expands the income levels at which tax brackets kick in, saving even more in taxes.

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