

Supporting a Parent? Check for Tax Breaks

Those Supporting Elderly Parents May Qualify to Claim Them as Dependents

By SANDRA BLOCK

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If your mom needs money for a new roof, you'll write her a check, right? And you won't even mention the time that she unfairly grounded you for sneaking into an R-rated movie, which was, by the way, your brother's idea. You'll help her out because she's your mom, and she deserves a dry house. But for some boomers, looking after Mom and Dad entails more than sending an occasional check for home repairs. According to an AARP study released Monday, nearly a quarter of unpaid caregivers say that caregiving is a financial hardship.

If you're supporting an elderly parent, you may qualify to claim that parent as a dependent on your tax return. For tax year 2007, claiming an additional personal exemption would reduce your taxable income by \$3,400. But to claim this tax break, you must pass the following tests:

- "Income. To qualify as a dependent, your parent's income can't exceed the amount of the personal exemption. For 2007, the cut-off is \$3,400. In most instances, Social Security benefits aren't counted. But if your parent receives more than \$3,400 from other sources, such as pension benefits, interest and dividends from investments, or withdrawals from retirement savings plans, you can't claim her as a dependent. Francis Degen, an enrolled agent in Setauket, N.Y., says the income requirement prevents most taxpayers from claiming a parent as a dependent, because even a small pension will make the parent ineligible.
- "Support. In addition to the income test, you must provide more than half a parent's costs for food, housing, medical care, transportation and other necessities, says Cynthia Jeanguenat, an enrolled agent in Virginia Beach. Even if all your mother's income is from Social Security, you can't claim her as a dependent unless you pay more than half her living expenses.

Your mom doesn't have to live with you to qualify as a dependent, as long as she meets the income test and you provide more than half her financial support, says Donna LeValley, a tax lawyer and spokeswoman for J.K. Lasser's Your Income Tax 2007. If your mother lives with you, you can include a percentage of your mortgage, utilities and other expenses in calculating how much you contribute to her support, LeValley says.

Shared support : Many older parents receive support from several of their children. If that's the case in your family, you or one of your siblings might still be eligible to claim a parent as a dependent. But you'll need to convene a family meeting to figure this out. Bring a calculator.

Here's how it works: If one sibling is providing more than half the parent's financial support, only that sibling can claim the parent, LeValley says.

Consider a situation in which each sibling provides less than 50% support, but their combined assistance exceeds half the parent's support. In that case, any sibling who provides more than 10% can claim the parent as a dependent, LeValley says. But only one sibling can claim the tax break in any given year. "My recommendation is to give it to the person who gets the most financial bang out of it," LeValley says. Alternatively, siblings can agree to rotate the tax break, with one claiming the parent one year and another the next.

The sibling who claims the parent as a dependent must fill out IRS Form 2120 and file it with his or her tax return. Medical deductions

Even if you can't claim your mom as a dependent, you may still get a tax break for helping pay her medical costs. The IRS lets taxpayers deduct money spent on a parent's health care, even if the parent doesn't qualify as a dependent. To claim this deduction, you still must provide more than half your parent's support, Degen says, but your parent doesn't have to meet the income test. The deduction is limited to medical expenses that exceed 7.5% of your adjusted gross income. You can include your own unreimbursed medical expenses in calculating the total.

Most taxpayers don't have enough medical expenses to clear the 7.5% threshold. But if you're paying thousands of dollars a month for a parent's nursing home care, you might not have trouble overcoming that hurdle.

Children who pay for a parent's care in an assisted-living facility could also qualify for a deduction. Most administrators of these facilities will break out how much of the monthly payment goes toward medical services, as opposed to food and other amenities. The portion that goes toward medical care is deductible, LeValley says, once your total medical expenses exceed 7.5% of your adjusted gross income.

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