FIESTA AUTO INSURANCE FIESTA TAX SERVICE

2019.20 Training

Subject: Claiming Children & Dependents on Taxes | Talking Points

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Here's what parents need to know about claiming kids and other dependents on their tax return.

Rules for Claiming Children and Dependents in 2019

If a taxpayer has two or more children, they could end up paying more income tax due to the loss of exemptions that are not covered by the new, bigger standard deduction amounts. But the Child Tax Credits (Child Tax Credit and the Additional Child Tax Credit CTC/ACTC) are bigger than ever. Qualified taxpayers may also benefit from the new, $500 Credit for Other Dependents (ODC).

The total Child Tax Credit for each qualifying child under age 17 is now $2,000 per child – with up to $1,400 of the credit for each child is refundable. The credits are available for incomes up to $400,000 for those filing a joint return, and $200,000 for all others. This means a potentially larger refund for hardworking, low-income taxpayers, and more deductions for middle-income taxpayers.

Life changes involving children and dependents

- If you've had a child graduate and move out on their own they are generally no longer a dependent. Even though there are no longer any exemption deductions, you also won't be able to claim the new credit for other dependents.
- Children who are still dependents while in college, may qualify you for either the American Opportunity Credit or the Lifetime Learning Credit. Each credit can be as much as $2,000 per student, however the rules and the way the credits are calculated differ.

    - Having a child during the year is still a big tax break, even without the dependent exemption. A child born during the year makes you eligible for the Child Tax Credits and maybe other credits such as the Child and Dependent Care credit for daycare.
- Adopting a child, even an older child, can get you a credit of up to $13,840 of your adoption expenses. If you adopt a child from the foster care system, or other qualifying children, you can get the full $13,840 credit.

The Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC) are now larger – and up to $1,400 of the credit for each child claimed is refundable.
How can I claim the Earned Income Tax Credit (EITC) for children and dependents?

If you want to claim a child or dependent as part of your EITC claim, your child or dependent must meet the qualifying child rules:

- Relationship Test – the child must be your:
    - Son, daughter, stepchild, adopted child, or eligible foster child – or descendant (for example, a grandchild or great-grandchild)
    - Sibling, half-sibling, stepsibling, or descendant (for example, nephew or niece)
- Age Test – The child must be under age 19, a full-time student under age 24, or any age if permanently and totally disabled.
- Residency Test – The child must have the same main home as you for more than half the year.
- The child cannot be used by more than one person to claim the EITC. If a child is the qualifying child for you and another person, you will need to decide who will claim that child. If both of you claim the same child, the IRS will use the tiebreaker rule to determine who can claim the child as a qualifying child and receive the allowed tax benefits.

Due to tax reform, if a taxpayer has two or more children, they could end up paying more income tax due to the loss of exemptions that are not covered by the new, bigger standard deduction amounts.
How can I claim a dependent on my tax return?

If a person does not meet the tests for being a qualifying child, they may qualify as your dependent under the qualifying relative tests.

Qualifying Relative

Qualifying relatives can include children who do not meet the qualifying child Age Test, other relatives (for example, parents, grandparents, uncles, aunts, and in-laws), and unrelated members of the household. Dependents under the qualifying relative status do not qualify the taxpayer for the EIC or child tax credits.

A person is your qualifying relative if all the following tests are met:

- Not a Qualifying Child Test – Your qualifying relative must not be a qualifying child for any taxpayer.
  - Note: An exception to this rule is when the other taxpayer for whom the child is a qualifying child is not required to, and does not, file a tax return. For example, Amanda and her son, Travis, live with Jeremy all year. Amanda worked during the holiday and earned $3,800. Amanda does not file a tax return because she is not required to so Jeremy can claim Travis as a qualifying relative. Jeremy is unable to claim the Child Tax Credit, Additional Child Tax Credit, or the Earned Income Credit for Travis.
- Member of Household or Relationship Test – Your qualifying relative must either live with you for the entire year as a member of your household (but the relationship cannot violate local law) or be related to you in one of the following ways:
  - Child (son, daughter, or adopted child), or descendant (for example, grandchild or great grandchild)
  - Stepchild
  - Sibling, half sibling, or stepsibling
  - Parent or direct ancestor (for example, grandparent or great grandparent)
  - Stepfather or stepmother
  - Uncle or aunt
  - Nephew or niece
  - Father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law. Special rules may apply for kidnapped children and for temporary absences due to special circumstances such as illness, education, business, vacation, and military service.
- Gross Income Test – Your qualifying relative cannot have a gross income in excess of the dependent exemption amount for the year.
- Support Test – Generally, you must provide more than half of your qualifying relative's total support. Special rules may apply when more than one person is providing support for an individual or for children of divorced or separated parents.

Frequently Asked Questions

How many dependents can I claim?

There is no limit to the number of qualifying dependents you can claim on your tax return.

Can I claim a parent as a dependent?

This parent would need to meet the requirements of the Qualifying Relative tests, listed above.

Can I claim my boyfriend/girlfriend’s child on my taxes?

Yes, in some cases – such as when the child's biological parent is not required to file a return (see Qualifying Relative tests above).

Who claims a dependent in joint custody?

If a child is the qualifying child for you and another person, you will need to decide who will claim that child as a dependent. If both of you claim the same child, the IRS will use the following tie-breaker rule to determine who can claim the child:

- If only one of you is the child's parent, the parent can claim the child.
- If both of you are the child's parents and you do not file a joint return together:
  - The parent with whom the child lived the longest period of time during the year can claim the child.
  - If the child lived with both parents the same amount of time, the parent with the highest adjusted gross income can claim the child.
- If neither of you are the child's parent and the child is a qualifying child for both, the individual with the highest adjusted gross income may claim the child.

Who claims a dependent on taxes after a divorce?

Claiming a child or dependent on taxes after a divorce is something the divorced couple usually must reach an agreement about – when both parents claim the child/dependent, whichever parent files their return first will get to claim the child/dependent.

Usually, the parent with custody claims the child/dependent. However, if the noncustodial parent provides half of the child's financial support, that parent may be able to claim the child/dependent in question.

How did tax reform change the rules for children and dependents?

The Tax Cuts and Jobs Act expanded the CTC and ACTC to $2,000 per qualifying child, and created a new, $500 Credit for Other Dependents.

Why is my refund so late if I claim EITC?

The PATH Act, passed in 2015, grants the IRS the ability to review returns that claim the EITC, CTC, or ACTC – meaning the earliest returns for those deductions aren't released till mid-February.