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DEPENDENTS – UNIFORM DEFINITION OF A CHILD

By Victor Sy, CPA, MBA

Different sections of the Internal Revenue Code define "qualifying child" inconsistently. The Working Family Tax Relief Act adopts **uniform** language for defining a qualifying child for dependency exemption, head of household filing status, child tax credit, earned income credit, and dependent care credit.

A **qualifying child** must meet **four tests** under the new rules:

1. **Relationship** test - child, grandchild, brother, stepsister, or descendent of such relative.
2. **Residency** test - must have lived with you for more than ½ of the tax year.
3. **Support** test - child must not have provided ½ of own support.
4. **Age** test - through 18 years old at 12/31 (24 if full-time student).

The New Act did not eliminate current rules for dependents. It merely changed definitions and eliminated inconsistencies. To take a dependency exemption for **other** dependents, those dependents must satisfy **five tests as a qualifying relative**:

1. **Relationship** test - relatives listed above plus parents, grandparents, uncle, in-law, or anyone who was a member of your household for the **entire** year and earned less than the personal exemption.
2. **Support** test - **you provided more than ½ of the relative's support** for the year. Support does not include Medicare benefits. Tax-exempt income such as social security, child support, nontaxable pensions or life insurance proceeds must be considered if used to provide support.
3. **Gross income** test - generally must be less than the personal exemption amount.
4. **Citizenship** test - citizen or resident of the U.S.
5. **Joint return** test - must not have filed a joint return with spouse.

Tip If Your Child No Longer Qualifies As Dependent Child: If you cannot take your child as your dependent under the "qualifying **child**" rules, you may still do so under the "qualifying **relative** rules." For example, you have a 21-year old son who earns \$3,000, lives at home, and is still trying to figure out what to do with his life, he is no longer a "qualifying child;" however, you can still take a dependency exemption for him because he meets the tests as a "qualifying **relative**."

Dependency Exemptions for Children

Old Rules in a Nutshell: Under prior law, a dependency exemption deduction was generally allowed for a child only when the taxpayer furnished more than half the child's support for the year, except in certain divorce and separation situations [see former IRC Sec. 152(a) and (e)]. Also, unless the child was under age 19 or an under-age-24 full-time student, the child could not be claimed as a dependent if he or she had gross income in excess of the dependency exemption amount for that year.

New Rules for Qualifying Child: For a child who meets the definition of a qualifying child, the new dependency exemption guidelines eliminate the previous requirement for the taxpayer to provide over half the child's support. In its place is a new residency requirement that says a qualifying child must share the same principal place of abode with the claiming taxpayer for over half the year (except in certain divorce or separation situations, as explained later). A qualifying child must also meet an age

requirement. He or she must be either: (1) under age 19 as of December 31 of the applicable year or (2) under age 24 as of December 31 and a full-time student for at least five months during the year.