

## Dependents: What are the tax rules?

Most taxpayers believe that a "dependent" is a minor child that lives with them. While that is essentially correct, dependents can include parents, other relatives and nonrelatives, and even children who don't live with you. There is really much more to the dependent deduction than you might at first imagine.

\* Exemptions and your taxable income. For 2012, each dependent deduction is worth \$3,800, reducing your taxable income by this amount. In 2013, the deduction increases to \$3,900 and is phased out for high-income taxpayers.

\* Dependents defined. It's impossible to present all of the rules relative to dependents here, since they are so complicated. Generally speaking, if somebody lives with you and you provide more than half of that individual's support for the entire year, there is a good chance that person is a dependent. There are many exceptions. For example, parents don't have to live with you if they otherwise qualify, but some other relatives do. A child of divorced parents doesn't necessarily have to live with the noncustodial spouse for the dependent deduction to apply.

\* People who can't be claimed. Generally, you may not claim a married person as a dependent if that person files a joint return with a spouse. Also, a dependent must be a U.S. citizen, resident alien, national, or a resident of Canada or Mexico for part of the year.

\* One dependent deduction per individual. If you claim yourself as your own dependent, anybody else who can truly meet the tests and claim you as a dependent will lose out. This is common for college students who file their own tax returns for their part-time jobs, while mom and dad really meet all of the qualifications to claim the dependent exemption.

While the dependent deduction might seem relatively minor, it can lead to other deductions on the tax return. In order to claim the child tax credit, the education credits, the dependent care credit, for example, you must claim the dependent deduction for the child that qualifies for the deduction or credit.

Finally dependent deductions can be negotiated, which is especially important for divorced taxpayers. In the past, the IRS would accept the language of the divorce decree to allow the noncustodial parent the dependent deduction. However, under the current rules, the IRS will no longer accept a divorce decree in lieu of IRS Form 8332 (Release of Exemption).