

HEAD OF HOUSEHOLD FILING STATUS: DO YOU QUALIFY?

WHAT IS HEAD OF HOUSEHOLD FILING STATUS? WHY SHOULD I BE INTERESTED?

If you are single or separated from your spouse, and you maintain a home for another person, you may qualify for head of household (HH) tax filing status. This status provides several tax advantages over single or married filing separately (MFS) statuses.

- 1. Higher Standard Deduction:** In 2003, the standard deduction (the amount of income you are automatically allowed to deduct from your taxable income) for HH status is \$7,000. The standard deduction for single and MFS statuses is \$4,750.
- 2. Lower Tax Bracket:** If you're a head of household filer, more of your income is taxed at a lower rate. The portion of your taxable income that stays in the 15% bracket is larger than for other filers. In 2003, head of household income beyond \$38,050 is taxed at the 25% bracket. Singles and MFS filers move to the higher bracket when their taxable income reaches \$28,401.
- 3. Advantages Over MFS:** If you are married but living separately from your spouse, HH is usually a better filing option than MFS. Many tax advantages are reduced or eliminated for individuals using the MFS status. For instance, the earned income credit and the student loan interest deduction are not allowed for MFS filers. Also, MFS filers who are active participants in retirement plans cannot

make deductible contributions to IRAs if their modified adjusted gross income is over \$10,000.

On the other hand, HH status generally qualifies for all deductions and credits. Tax rules, including the maximum income limits for deductions and credits, will often be similar to married filing jointly (MFJ) or single status.

HOW DO I QUALIFY FOR HEAD OF HOUSEHOLD STATUS?

For HH status, you must meet three requirements:

- You must be unmarried or considered unmarried on the last day of the tax year.
- You must have paid more than half the cost of keeping up a home for the year.
- A qualifying person must have lived with you in your home for more than half the year.

Some taxpayers who are single or separated from their spouses may not realize they qualify for a more advantageous tax filing status called head of household.

— Jackie Perlman,
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WHAT IS "CONSIDERED UNMARRIED?"

You are "considered unmarried" for tax purposes if:

- You are single or legally separated from your spouse. (Legally separated means you obtained a final divorce or separate maintenance decree that complies with the laws of your state.)
- You are married, but you meet each of the following conditions:

1. You do not file a joint return with your spouse.
2. Your spouse did not live in your home during the last six months of the year.
3. You paid more than half the cost of keeping up a home for the year.
4. Your home was the main home for your child.
5. Your child is your dependent. (If your child meets all of the dependency requirements, but you allow the noncustodial parent to claim the exemption for the child, you still meet this condition.)

WHAT COSTS ARE INCLUDED IN KEEPING UP A HOME?

In general, you include the direct costs of running a home: rent, mortgage interest, real estate taxes, homeowner’s or renter’s insurance, utilities, and food eaten at home. You do not include personal items such as clothing, education, and medical expenses. These other expenses are used in the calculation to determine dependency.

A helpful tool is The Cost of Keeping Up a Home worksheet in IRS Publication 17, Your Federal Income Tax For Individuals.

WHO IS A QUALIFYING PERSON?

A qualifying person must be related to you, live in your home for more than half the year, be a U.S. citizen or resident and, depending upon the relationship, meet additional requirements as explained in the following chart.

RELATIVE	ADDITIONAL REQUIREMENTS
Parent, grandparent, step-parent	■ Must be your dependent.
Brother, sister, step-sibling, half-sibling	■ Must be your dependent.
Mother- and father-in-law, sister- and brother-in-law, daughter- and son-in-law	■ Must be your dependent.
Uncle, aunt, nephew, niece	■ Must be your dependent. He or she must be related to you by blood.
Child, grandchild, step-child, adopted child	■ If the qualifying individual is single, there are no other qualifications. ■ If the qualifying individual is married, he or she must be your dependent.
Foster child	■ Must be your dependent. He or she must live with you all year. (This is an exception to the half-year rule for HH status.)

EXCEPTIONS TO THE HALF-YEAR RULE

Foster children must live with you for the entire year, but other exceptions to the half-year rule are more liberal:

- Special rule for parents. Your mother or father does not have to live with you at any time during the year. You must pay more than half the cost of keeping up your parents’ home for the entire year. If you provide more than half the cost of their nursing home expenses, you also meet this test.
- Temporary absences. Special circumstances may require you or the qualifying person to be away from your home temporarily. Temporary absences include hospitalization for an illness, business trips, college or boarding school, vacations and military service. You and the qualifying individual are still considered to be living together, provided that living space is maintained for the absent person and it is reasonable to assume that he or she will return to this home.
- Birth or death. If your qualifying person was born or died during the year, your home must have been the main home for the individual during the time that he or she lived.