

YOU'RE A PARENT, BUT DO YOU KNOW HOW THE IRS DEFINES "CHILD?"

"Our bundle of joy." "The light of our lives." "Our little tax deduction."

It's generally simple for a parent, guardian or caretaker to define a child for their own reasons, but doing so for tax purposes can be much more difficult. Several child-specific tax benefits, such as the Child Tax Credit, require a "qualifying child" to receive the tax benefit, but the definition of qualifying child is not uniform.

The evolving dynamic of today's American family includes divorce, adoption, foster children, stepchildren and children living in foreign countries. These situations

increase the difficulty, from the IRS' perspective, of defining a qualifying child. The definition must be interpreted within the context of the particular benefit or credit in question.

Trying to decipher the definitions of a "qualifying child" for the purposes of tax credits can be confusing to a taxpayer. The good news for taxpayers, however, is that the 2003 tax cut package, which included up to a \$400 advance payment for each child (based on a taxpayer's eligibility) did not further complicate the IRS definitions of qualifying child. The following table summarizes the IRS requirements for a qualifying child for the Child Tax Credit, Head of Household filing status, Earned Income Credit, and Dependent Care Credit.

Note: It is possible that a child qualifies more than one taxpayer for a particular tax benefit. Under these circumstances, it is generally necessary to apply certain tiebreaker rules to determine who may claim the benefit.

// The evolving dynamic of today's American family includes divorce, adoption, foster children, stepchildren and children living in foreign countries. These situations increase the difficulty of defining a "qualifying" child when it comes to income taxes. The definition must be interpreted within the context of the particular benefit or credit in question. //

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WHO IS A QUALIFYING CHILD

	Dependency	Child Tax Credit	HH Filing Status	Earned Income Credit	Dependent Care Credit
Age Limit	No age limit.	Under age 17 at end of year.	No age limit.	Under age 18 at end of year OR No age limit if physically or mentally incapable of self care.	Under age 13 when the care was provided OR No age limit if physically or mentally incapable of self care.
Child's Gross Income¹	No limit if under age 19 at end of year, or under age 24 at end of year and a full-time student any part of five months. All others: < \$3,000.	No special rule.	No special rule.	No special rule.	No special rule.
ID Numbers:²	SSN (any type), TIN, or ATIN	See Dependency.	No requirement.	Valid SSN ³	See Dependency.
Relationship (see also Foster Child and Married Child)⁴	Child, adopted child, step-child, grandchild, niece, nephew; sibling, half-sibling, and step-sibling.	Child, grandchild, step-child, adopted child.	Child, grandchild, step-child, adopted child. Niece or nephew related by blood.	See HH Filing Status.	No special rule.
Foster Child	No relationship requirement. Must have lived in taxpayer's home the entire year.	Sibling, step-sibling, niece, nephew, step-niece, step-nephew or a child placed by authorized agency.	Must live in taxpayer's home all year. Must be taxpayer's dependent.	Must have lived with the taxpayer all year. Must be placed in the taxpayer's home by an authorized foster care agency.	Must have lived in the taxpayer's home more than six months. Must be taxpayer's dependent.
Married Child	Qualifying child cannot file a joint return unless it is to claim a refund and neither spouse has a tax liability.	No special rule.	No special rule.	No special rule.	No special rule.

1 Exceptions: Sheltered workshop earnings of totally and permanently disabled individuals.

2 Social Security Number (SSN)
 Taxpayer ID Number (TIN)
 Adoption Number (ATIN)

3 A valid social security number has been issued by the Social Security Administration to a U.S. citizen or to a person who has permission from the Immigration and Naturalization Service to work in the U.S.

4 The relationship test for a foster child is met if the child is treated as the taxpayer's own child. For the child tax credit and the earned income credit, the child must be placed in the home by an authorized placement agency. Siblings and step-siblings (and their descendants) are now included in the general definition of eligible child.

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WHERE THE CHILDREN LIVE

	Dependency	Child Tax Credit	HH Filing Status	Earned Income Credit	Dependent Care Credit
Residence (See Divorced or separated Parents)	Child: Taxpayer's child need not live with taxpayer. ⁵ Foster child: Must live with the taxpayer the entire tax year.	See Dependency.	Child: Must live with taxpayer over half the year. Foster child: Must live with the taxpayer the entire tax year.	Must live with taxpayer > 6 months. (Prior to 2002, a foster child was required to live with the taxpayer the entire year.)	Must live with taxpayer during the time the expenses were incurred.
Divorced or legally separated parents	Exemption goes to custodial parent unless divorce decree states noncustodial parent can claim or custodial parent waived the exemption. ⁶	Taxpayer who claims the dependency exemption gets the credit.	Custodial parent gets HH status.	No special rule	Only custodial parent can take the credit.
Citizenship	U.S. citizen or resident; Resident of Canada or Mexico.	U.S. citizen or resident.	No requirement.	Residency must be in the U.S. or on a U.S. military base.	See Dependency.

PAYING FOR CHILDREN'S NEEDS

Support by taxpayer	Taxpayer (or the child's parents together) must provide over one-half of child's support. ⁷	See Dependency.	Taxpayer must pay over half the cost of keeping up a household.	No Requirement.	Taxpayer must pay over half the costs of keeping up the household when expenses were incurred.
Requirement that child be a dependent	Yes, unless taxpayer is allowed to claim exemption under a divorce decree or Form 8332 waiver.	Child's exemption must be claimed on taxpayer's return.	Unmarried child: No. Married child: Yes.	No.	Yes.

⁵ Special rules apply to kidnapped children.

⁶ Pre-1985 agreement: Exemption goes to noncustodial parent if he or she paid more than \$600 in child support (unless the decree was modified to specify the pre-1985 did not apply).

⁷ If more than one individual together provided over half the support, individuals who provided at least 10% of the support may elect who may claim by filing Form 2120, Multiple Support Agreement.