Tax Tips for Caregivers

What the IRS allows

AARP

JOSE LUIS PELAEZ INC/GETTY IMAGES

En español | As a family caregiver, you went into the job knowing it would take much of your time. You may not have expected it to take quite so much of your money. Some 42 percent of family caregivers spend more than $5,000 on unreimbursed care for loved ones. Fortunately, there is some light at the end of the tax year: deductions and credits.

Top Option: Your Loved One Becomes Your Dependent

The Internal Revenue Service allows family caregivers to claim anyone related by blood, marriage, adoption or even friends as dependents — if both parties meet the IRS requirements. If so, the caregiver can claim the dependent deduction on federal taxes. Bonus for the single taxpayer: Adding a dependent allows you to claim the deduction and bumps you up to head of household — even if your relative lives in a different house. The change in status means your 2017 personal deduction jumps from $6,350 to $9,350.

To qualify:

- Your loved one must be a legal resident of the United States, Mexico or Canada.
- Your loved one's taxable income cannot be greater than that year's cutoff amount ($4,050 in 2017).
    - Taxable income includes profits from investments, dividends, capital gains, rental income, interest, withdrawals for regular IRAs, 401Ks and other retirement accounts, earned income including wages, certain royalties, honoraria, severance and sheltered work shop pay.
    - Tax-exempt income includes nontaxable pensions, Social Security, if income is under $25,000 for a single tax payer or $32,000 if you file jointly, disability payments from the Veterans Affairs, Supplemental Security

Income, unemployment benefits, Supplemental Nutrition Assistance Program benefits and small cash gifts.

- You pay for more than 50 percent of your loved one's annual living expenses. This can include: food, clothing, lodging, medical and dental care, recreation, transportation and other necessities.

Two or more people can split their relative's expenses, but only one person can claim the dependent. The IRS suggests taking turns taking the deduction. Everyone who contributes more than 10 percent must file a Multiple Support Declaration with the IRS waiving the right to claim your mutual loved one as a dependent.

- Your parent, if married, doesn't file a joint return or files a joint return only to claim an income tax refund.
- You may claim a friend, honorary auntie or unrelated beloved as a dependent. The same rules apply plus one more: The care recipient must have lived with you for at least six months of the year.

Rules to file by:

- A dependent cannot have a dependent.
- Keep detailed records.
- Keep all receipts, large and small, paper or electronic.
- Jot down all related expenses on a calendar or log it in your phone. This record will make sure you don't miss any allowable deductions and be part of your documentation if audited.

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Deduct This! Dependent Medical Expenses

You can deduct the money you paid to cover your loved one's unreimbursed medical costs — if the medical expenses of everyone claimed on your taxes totals more than 10 percent of your adjusted gross income. You will need to itemize. You will want to check the IRS's Publication 502 to see what is and isn't deductible. A sampling of acceptable deductions:

- Copays and deductibles
- Accepted therapies not covered by insurance
- Glasses
- Ambulance rides
- Acupuncture
- Physical therapy
- Memory care

- Bandages
- Hearing aids
- Transportation to appointments or services
- Adult day care or in-home health care worker, if you are working
- Activities for older people with special needs
- Home and vehicle modifications needed for safety or mobility
- Cost of professional health aide during respite care
- Hotel near treatment center

Not acceptable: items and services that benefit the household.

Flexible Spending Accounts

Flexible Spending Accounts (FSAs) take money from your earnings before taxes are deducted and deposit it in a medical savings plan so you can pay out-of-pocket medical charges for yourself and dependents with untaxed dollars. You may use a flex account to pay for your loved one's medical bills, copays, to meet the insurance deductible and legitimate treatments that are not covered by insurance. If you pay using an FSA, you may not also take the deduction on your taxes.

Tax Credit: Child and Dependent Care Credit

Oddly, given the name, this tax credit does not require that your loved one qualify as your dependent.

Other qualifiers:

- The person is physically or mentally unable to care for self and lived with you for more than six months.
- A loved one who would have been a dependent except they earned more than the allowed maximum. ($4,050 in 2017).

The Child and Dependent Care Credit (also called the Elderly Dependent Care Credit or Aging Parent Tax Credit) is designed for caregivers who pay an adult day care program or an in-home health worker to assist their loved one, so that the caregiver can go to, or look for, work. The person paying the care cost can claim the credit. Unlike a deductible, which lowers your taxable income, a tax credit is deducted from the taxes you owe.

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Just make sure to outline all your costs and get someone to help you with your taxes, says Bonnie Speedy, vice president, AARP Foundation Tax-Aide, which offers free tax help from volunteers for people with low and moderate incomes, in conjunction with the IRS. AARP Foundation Tax-Aide has over 5,000 sites nationwide