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TO: OUR CLIENTS AND FRIENDS
FROM: JACKSON M. PAYNE
DATE: APRIL 15, 2023
RE: FINANCIAL STRATEGIES FOR YOUR LIVES AND BUSINESSES

TAX ASPECTS OF CARING FOR AN ELDERLY INDIVIDUAL

The purpose of this newsletter is to discuss the tax aspects of taking on the care of an elderly or incapacitated individual.

1. Medical expenses. If the individual qualifies as your "medical dependent," you can include any medical expenses you incur for the individual along with your own when determining your medical deduction. The test for determining whether an individual qualifies as your "medical dependent" is less stringent than that used to determine whether an individual is your "dependent," which is discussed at (5), below. Generally speaking, an individual will qualify as a medical dependent if you provide over 50% of his or her support, including medical costs.

However, bear in mind that medical expenses are deductible only to the extent they exceed 7.5% of your adjusted gross income (AGI).

The costs of qualified long-term care services required by a chronically ill individual and eligible long-term care insurance premiums are included in the definition of deductible medical expenses. There's an annual cap on the amount of premiums that can be deducted. The cap is based on age, going as high as \$5,960 for 2023 for an individual over 70.

2. Filing status. If you aren't married, you may qualify for "head of household" status by virtue of the individual you're caring for. If (a) the person you're caring for lives in your household, (b) you cover more than half the household costs, (c) the person qualifies as your "dependent" (see (5), below), and (d) the person is a relative, you can claim head of household filing status. If the person you're caring for is your parent, the person need not live with you, as long as you provide more than half of the person's household costs and the person qualifies as your dependent. A head of household has a higher standard deduction and lower tax rates than a single filer.

3. Dependent care credit. If the cared-for individual qualifies as your dependent, lives with you, and physically or mentally cannot take care of him- or herself, you may qualify for the dependent care credit for costs you incur for the individual's care to enable you and your spouse to go to work.

4. Exclusion for payments under life insurance contracts. Any lifetime payments received under a life insurance contract on the life of a person who is either terminally or chronically ill are excluded from gross income. A similar exclusion applies to the sale or assignment of a life insurance contract to a person who regularly buys or takes assignments of such contracts and meets other qualifying standards.

5. Tests for determining whether an individual is a "dependent." Dependency exemptions are suspended (disallowed) for 2018-2025. For tax years after 2025, you may be able to claim the cared-for individual as your dependent, thus qualifying for an exemption.

Even though the dependency exemption is suspended for 2018-2025, the dependency tests still apply for 2018-2025 when it comes to determining whether a taxpayer is entitled to various other tax benefits, such as head-of-household filing status.

For an individual to qualify as your "dependent," the following must be true for the tax year at issue: (a) you must provide more than 50% of the individual's support costs, (b) the individual must either live with you or be related, (c) the individual must not have gross income in excess of the inflation-adjusted exemption amount, (d) the individual must not file a joint return for the year, and (e) the individual must be a U.S. citizen or a resident of the U.S., Canada, or Mexico. If the support test ((a), above) can only be met

by a group (several children, for example, combining to support a parent), a "multiple support" form can be filed to grant one of the group the exemption, subject to certain conditions.

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