

# Is Your College Student Your Dependent

If you have a child ready to attend college, you may be concerned whether or not you can still claim your student as a dependent on your tax return. In most situations you still can claim the student as a dependent, but claiming the dependency deduction is not always a clear-cut conclusion.

This publication will help you understand what you can do when it comes to claiming your college student as a tax deduction. You may find it may sometimes be more beneficial not to claim the dependency deduction.

**NOTE:** the following information is general in nature and is not intended to give tax or financial advice. **Before making or using any of the information in this publication, you should talk to your financial or tax expert.**

The importance of claiming a dependent deduction is in understanding whom can be claimed as a dependent and understanding and meeting certain Internal Revenue Service conditions.

Following what is outlined in IRS rules are critical, because claiming a dependency deduction could reduce the amount of taxes you would pay to the taxing authority.

Claiming a dependent (student) could qualify you to be eligible not only for an income tax deduction you could receive tax credits as well. Claiming a person as a dependent can (in most cases) reduce your tax liability by reducing your adjusted gross income and in some cases reducing your taxes (dollar for dollar) by taking advantage of tax credits.

Claiming an individual as a deduction is called an exemption. For the tax year of 2010 each exemption you are eligible to claim will be worth \$3,650 of reduced taxable income. If you are in the 15% tax bracket each exemption you claim is worth \$548 (\$913 25% bracket) less tax you would owe to the IRS. The exemption amounts that can be taken each year are adjusted annually for inflation and can be viewed on your tax return.

## Dependency Tests

According to the IRS, in order to claim a dependency deduction of \$3,650 per exemption, the dependent must meet four tests:

### The Following Is What The IRS Says When Dealing With Children:

**Relationship test:** The person must be your child, either by birth, adoption or by being placed in your home as a foster child. Even if the adoption isn't yet final, if the child is living with you and the process is under way, it counts. A dependent child can also be your brother, sister, stepbrother, stepsister or a descendent of one of these relatives.

**Residency test:** The child must live with you for more than half of the year. If the youth is away temporarily for special circumstances, such as for **school**, vacation, medical treatment, military service or detention in a juvenile facility, these particular absences still count as time lived at home. A child who was born or died during the year is considered to have lived with you for the entire year if your home was the child's home for the entire time he or she was alive during the year.

**Age test:** A child must be under a certain age depending on the particular tax benefit. For the dependency exemption, the child must be younger than 19 at the end of the year. However, a youth who was a **student** at the end of the year can be claimed as long as he or she is **younger than age 24**. There is no age limit where the individual is permanently and totally disabled.

**Support test:** This refers to the youngster's contributions, not those of adults in the family. To qualify as a dependent, the child cannot provide **more than half** of his or her own support during the year.

In some cases your student (while in college) could receive a substantial amount of scholarship money due to need or merit. In some of these cases, the scholarship money could be equal to or more than half of the student's support. If you (parents) are faced with this perceived problem you may question whether or not you can claim the student's dependency exemption.

Here is what the IRS says about this situation:

**Scholarships:** A scholarship received by a child who is a **full-time student** is not taken into account in determining whether the child provided more than half of his or her own support.

Based on this information, scholarship or grant money will **NOT** disqualify you from taking the dependency deduction.

How does the IRS define a Full-Time Student?

**Full-time student:** A full-time student is a student who is enrolled for the number of hours or courses the school considers to be full-time attendance.

Even after the child meets the four qualifying tests we just went over, there are two other considerations that must be addressed, before you can claim them as a dependency exemption.

The child must be a U.S. citizen, U.S. national or a resident of the United States, Canada or Mexico. An exception applies for certain adopted children.

In some situations your student may get married while attending college. Can you still claim the student as your dependent?

Under this situation the IRS could give you a break. You can still claim the student as a dependency exemption.

**According to the IRS:** You can claim the exemption as long as the student **cannot** file a joint return unless the return is filed **only** as a claim for refund and **no tax liability would exist for either spouse** if they had filed separate returns.

## Divorce Situations

When parents are divorced, the student can be the qualifying child of either parent. However, only one parent can claim the dependency exemption. So the parents must decide who can and will claim the student as a dependent.

In some situations the parents cannot come to an agreement on who will claim the exemption. When this occurs the IRS will step in and make a determination.

Here is what the IRS will use to determine who will get the dependency exemption:

**First**, the IRS will look at whether only one person is the child's parent. In this case if one of the parents is the birth parent and the other is the stepparent, the one that will get to claim the exemption will be the birth parent.

**Second**, if both parents are the child's birth parents, then the parent with whom the child lived with the most during the year would get the dependency exemption. Now if the residence rule is not clear cut and the student lives equally with both parents during the year, the IRS normally gives the parent with the higher income the dependency exemption.

Now this is not all that bad, because if the lower income parent **DOES NOT** owe any taxes and the higher income parent does, the family could potentially qualify for the American Opportunity Tax Credit. This credit could mean an additional \$2,500 in less taxes owed that can be used to help pay college costs.

**Finally**, if neither person is the child's birth parent, the IRS would then allow the credit to the filer with the highest eligible AGI.

Many families have multiple children, if this is the case, the parents that are divorced can decide to share the children for tax purposes.

**For example**, if a divorce situation exists and there are three children involved, with all three living with the mother, the parents can decide on who will claim which child. The father can claim one child as a dependent and the mother can claim the other two. However, if an agreement cannot be reached by the parents the IRS rules I just went over will determine the dependency exemption.

To claim this dependency exemption, the child cannot be the qualifying child of any other person and must meet the all the dependency tests detailed in [IRS Publication 501, Exemptions, Standard Deduction, and Filing Information](#)

## **Other exemption factors**

This may surprise many of you. Everyone normally is eligible to claim themselves as a dependency exemption. However, if you are married, your spouse is never considered a dependent.

To eliminate this problem, as long as you file a joint return (whether both parents work or not) the taxpayer can claim an exemption for their husband or wife.

Another thing to keep in mind is, if your child must complete a tax return the child can still be claimed as a dependency exemption on the parent's tax return as long as the child meets the dependency rules.

If the child must complete a tax return to get a refund of tax withheld and the parents takes the child's dependency exemption, the child will still qualify for what is called their Standard Deduction (\$5,700 for tax year 2010).

**For example:** If the child's AGI was \$4,800, their dependency exemption would not help them that much because their standard deduction is larger than their AGI. Since the child's standard deduction is \$5,700 it will be subtracted from the child's earning of \$4,800, which leaves \$0 taxes owed. If the child were to elect to take their dependency exemption, the family would be throwing money down the drain because the child's standard deduction eliminated all taxes to begin with.

## **Elimination of Dependency Exemption**

If you (parents) make a lot of money, you could forfeit the dependency exemption.

According to the IRS, the exemption amount is reduced if you make more than \$125,100 and are a married person filing a **separate return**; earn more than \$166,800 as a **single filer**; make more than \$208,500 as a **head of household**; or are married **filing jointly or a qualified widow or widower** with income of

more than \$250,200.

These income limits are for the tax year of 2009 and could vary from year to year.

The importance of understanding the dependency exemption during college years could create thousand of tax savings from deductions and tax credits over the child's college education years. Therefore, it is very important to discuss your tax situation with your college consultant or tax professional **BEFORE** your child steps foot on the college campus.