



### **Tax Prep Dispatch: Credit for Other Dependents 101!**

A friend asks if they can live at your house for the year while they get back on their feet. You would say “yes” only because you like the extra exemption the friend could add to your tax return. With the new Tax Cuts and Jobs Act (TCJA), though, that exemption is now \$0.00. While the friend no longer provides an exemption, they may help you acquire the Credit for Other Dependents. This is a new \$500 non-refundable credit for a dependent who is not a qualifying child for the Child Tax Credit.

Even with a \$0 exemption, the Credit for Other Dependents is an example why we need to determine who is a dependent.

Let’s start with the requirements for the Child Tax Credit. Note some of the new changes:

#### **Child Tax Credit**

- The child must be under age 17 at the end of the tax year.
- The child must be related to you (See Pub 4012 for list of relationships).
- The child must not provide more than half of their support.
- The child must be claimed as a dependent on the federal tax return.
- The child must be a United States citizen, national or resident alien and starting in 2018 must have a SSN by the tax return due date. (Look at Credit for Other Dependents in the case of ITINs.)
- The child must live with you more than half the tax year (exceptions for divorced or separated parents may apply).

If the dependent is not a qualifying child for the Child Tax Credit, then the child may qualify the taxpayer for the Credit for Other Dependents.

#### **Credit for Other Dependents**

- The dependent must meet the requirements of a qualifying child or qualifying relative.
- The dependent must not be a qualifying child for the Child Tax Credit.
- The dependent must have an ITIN or SSN. (ITINs are allowed here!)
- The dependent must be a United States citizen, national or resident.

#### **Step One: Start with Child Tax Credit First!**

Do you get a Child Tax Credit? The rules for this credit are about the same as before. The amount of the Child Tax Credit has increased from \$1,000 to \$2,000 per kiddo with a refundable portion up to \$1,400. The kids must now have a SSN. Kids with an ITIN no longer can be a qualifying child for the Child Tax Credit (note: they may get the Credit for Other Dependents). The earned income threshold has been reduced from \$3,000 to

\$2,500 and should make it a little bit easier for lower income taxpayers or those with few working wages to get the refundable additional child tax credit.

If a dependent makes you eligible for the Child Tax Credit, you cannot use that dependent to get a Credit for Other Dependents.

### **Step Two: No Child Tax Credit? Consider the Credit for Other Dependents**

Since your friend is not related to you and is over 17, they are not a qualifying child for the Child Tax Credit. Look to see if they help with the Credit for Other Dependents.

It is a \$500 non-refundable credit for a dependent who is not a qualifying child for the Child Tax Credit. Taxpayers cannot get both the Credit for Other Dependents and Child Tax Credit for the same dependent.

The dependent must be a qualifying child or qualifying relative. Remember - even though dependents are no longer helpful for exemptions, we still need to determine if they are dependents for other reasons including some credits and Head of Household Filing status.

The dependent may have either a SSN or ITIN but must be a United States citizen, national or resident. If their ITIN interferes with the Child Tax Credit, it may be possible to get the Credit for Other Dependents.

Your 35-year-old friend has limited income of \$3,500 (the new Qualifying Relative Test is \$4,150), is not related to you but lives in your house all year, is not married and you provide more than half their support. They are not a Qualifying Child or Qualifying Relative of anyone else. It looks like your friend is a dependent as a qualifying relative.

Since the friend meets the dependency requirements as a qualifying relative, is not eligible for the Child Tax Credit and is a US citizen, they meet the requirements for the Credit for Other Dependents.

Hopefully, you would not turn away a friend or relative because they do not help with your taxes. If that is your motive, though, please consider the Credit for Other Dependents when deciding to let them stay in your house.

In short, we still need to know the rules for qualifying child and qualifying relative for dependents. The good news is that the dependency rules have not changed! If you could claim your 19-year-old son last year as a dependent and get a \$4050 deduction, you could claim your 20-year-old son this year and get a \$500 credit, as long as his situation has not changed. For most of our clients, this is actually better.

## 2017 vs 2018 Scenarios

### Child Dependents Under Age 17

2017: John's 10-year-old dependent Desmond lives with him all year and has a social security number. John provides all support. Desmond is a qualifying child for the Child Tax Credit.

2018: Desmond remains eligible for the Child Tax Credit. Since Desmond is eligible for the Child Tax Credit, John cannot claim the Credit for Other Dependents.

### Family Dependents Age 17 and Older

2017: A taxpayer has a dependent child, Barbara, who is age 18. Barbara is a VITA volunteer at her school and tells her parents that she is not eligible for the Child Tax Credit. As a well-trained volunteer, Barbara thoroughly checks Pub 4012 and finds she is eligible as a dependent. Even though she is too old for the Child Tax Credit, she is a dependent and entitles them to an exemption.

2018: Barbara remains ineligible for the Child Tax Credit (and her exemption is now worth \$0) **but** will likely make her parents eligible for the \$500 Credit for Other Dependents.

### Unrelated Dependents:

2017: Tara (age 30) and her daughter Teresa (age 8) live with their friend Marshall. Tara left her job to write a crime novel "Tax Evaders" and does not have income the year she lives at Marshall's home. Both Tara and Teresa are Marshall's dependents. Since they are not related to Marshall, they are not eligible for the Child Tax Credit.

2018: Tara and Teresa make Marshall eligible for the Credit for Other Dependents since they are dependents with social security numbers, U.S. citizens and not eligible for the Child Tax Credit.

### ITINs:

2017: Brian's 15 year old dependent son, Brad, has an ITIN and lives with him all year as a resident of the United States. Brian may claim Brad as a qualifying child for the Child Tax Credit.

2018: This changes in 2018. The child, Brad, does not have a social security number and does not make his dad eligible for the Child Tax Credit. So long as dependents have ITINs, the taxpayer may claim them for the Credit for Other Dependents. Since the son Brad has an ITIN and is a resident of the US, Brian can claim the Credit for Other Dependents.