

Dear Iris,

My ex-wife and I have two children, both of whom live with her most of the time. I get them every other weekend, and three weeks during the summer. There's nothing in our divorce decree that says anything about taxes, but generally we each claim one of the kids as a dependent.

Last year, I went to one of those free tax places, and they said I couldn't claim my son because he didn't live with me for most of the year. I'm doing my fair share to support my children, and my ex-wife has never disputed that. I don't know why I can't claim at least one of the kids if I'm technically supporting both of them. What am I missing? Or did that volunteer lady have a few screws loose?

Thank you, Iris, for your advice.

Sincerely,
Doing My Part

Dear Doing My Part,

"That volunteer lady" probably had it right. In general, unless you have a signed written statement (such as Form 8332) from your wife releasing her claim to your son, or you had a divorce decree or separate maintenance agreement from certain years that allowed you to claim him, your preparer could not allow you to claim him. This isn't a value judgment of what you did or did not do for your son. But you have to have the proper documentation that you can and should be allowed to claim him as a dependent; otherwise, that volunteer lady is exercising due diligence in denying your request.

Dear Iris,

I'm so glad you offer a free tax service. I'm a college student, so my Ramen noodle budget doesn't allow for paying a tax preparer.

A little background on me. I'm a twenty-one-year-old college junior majoring in nursing. Right now I live on campus, but in the summers I live with my parents, and they're still supporting me. I work at a pharmacy on the weekends, but it doesn't cover most of my expenses.

I recently received an Email from my university. They said I might be eligible to claim some sort of education benefit on my taxes, and they advised me to print out a 1098T form from the school's website, which I did. It shows my expenses for the year, or I guess I should say my parents' expenses.

I could sure use a bigger refund, so I hope this is true. Can I claim some sort of benefit on my taxes? If so, what's it called and how do I get it?

Thank you,
Studios Nurse To Be

Dear Studios,

Congratulations on choosing such a noble profession. 2020 has certainly shown us the value of the nursing degree more than at any time in modern memory.

From your circumstances, it sounds like your parents should still be able to claim you as a dependent. You are a college student under the age of 24; you live with your parents except for the time when you are in school, which we call a temporary absence; and your parents are providing more than half of your support. Because your parents are able to claim you, they should be claiming the credit, unless they have made the choice not to claim you on their tax return. If they choose not to claim you on their tax return, then you may claim an education credit if you are otherwise eligible. There are a couple of warnings though:

1. Even if your parents don't claim you, it doesn't sound like you can claim yourself, because your parents are eligible to do so. It doesn't matter whether they do or don't claim you. Because they can claim you, you can't claim yourself.
2. Because of your age and the fact that your earned income does not provide more than one half of your support, you will not be eligible for the refundable portion of the American Opportunity Credit. So there's a good chance that claiming the credit won't do you any good.

In most cases, you should let your parents claim you if they are eligible to do so. The credit will help their tax situation far more than it will help yours most of the time.

Dear Iris,

My husband of twenty-seven years died in April of 2018. Living alone has been a difficult adjustment, but I'm getting there.

For 2018, I filed our taxes as married filing jointly since he was alive for part of the year. Last year, I filed as single, but a friend recently said something about a widow's status. Should I have filed as a widow? Can I still do that for 2019? Should I amend my 2017 return? So many questions, Iris.

Thanks for your advice.

Broke and Lonely

Dear Broke and Lonely,

First, let me express my condolences for the loss of your husband. I'm sure it has been a difficult adjustment. Now to address your tax concerns:

You were correct to file your 2018 return as a joint return. Although Married Filing Separately would also have been an acceptable filing status, you generally will find it beneficial to file jointly. You would not have filed as single.

The "Widow" status you heard about is actually called "Qualifying Widow(er) with a Dependent Child." You mention living alone, so I presume you do not have a qualifying child who lives with you. If that assumption is correct, you should continue to file as single as you did in 2019, unless your circumstances change again of course.

Dear Iris,

I'm a confirmed bachelor. Never married; no kids. For three years, I went to a tax preparer who always let me file as head of household. After all, I live alone, so I am the head of my household. Last year, my good tax preparer was out of the business, so I tried one of those volunteer sites where they file your taxes for free. I guess you get what you pay for. They told me that I couldn't file as head of household. They filed my return as single, and my refund was less than it had ever been with my old preparer. I was not happy, but they insisted they were doing the return correctly. I have my doubts.

Please settle this debate for me, Iris. Can I file as head of household or not? If I can, I want to know how to explain it to that volunteer service, because they need to learn how to do taxes the right way. If I can't, I'd like to know why I can't. Like I said, I'm the head of my household. What do you say?

Thank you,
Wearing The Pants Around Here

Dear Wearing the Pants,

I say the people at that volunteer site are trying to help you, and you should let them! You say that you've never married and have no kids. In order to claim the Head of Household filing status, you have to have a qualifying child or qualifying relative for this purpose. It sounds like you live alone. If that's the case, the only qualifying relative you could conceivably claim for Head of Household status would be a parent, and even then, you have to have provided more than half the cost of keeping up the home for your parent. Otherwise, you are single for tax purposes. Put another way, you can't claim yourself as the person qualifying you to file Head of Household, which is what it sounds like you're proposing. Your "good" tax preparer may have landed you in hot water. Keep going to that volunteer service; they're not steering you wrong.

Dear Iris,

My husband and I are still married, but he moved out of our home in April of 2020. He has an apartment, and I have the house. About the only thing we can agree on is that we will not file a joint return. Not happening.

I'm keeping up what was our home, and I'm raising our seven-year-old grandson. Our son got into some trouble with the law, and we've had our grandson for the past three years.

My question is this: Since we will not file jointly, does that mean I have to file Married Filing Separately? I've heard that Married Filing Separately is a bad way to go. What else can I do about it, if anything?

Second Chance At Motherhood

Dear Second Chance,

There are cases where a person who is still married but living apart from his/her spouse can claim the Head of Household filing status. Unfortunately, yours is not one of those cases. The tests to claim Head of Household filing status are more rigid when you are married. You must have lived apart from your spouse for all of the last six months of the year (which you did); you must provide more than half the cost of keeping up your home (you did); and your home must have been the main home for your child, stepchild, or fosterchild. A grandchild does not meet this test.

If you were single or divorced as of the end of the tax year, assuming all other conditions were met, your grandson would have qualified as someone you could claim for Head of Household purposes. But as it stands, your choices for filing status are Married Filing Jointly or Married Filing Separately, and you've already said the two of you agree that a joint return is "not happening." So Married Filing Separately it is.

Dear Iris,

This year, I decided to get healthy all on my own. I'm very proud of myself. I got on a weight loss program where they give you certain foods to eat. I'm happy to say it worked, and I've lost 30 pounds and counting.

Can I deduct the cost of the weight loss program on my taxes? It is a medical expense after all. It has made me healthier.

One other question, Iris. I'm also a type II diabetic. I'm hoping losing this weight will improve my condition. Can I deduct my insulin as a medical expense?

Getting Fit in '20

Dear Getting Fit,

Congratulations on your new, healthier lifestyle. I'm glad 2020 has been good to somebody!

Let's take your questions in order. While the weight loss program is contributing to your becoming healthier, if it wasn't prescribed for you by a doctor, it's not deductible. You mentioned that you're getting healthy all on your own, so I can only assume that a prescription was not involved there. As for the insulin, this is a rare case where a prescription would not be required. So while over-the-counter cold medicine or pain relievers would not be deductible, insulin is.

Just remember that in order to deduct medical expenses on the federal return, there are a few considerations: Starting this year, you must have medical expenses exceeding 10% of your adjusted gross income, which is a tall order; and only the amount of medical expenses above that threshold is deductible. Also, with the extremely high standard deductions today, it's quite likely that you won't have enough deductions to itemize, at least on your federal return.

That said, in some states, it still pays to itemize on your state return. And depending on the state, the medical expense deduction floor may be lower than 10%. For instance, on the Alabama return, medical expenses above 4% of Alabama adjusted gross income may be deducted on the Alabama return. So it pays to learn the laws for your state. If you can take a deduction, go for it.

Dear Iris,

My five-year-old goes to an afterschool care program when he gets out of school, and I pick him up when I get off of work, usually around 5:30. Can I deduct these expenses on my tax return? It's kind of a lot of money, so if I can somehow claim the expense, I'd really like to know how.

Thanks,
Mom from McIntosh

Dear Mom,

You don't say if you're married or not. In general, yes, you can claim the Credit for Child and Dependent Care Expenses because your child is in afterschool care so that you can work. However, if you are married, your spouse must either be working, looking for work, a full-time student for some part of at least five months in the calendar year, or disabled and unable to care for the child while you work. Also, you can't claim this credit if your filing status is Married Filing Separately.

Be sure to bring your afterschool program's information to your tax preparer. This would include the person or provider's name, address, and Social Security Number (for an individual) or Employer Identification Number (for an organization). You'll need that information if you hope to file your tax return electronically.

Dear Iris,

My girlfriend and I are having a heated debate, and we're hoping you can settle it. Is Social Security taxable?

I say it's not taxable, because it's your money that you've been paying in all the years you worked, and now you're getting it back.

My girlfriend says it is taxable, which is why you get a form SSA1099 showing your benefits, and they wouldn't bother to send you one if you didn't owe taxes on that money.

Who is right? A dinner is riding on your response, Iris. Say it's not taxable, and make me a happy man.

Hungry and Hopeful

Dear Hungry and Hopeful,

As it turns out, you're both right--sort of. If Social Security is your only source of income, you're pretty safe to assume that it's not taxable unless you received a really large amount of Social Security benefits. However, if you received other income during the year, you need to apply a formula to determine if some of your Social Security benefits are taxable. In no case will all of your Social Security benefits be taxable, but depending on your filing status and other income received, up to 85% could be taxable.

The formula is this: Divide the amount of Social Security benefits you received in half. Then, add to that number any other taxable income you received and any nontaxable interest. If the result is more than \$25,000 (\$32,000 if married and filing a joint return), some of your benefits will be taxable. And if you are married but filing a separate return from your spouse, 85% of your benefits are taxable, regardless of the formula, unless you and your spouse lived apart for the entire tax year. Since you mentioned this debate with your girlfriend, I would assume the Married Filing Separately status does not apply to you.

As for the bet, I'd go Dutch and call it a draw.

Dear Iris,

My boyfriend has \$45,000 in student loans which he acquired getting his Bachelor's and Master's in underwater basket weaving. Because he's been short on funds, I've been making his student loan payments. Don't judge me. The lender provided him with a form 1098E showing that he has paid \$3,718 in interest, which of course means I actually paid the \$3,718 in interest. Can I take this interest as an adjustment on my taxes?

Financially Supportive Girlfriend

Dear Supportive,

No judgment here. My job is to give you tax advice, not to pass judgment on your life. There is an adjustment that taxpayers can claim for student loan interest they pay during the year. Unfortunately for you, because the student loan is not in your name and you are not obligated to pay the debt, you cannot take an adjustment for the interest you paid for your boyfriend. Ironically, the interest is treated for tax purposes as if he had paid it. So while you can't take the adjustment on your taxes, he can claim the adjustment on his taxes, even though you wrote the check. But there is no tax benefit you can achieve for paying this student loan unless it's your debt.

Dear Iris,

I am seventeen years old, and a junior in high school. I have a son who was born in September of 2020. We live with my Mom. I work at the Chicken Shack to try to bring in some extra money, but Mom pays most of the expenses. I think I made enough that I'm going to have to file taxes though--about \$6,850.

Mom and I are fighting over who can claim my son. I say I can claim him because he's my son. Mom says she can claim him because she's supporting both of us, and he's her grandson. I'm really not trying to take anything away from my Mom, but if I can increase my refund by claiming, I want to do that. Can we both claim him?

Fighting Over a Four Month Old

Dear Fighting,

It sounds like you've got a lot on your plate, so let's see if we can sort this all out.

First of all, if you only made about \$6,850, you don't necessarily have to file a tax return. Assuming you're not self-employed, if all of your income is earned income (on one or more W-2 forms), you wouldn't have to file until you made more than \$12,400 this year. However, that doesn't mean you shouldn't file a tax return. If you had anything withheld from your paychecks, you should file to get that money back. And it's possible you might be required to file a state return; you didn't mention the state where you live.

So let's assume that you will file a return to get back your withholding, and let's figure out who can claim your son as a dependent. Children have become very valuable to the taxpayer's bottom line when it comes to filing tax returns. So there are lots of rules governing who can claim whom.

First of all, we need to figure out your situation. You've made it pretty clear that you're not providing more than half of your own support, which means you can't claim yourself. You also made it clear your mother is supporting you, so she should be able to claim you as her dependent.

Because you can be claimed as your mother's dependent, you are not allowed to claim anyone else--including your son--as your dependent. And because your son is being supported by your mother, who is the child's grandmother, it stands to reason that she can claim him as her dependent as well.

There are many rules for claiming dependents, so many that the IRS has two whole charts of questions on the subject, and tax preparers often refer to them when making these decisions, even when they think the answer is fairly clear. Checking those charts definitely rules out your being able to claim your son, at least for now.

Dear Iris,

I am 42 years old, and I live with my thirteen year old son whom I support. I worked as a crane operator until three years ago when I was injured on the job in a freak accident. I'm receiving a disability pension from my former employer. For tax purposes, I received a Form 1099-R showing the amount of the pension I received last year. In Box 7 is a code 3, whatever that means. Anyway, my sister says that I should be able to claim this as if it were earned income, which left me with questions. If it were considered earned income, wouldn't I have gotten a W-2 instead of a 1099-R? Why would I want to count it as earned income anyway? Can I choose how to claim this income--either as earned income or retirement?

Retired (or Am I?)

Dear Retired,

You are retired, and probably not the way you wanted to do it. Sorry to hear about your accident.

When you receive a disability pension from your employer's plan (not from Social Security), that income may be reported to you on a W-2 or on a Form 1099-R. When it's reported to you on a Form 1099-R, Box 7 will show a Distribution Code of 3.

When a Form 1099-R has a distribution code of 3, a decision has to be made. The question that comes up is, "Are you below the minimum retirement age for your company?" Put another way, if you were not out on disability, could you, at your current age, be receiving your retirement from the company? This varies by company, so you might have to ask someone from your company's benefits department. Once you know that, you can proceed:

- If you could retire and receive your pension without disability, then you should claim the income as a retirement benefit, which is not earned income.
- If you could not have retired based on your age, then you treat the income as earned income, because it's basically acting as a replacement of the wages you cannot earn due to your disability. Being able to do this may also make you eligible for some additional benefits such as the Earned Income Tax Credit.

It is important to know that you can't just choose whichever option works out better for you. It all comes down to that question of minimum retirement age for your company, and that is the determining factor for how you treat the income on your tax return.

Dear Iris,

I'm 51, and I live alone in Alabama. My mother is 75, and she lives alone in Florida. Although she lives in her own home, which is paid for, I have had to pay her utility bills, and I buy most of her groceries. Mom ends up sending most of her Social Security money to charities who solicit her through the mail, and what she doesn't give away she spends on lottery tickets. Please don't get me started, Iris. In short, I'm supporting my mother. Can I claim her as a dependent, even though we don't live together? For that matter, does she qualify me to file as Head of Household?

She Ain't Heavy; She's My Mother

Dear She Ain't Heavy,

Checking the extensive charts of questions used to determine whom you can claim as a dependent, your mother does not have to live with you in order for you to support her and claim her as your dependent.

Furthermore, your parents are the only people who can qualify you to file as head of household, even if they don't live with you. This assumes that you are unmarried. Are you paying more than half the cost of keeping up the home for your mother, even though she lives in another state? If so, and if you are not married, she can qualify you for the Head of Household filing status.

If you are married but didn't live with your spouse for the last six months of the tax year, you wouldn't be able to use your mother to claim the Head of Household filing status. In such cases, the qualifying person must be your child, stepchild, or foster child, and your mother is none of those things.

Dear Iris,

My sister just got back from a free tax preparation center, and she called me with some news that doesn't sound quite right to me. She said that because her only income came from Social Security, she was told she didn't need to file a tax return. She is a widow and is not supporting or being supported by anyone else. How can this be, Iris? I thought everybody had to file a tax return. Don't they say the only two certainties in life are death and taxes? Please help me make sure my sister doesn't get hauled off to jail.

My Sister's Warden

Dear Warden,

Relax. It actually is possible that a person would not be required to file a tax return. It all depends on whether they had enough taxable income to require them to file a return.

We can check the IRS listing of types of taxable and non-taxable income. If your sister's only income came from Social Security, it is generally not taxable. If she had received a pension check, taken money out of her 401(K), or worked a part time job in addition to receiving her Social Security benefits, a portion of her benefits may have been taxable, depending on how much money was involved. In her case, since she is not married, the formula is to take the amount of her Social Security benefits for the year, divide it in half, and then add that number to any other taxable income she had, plus any nontaxable interest. If that amount is more than \$25,000, then some portion of her Social Security benefits should be taxable. The good news is that tax software handles these calculations automatically.

Note that it's possible that a person could owe no tax on her Social Security, but she might still have to file a return based on other income. For instance, let's say that Rhonda received \$10,000 in Social Security benefits, and withdrew \$15,000 from her IRA. Dividing her Social Security income in half ($\$10,000 / 2 = \$5,000$) and adding it to her other income ($\$5,000 + \$15,000 = \$20,000$) shows us that none of Rhonda's Social Security income is taxable, but she still has to file a return because of the money she withdrew from her IRA.

But as it stands, your sister only had Social Security income, so unless she made an amazing amount in Social Security benefits, she has no taxable income, which means she is probably not required to file a return; and you won't have to go visit her in jail.

P.S. If she received her health insurance through the Affordable Care Act and received premium tax credits to help her pay for it, she will still need to file a return to reconcile that tax credit, regardless of how much social security she received.

Dear Iris,

My husband and I separated in November, and he moved out of the house to live with "the other woman." I'm supporting our three children. Needless to say, we did not file taxes together. I filed Married Filing Separately; I don't know how he filed--there's no telling. (Married Having an Affair maybe? Is that a thing?) According to my tax return, my income was only \$28,800, and it was all earned income--no investments, stocks, bonds or retirement here. I thought surely I'd qualify for the Earned Income Credit, but my return doesn't show that I did. What could have disqualified me? Could I have done something differently? Should I file an amended return?

Earned But Not Credited

Dear Earned,

Let's see if I can answer your questions. First of all, no, Married Having An Affair is not a valid filing status. We don't know how your husband filed, so let's focus on you.

Unfortunately, you have discovered one of many consequences for filing using the Married Filing Separately filing status. Many credits, including the Earned Income Credit, the Child & Dependent Care Credit, and all education benefits are denied when you file Married Filing Separately.

Could you have done something differently? No, not really. If your husband had moved out before July, you might have been able to file as Head of Household if you met all the other conditions to do so. But the dealbreaker in your case was that you did not live apart for all of the last six months of the year, so your valid filing statuses are Married Filing Jointly or Married Filing Separately (which is what you chose.)

Assuming you don't reconcile in the coming year (which you don't sound inclined to do), you may qualify to file as Head of Household next year, and your situation could look very different.

Dear Iris,

I'm 24, and I'm a graduate student. After working for a few years straight out of college, I decided to go back for an MBA. To make some money, I've been driving for KarShare, and since quitting my full-time gig, I've stepped up my KarShare activity. It's amazing how many people will pay you to drive them around town.

I started working on my tax return, and after putting in my KarShare income, I owe a lot. So now I'm looking at deductions which I hope can offset some of this income, and I'm confused.

Can I take the standard mileage deduction, and deduct my gas receipts and car repairs as well? (The AC went out in my car in the heat of summer.) What about my cell phone? I have to have a cell phone to use the KarShare app. What else can I deduct? I've got to get this tax bill down!

Driving Me Up A Tax Wall

[For this answer, you may wish to consult www.ridesharetaxhelp.com for help.]

Dear Driving,

KarShare drivers are considered self-employed in most states. You are a contract worker, meaning you have certain autonomy over your work situation. But it also means you have to pay your own self-employment tax to cover the Social Security and Medicare taxes. When you have an employer, your employer helps pay these costs. You also aren't having any taxes withheld from the money you earn from KarShare as you did when you were a traditional employee.

You may need to estimate the amount of tax you will owe for next year and make quarterly payments to avoid the sticker shock of being self-employed. But that wasn't your question.

You can't claim the standard mileage rate, and claim the repairs to your car or the gas you put into it too. The standard mileage rate is an easy way to account for those costs. In many cases, you may get a better result with the standard mileage calculation, and it's a ton less work. If you're going to calculate your actual car expenses, you're getting into a concept called depreciation, which can be complex to figure; so if you choose this method, you should probably get help from a paid professional.

Assuming you decide to go with the standard mileage rate, remember that only business miles are deductible. Business miles for you would be miles driving clients, or miles driving between clients. Commuting miles generally would include your ride from home to your first fare, and from your last fare home. Personal miles would include things like driving to lunch, or any other miles driven not in service to KarShare. Commuting and personal miles are not deductible.

As for the phone, do you have a separate cell phone for your KarShare work? If you use your phone for personal reasons as well, you can only deduct the percentage of your phone expenses equivalent to the percentage of your usage attributable to your work. So if you estimate that 25% of your phone usage is due to work, you can deduct 25% of the phone cost.

You might find the website www.ridesharetaxhelp.com helpful in determining other expenses you can deduct and guidelines you can follow to help you prepare your return. Good luck, and I hope you can lower that bill.

Dear Iris,

I'm 47, single, and working as the business manager for an orthodontist. We switched to a new accounting software system, so I took a class at the local university to learn the basics. Isn't there some credit or deduction I can claim for that? I didn't have any grants or loans, and my job did not pay for my tuition, books, or that stupid parking fee I had to pay. Can I claim all of those expenses on my taxes? If so, what's the best way to do that?

Always Learning, One Way Or Another

Dear Always Learning,

You're asking all the right questions; let's increase your knowledge. There are two education credits out there, and they have different rules. It doesn't sound like you were a half-time student, or that you took this class in pursuit of a degree, so the American Opportunity Credit would not be available to you. But the Lifetime Learning Credit is an option for someone like you who took a class to improve your job skills. That's the good news.

The two credits also differ in terms of which expenses qualify for each. Neither credit would allow you to claim the "stupid parking fee"; sorry about that. If you were claiming the American Opportunity Credit, you would be able to claim the tuition and the books. But the Lifetime Learning Credit will only allow you to claim the books if you had to purchase them directly from the college or university as a condition for enrollment. So if you could just as easily have bought them from an online retailer, regardless of whether or not you actually did, the books are out for the Lifetime Learning Credit. But you've found a winner in the tuition; that expense can be claimed for the Lifetime Learning Credit, assuming it was not reimbursed by your employer or paid for with grants or scholarships.

Dear Iris,

I volunteer for an adult literacy program. I find it very rewarding. Someone told me I could claim, on my tax return, the miles I drive to volunteer for the program. It's about a thirty mile round trip, which I make once a week. That's about 1500 miles a year, Iris. Can I do something with that? Is it worth it?

Well Traveled Tutor

Dear Well Traveled Tutor,

It sounds like your car is working as hard as you are for this volunteer gig. And I can appreciate that.

You are allowed to claim mileage you incur in service to a charitable organization, but there is a catch. It is counted as an itemized deduction, so if you have enough expenses to itemize your deductions, your mileage could help you. But with the new tax rules introduced by the Tax Cuts and Jobs Act, standard deduction amounts were dramatically increased. So it's very possible that your standard deduction would exceed the amount of deductible expenses you have, at least on the federal return. Depending on the state in which you live, itemizing may still make sense, and you should check to see if mileage in service to a charity is an allowable expense on your state's return.

Dear Iris,

I bought a house in December of 2018, and when I did it, people kept telling me, "That's great. And when you file your taxes, you'll be able to take the interest you paid on your house as a tax deduction." Obviously it didn't really do much for me in 2018, because I didn't close on the house until late December. But I thought my ship was going to come in in 2019! But it didn't seem to do a thing for me in 2019, and 2020 looks about the same. I'm single, reasonably healthy, and aside from about \$500 in gifts to charity, I didn't have much in the way of deductible expenses. But I thought that \$3,600 in mortgage interest would've done something to increase my refund. What gives (besides me)?

House Rich But Still Tax Poor

Dear House Rich,

Well, it's like this; and I can relate because I got the same story from my friends. Mortgage interest is a deductible expense, particularly if the debt was incurred to purchase your home and the money wasn't used for other things. But with standard deduction amounts being so high these days, and since you don't have much in the way of additional deductible expenses, it really doesn't make a difference on your federal return. The standard deduction, which the government allows you to claim, is higher than your actual deductible expenses. So it didn't help you last year, and unless you've really stepped up the charitable giving or had some other deductible expenses, you really won't see a difference this year.

On state returns, your circumstances may be different. My mortgage interest is the difference between me owing the state money, and the state owing me. Depending on your state tax laws, that may not apply to you, but it's worth finding out.

Dear Iris,

My wife and I have one son, ROSS, who turned 17 in November. Ross is a senior in high school, and we are still providing all of his support. When we filed our taxes, our refund took a hit of about \$1,500 compared to last year's return. The person who did our taxes said something about Ross turning 17 causing us to lose some sort of credit. I looked at our old return, and we did receive the Earned Income Credit for both years. What are we missing, and why didn't we get it? Did our preparer do something wrong? Should we amend our return? \$1,500 is a lot to lose if we don't have to.

Still Supporting This Kid

Dear Still Supporting,

What a shame. You didn't lose the Earned Income Tax Credit. But if Ross turned 17, you lost the Child Tax Credit. This credit expires the year the child turns 17, not 18 as you might expect, and it can be worth up to \$2,000. That explains the difference.

You should've received the Credit for Other Dependents for claiming Ross, which only happens if you have a tax liability. The Credit for Other Dependents is a nonrefundable credit, so it can only be used to reduce your total tax; it can't add to your refund directly. That credit is worth \$500.

Dear Iris,

My husband and I have lived in the same house for about twenty years, until we sold it in August of 2020. We paid \$85,000 for the house in 1996, and we added on a mother-in-law suite in 2004 at a cost of \$15,000. In 2015, we had to replace a window that was broken when our house was robbed; although we had insurance, the deductible was \$250. After much bargaining with the buyer, we managed to sell the house for \$105,000. Do we claim some or all of that as income on our tax return? If so, how much? Do we claim all of it or only part of it--or is it free and clear?

First Time Home Seller

Dear First Time Home Seller,

Since you and your husband have lived in this house for more than twenty-two years, and it has been your main home, you are allowed to exclude up to \$500,000 in gain from the sale of the home. (If this had been your vacation home at the beach, you wouldn't have lucked out, and you would've had to report the gain as income.) Since the gain can be fully excluded, you don't have to report the sale unless you received a form 1099-S reporting the transaction to the IRS.

If you did receive form 1099-S, you should report the transaction on Form 8949 and Schedule D, being careful to list your adjusted basis and sales price correctly. Be sure and use the Adjustments section of the reporting screen to show that you had an excluded gain for the sale of your main home. But you should be free and clear in this case.

Dear Iris,

My brother said he heard that there weren't going to be exemptions on tax returns any more. What he said was, "They're increasing the standard deductions, but they're getting rid of exemptions." Is that right? And if so, does that mean there's no point in claiming people on your tax return any more? This sounds like the law of diminishing refunds.

Wishing for a Better Answer

Dear Wishing,

There's a lot of confusion around this subject. So let's get clear!

From now through 2025, the value of personal exemptions and dependent exemptions is \$0. So there won't be a line on the tax return showing the dollar amount for exemptions.

That said, you will still claim people who qualify as dependents on your return. The rules for dependents haven't changed. Dependents allow you to take advantage of things like the Earned Income Tax Credit, the Child Tax Credit, and the Child & Dependent Care Credit, among others.

There are a few changes regarding the Child Tax Credit. Starting in tax year 2018, not only does your qualifying child for the credit have to be under age 17, but he/she must have a social security number, not an ITIN. The parents can have ITINs. Also, the amount of the Child Tax Credit can be as much as \$2,000 per child; and the refundable portion of the credit, called the Additional Child Tax Credit, can be as much as \$1,400 per child.

And for those dependents who don't qualify you for the Child Tax Credit, either because they're too old for it or because they have an ITIN, you can claim a new credit. The Credit for Other Dependents is a nonrefundable credit of up to \$500 per dependent to help offset your tax liability. It kind of makes up for not getting any money for the person's "exemption." So if you're supporting your mother, there's still tax return value in claiming her as a dependent.

Dear Iris,

If there's one thing I've learned from COVID-19, it's that health insurance is a valuable thing. But it sure is expensive.

I have what they call a high deductible health plan, and there sure is truth in advertising in this case. I have coverage for myself only, and my deductible is almost \$6,000.

I have had this plan for several years now, and my employer contributes \$100 per month to a Health Savings Account. This year I started contributing to it as well, and I put \$200 in each month. So my employer contributed \$1,200, and I contributed \$2,400.

I got this form 5498-SA, and it shows total contributions of \$3,600 which makes sense to me. $\$1,200 + \$2,400 = \$3,600$. So far, so good.

My W-2 has this code W in box 12A. The amount is \$1,200. I can only assume that reflects the \$1,200 that my employer put into my HSA. Does that matter?

Second question: I also got a Form 1099-SA, showing that I received \$1,550 in funds from my HSA. Iris, I didn't get that money myself. I spent it on doctor visits and on prescription and non-prescription medications. Are they now saying I have to pay taxes on that money? Why did they send me this form? Please help me understand.

Trying To Stay Financially Healthy

Dear Financially Healthy,

You're asking all the right questions, so score a point for you!

The contributions your employer made are not tax deductible on your tax return. The Code W on your W-2 shows any nondeductible contributions. So when you're figuring the contributions that you can claim as an HSA deduction, subtract any nondeductible amounts from what your Form 5498-SA shows. In your case, only the \$2,400 you contributed is deductible.

It's important to understand this as well: Some employers allow you to contribute to your HSA pre-tax, meaning they take your HSA contributions out of your salary before they tax what's left of your salary. You may hear of this contribution having been made through a "cafeteria plan", which has nothing to do with lunch by the way. In such cases:

(1) Since you receive the tax deduction when you contribute the funds, you cannot take that contribution as a tax deduction on your tax return.

(2) In such a case, the amount shown on your W-2 with code W should show all nondeductible contributions, including those you made through a cafeteria plan.

So if this had been your situation, the amount shown with Code W in Box 12A would be \$3,600, and none of the contributions would be deductible. It doesn't sound like this situation applies to you at this time.

Now let's tackle that Form 1099-SA. It shows the money that came out of your HSA, whether or not the money passed through your hands or bank account. As long as the money was used to pay "qualified expenses", you just indicate that on Form 8889, and you won't have to pay tax on that money. If you spent the money on expenses that don't qualify, you'll have to pay a 20% penalty for using those funds inappropriately.

Here it's worth noting that the CARES Act expanded the expenses that qualify as medical expenses for the purposes of tax favored accounts such as HSAs. In addition to the usual medical expenses such as doctor bills, prescriptions, and contact lenses, now over-the-counter medications are qualified expenses, as are feminine care products. So if you have receipts for those allergy meds or cold relief tablets you got off the store shelf, they count this year.

Dear Iris,

When COVID-19 hit, I received one of those stimulus payments for \$1,200. I thought I was supposed to get some extra for having a dependent. My daughter is eighteen, and she lived with me all year. I did not get anything extra even though I have claimed her on my tax return every year now. Can I do something to get that extra money now?

Sincerely,
Sure Could Use It

Dear Sure,

The stimulus payment (or Economic Impact Payment as it is technically described) is actually a 2020 tax credit that you received in advance of filing your tax return. If you are due any extra funds from this credit, you would claim them on your 2020 return.

That said, the extra funds you're describing only apply to qualifying children who make you eligible for the Child Tax Credit. That means children with a social security number under the age of seventeen for whom you can claim dependency.

Since your daughter turned eighteen in 2020, you will not claim any extra stimulus payments for her.

If your daughter were age sixteen or younger at the end of 2020, there would be a provision for you to claim an extra \$500.

One final note: It sounds like your daughter can be claimed as your dependent still, even though she is eighteen. Because of this, she cannot claim an Economic Impact Payment for herself.