

April 2003

“The hand that rocks the cradle is the hand that rules the world”

This quote from 1865 by William Ross Wallace refers, of course, to Mother. And Mother is on our collective lips during May, not only for the holiday named in her honor, but also due to the gratitude we all have for our Mom. Here at the office Mom related tax issues are considered. Let us deal with some of them.

Tax season raises a number of issues. One unmarried client asked the following question. "I support my mother. She has lived by herself since Dad passed away two years ago. I provide all of her support. She has minimal income, outside of social security. Can I claim her?" The answer is yes; you can claim her if you provide more than 50% of her support and if she does not have gross income in excess of the exemption deduction amount (\$3,000 for 2002). Happily, tax-exempt income, such as social security payments, is not included in gross income. In addition to that, the unmarried client, who would normally file as single, can file as unmarried head of household. The benefit of that filing status is usually a lower tax bracket and a higher standard deduction. And the unmarried client also gets to claim a dependency exemption for his dear mother. Note that the mother does not need to live with the taxpayer; she can maintain her separate abode. This is a tremendous tax benefit.

What if Mom has dividend and investment income exceeding \$3,000 so that the child cannot claim an exemption for Mom, but the child pays Mom's medical expenses? Can the child claim Mom's medical expenses as an itemized deduction on the child's own return? The answer is yes, provided that the child would otherwise be entitled to claim Mom except for the fact that her gross income exceeds the exemption amount, but the child still provides more than half of Mom's support. Phew! We wish the law was easier to explain here, but it is not. This law does mean that in many cases the son/daughter should pay the parent's medical expense since there is a better chance that they are itemizing deductions and will get tax benefit from paying the expenses. So, the issue of who pays what is relevant. Note that in this scenario, while the medical expenses are paid and deducted by the child, the son/daughter cannot claim Mom as an exemption and cannot file as head of household—but they do get to deduct the medical expenses.

The newsletter has highlighted many estate planning issues. No one wants to deal with this eventuality, but you are encouraged to read the articles in this area and contact the office with any questions you might have.

A younger couple with small children can pay Mom to watch her grandchildren and, assuming they cannot claim Mom as an exemption, they can then claim a child care

credit for the amounts paid to Mom. Some people think you can never use amounts paid to Mom to watch the kids as a child care credit, but this is not so.

The office seconds the comments made by Mr. Wallace. But while acknowledging his wisdom, the office goes one better by reminding you that there are tax benefits available from Mom. (Of course these same benefits are available from Dad also.) The office welcomes any questions you might have and will help you to minimize the family's collective tax liability.

Happy Mother's Day!

Very Truly Yours,

Krebs & Co., CPA's, Inc.
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