

**Does the money I receive to take care of a child have to be reported on a tax return?**

Generally, no. Cost of care, difficulty of care, adoption assistance paid for child care, MFIP, and Food Stamp payments are not listed as income on your tax return. These payments may be used to calculate the amount of Minnesota tax credits and the property tax refund.

However, if you care for more than 10 foster children, receive money to keep a bed available even if it is not used, operate a group home, or care for more than 5 people over the age of 19, then your payments are probably taxable and must be claimed on your tax return.

New in tax year 2002: Payments from a for-profit child welfare agency operating under a contract with a state or local government agency are not taxable, if you care for 10 or fewer children.

Can I claim the child as a dependent on my tax return?

To claim a child as a dependent, the child must:

1. be a relative - child, grandchild, parent, brother, sister (closer than a cousin) **-OR-** must live with you as a family member **all year**,
 - An adopted child is related to you.
 - Temporary absences for summer camp or school do not disrupt the child's residence.
 - A child born during the year and placed in a home for the balance of the year meets the residence requirement.
 - A foster child placed in your home for purposes of adoption by you is considered by the IRS to be an adopted child, even if the adoption is not finalized for a year or more.
2. not be claimed as a dependent on another tax return,
3. be a U.S. citizen or live in the United States, Canada or Mexico,
4. have gross income not greater than \$3,100 (unless he or she is the taxpayer's child under age 19 or a full-time student under age 24), and
5. receive over ½ of his or her support from the taxpayer. Payments for cost of care, adoption assistance, MFIP, SSI or other cash assistance count as support NOT provided by the taxpayer.
 - The IRS counts as "taxpayer support" a share of household expenses including rental value of the home, food, transportation, utilities etc., in addition to expenses incurred directly for the child's care. IRS Publication 17 and 501 each have a useful worksheet to help calculate whether a taxpayer meets the support test.
 - Foster parents who claim a charitable deduction cannot use those expenses to meet the financial support test.

If you qualify to claim the child as a dependent, and the child is under age 17, you may also qualify for the **Child Tax Credit**, which is worth up to \$1000 per child.

Can I claim a charitable deduction for the out of pocket costs of caring for the child?

IRS considers unreimbursed expenses for the care and support of a foster child to be donations to the government agency. These donations may qualify as a charitable deduction that can be claimed on Schedule A,

Itemized Deductions. Any expenses reimbursed by the agency CANNOT be claimed as a charitable deduction. Foster parents cannot claim a charitable deduction for expenses used to meet the financial support test for the dependency exemption.

Legal guardians may not take a charitable deduction for unreimbursed expenses for the care and support of the child.

Can I claim the child as a “qualifying child” for the Earned Income Tax Credit (EITC) and the Minnesota Working Family Tax Credit (WFTC)?

A “qualifying child” must:

1. Be related to you closer than a cousin OR be placed with you by an authorized child welfare agency or state court,
2. Have a social security number valid for work,
3. Live with you for more than six months of the tax year, and
4. Be under age 19, or a full time student under age 24, OR a person who is totally disabled can be of any age.
 - A qualifying child for the EITC and WFTC does not have to meet the IRS definition of dependent.

Can I claim a deduction for daycare expenses for the child?

If the child qualifies as your dependent, was under age 13 during the tax year, and you paid someone else to care for the child while you worked or looked for work, you may qualify to claim the Federal Child and Dependent Care Credit or the Minnesota Child and Dependent Care Credit. If your dependent was age 13 or over, disabled and not capable of self-care, you may also qualify for these credits. Many low income families who cannot claim the federal credit do qualify to claim the Minnesota credit.

What is the Adoption Tax Credit?

The Adoption Tax Credit is a non-refundable credit for qualifying expenses incurred to adopt a child. The maximum credit is \$10,000. Qualifying expenses include adoption fees, court costs, attorney fees, medical expenses, travel expenses, etc. An eligible child must be under age 18 or mentally or physically disabled. If you adopt a special needs child after January 1, 2003, you may qualify for the full \$10,000 credit regardless of qualifying expenses. A special needs child must be a U.S. citizen and determined by a state child welfare agency as requiring adoption assistance in order to complete an adoption.

Can I claim a credit for the child’s education expenses?

If you can claim the child as a dependent, and the child is enrolled in a post-secondary institution, you may qualify to claim a tax credit or deduction based on the amount of tuition paid. To find out more information on the federal education tax credits and deduction, see IRS publication 970.

If you can claim the child as a “qualifying child” for the EITC, and the child is in Kindergarten through 12th grade, then you may qualify for a Minnesota tax credit or subtraction for education expenses. You can qualify for this credit even if you have no earned income. If your income is below \$37,500, you can get up to 75% of eligible expenses refunded to you. A deduction may be taken at any income level. Eligible expenses include, after school academic programs, music lessons, academic summer camps as well as paper, pens, pencils

etc. Private school tuition is only eligible for the deduction.

PRIOR YEARS

The EITC and many other credits may be claimed for any of the past 3 tax years in which you qualified. If you did not file a tax return in the previous 3 years, you may file now and claim the EITC and other credits. If you filed your return, but did not claim credits you now think you qualified for, you can file an amended form 1040X (federal) or M-1X (Minnesota) for any of the past 3 years.

If you or your spouse recently received a social security number, and you met all qualifications for the EITC in previous years, except that you did not have a social security number, then you can use your new social security number to amend prior year returns and claim the EITC.

For information on federal income tax credits and deductions, call (800) TAX-1040.

For information on Minnesota income tax credits and deductions, call (651) 296-3781.

Free tax preparation is available for low income, senior and disabled persons. To find the location nearest you, call (651) 297-3724 or First Call For Help at 1-800-543-7709 or 211.

***This fact sheet applies only to the tax year 2003.
Income tax returns must be filed by April 15th, 2004***

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