Care for Your Parent

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Our population is aging and with that comes the time when our parents can no longer care for themselves. When this happens one of three things usually occurs:

- they hire someone to come in to their home to care for them;
- they move into a care facility; or
- they move into your home and you provide their care.

If they stay in their own home and hire in-home care, the portion of the care that is directly related to their medical care is deductible as a medical deduction, even if the person they hire is not a nurse. If the person they hire is also providing household services, the amount paid to this person should be divided between the medical care and household care.
The person they hire for in-home care is considered a household employee and they would be responsible for the tax requirements of being their employer.

If they decide to move into a care facility (like a nursing home) and the primary reason they moved into that facility was to receive medical care, then the cost of the care, including meals and lodging is all deductible as a medical deduction.

If they move in with you, there are some tax benefits that can relieve some of the financial burden associated with being a caregiver. These benefits include a change in your filing status, a possible exemption for them, medical expense deductions, a dependent care credit and possible exclusion of payments under a life insurance contract.

If you aren't married, and your parent is living with you and you are providing more than half of their household costs, you may qualify for "head of household" status, which provides a more favorable tax rate structure than "single" status.

There are several rules to determine if you are allowed to claim them as your dependent, but the main ones include you providing more than half of their support costs, them not having gross income in excess of $3,300 for 2006 and them either being a U.S. citizen or a resident of the U.S., Canada or Mexico.

If they do qualify as your dependent or if they fail as your dependent only because they do not meet the gross income test, then you can include any medical expenses you pay for them as a medical deduction on your tax return. If you hire someone to care for them in your home, the amounts attributable to medical care are deductible for you as a medical deduction. Anything they do that is not consider medical care is not deductible. As I indicated above, this person is considered a household employee and you would be responsible as their employer.

If they qualify as your dependent, and they are not able to take care of themselves, you may qualify for the dependent care credit. This credit is for costs that you incur for someone to care for them, so that you and your spouse can go to work.

If they happen to be either terminally or chronically ill, then any lifetime payments received under a life insurance contract on their life can be excluded from gross income.

These rules can be beneficial and complicated, so when you are faced with these issues, it is best to discuss this situation with your tax professional to make sure that you are taking advantage of every tax break available.

***Gina L. Gwozdz** is a CPA who has chosen to specialize in taxes.* Visit her website at http://GLGcpa.com to view more Tax Tip Articles.