Some Taxpayers Feel Like the "Meat" in the Sandwich Generation

March 24, 2009 2:30 PM ET

Good News Could Come as Tax Relief for Those Caring for Elderly, Own Children

KANSAS CITY, MO, Mar 24, 2009 (MARKET WIRE via COMTEX) -- Americans are living longer, parenthood is coming later and later, and more people are finding themselves caring for an elderly parent while also raising their own children. This sandwich generation not only brings a new level of life challenges, but also some unique tax situations -- and benefits.

"With recent changes to the tax code, there's even more relief for those with kids in college and those caring for an elderly parent," said Gil Charney, tax analyst with The Tax Institute at H&R Block (NYSE: HRB). "It all centers on the definition of a dependent. Dependents aren't just children living at home. In fact, even non-relatives living with you or relatives not living with you could qualify as a dependent for tax reasons."

One out of eight Americans age 40-60 is raising a child and caring for a parent at home, according to the Pew Research Center. Many may be able to claim deductions related to caring for a parent ranging from medical expenses to dependent care. In addition, those taxpayers may qualify to claim a dependent exemption for their parent, meaning a deduction of $3,500. With tax code changes from The American Recovery and Reinvestment Act also taking affect, there could be additional dollars in taxpayers' pockets now and in the future.

There is a five-point test to help determine whether someone is a dependent.

-- The taxpayer must provide more than 50% of the individual's support costs.

-- The individual must either live with the taxpayer all year or be related (such as a parent, grandparent, stepparent, aunt or uncle).

-- The individual's gross income may not exceed the exemption amount, which is $3,500 for 2008.

-- The individual must not file a joint return for the year (except to claim a refund of taxes withheld).

-- The individual must be a U.S. citizen, a U.S. national, or a resident of the U.S., Canada, or Mexico.

For taxpayers covering a child's college tuition, the most recent stimulus bill expands certain provisions. Taxpayers now may be able to claim up to $2,500 for certain college expenses for a dependent in the first four years of higher education. Also, certain technology expenses could be qualified expenses for a 529 plan.

Another common tax benefit may arise from the cost of providing care for an elderly parent. For example, if an individual qualifies as a dependent, lives with the taxpayer more than half the year, and physically or mentally cannot take care of themselves, the taxpayer may qualify for the dependent care credit for costs incurred to enable the taxpayer and spouse to go to work. That could translate into up to a $3,000 tax deduction.

Another consideration from the recent Recovery Act is the one-time payment of $250 for those on Social Security or disability benefits. Taxpayers will not have to file a return to receive this payment.

"This is the one case where the check is in the mail," Charney said.

Charney also indicated that qualifying out-of-pocket medical expenses incurred for the taxpayer's dependent parent may also be deductible. However, for the rules and amounts, it is best to consult a tax or financial professional.

For more information visit www.hrblock.com or call 1-800-HRBLOCK for your nearest tax professional who can assist you with understanding the complexities of claiming dependents.

The Tax Institute, a division of H&R Block, is a national leader in providing unbiased research, analysis and interpretation of federal and state tax laws. Staffed by Enrolled Agents, CPAs, and Attorneys, The Tax Institute provides industry expertise for matters related to taxes and the professional tax preparation industry.

About H&R Block

H&R Block Inc. (NYSE: HRB) is the world's preeminent tax services provider, having served more than 400 million clients since 1955 and generating annual revenues of $4.1 billion in fiscal year 2008. H&R Block provides income tax return preparation and related services and products via a nationwide network of approximately 13,000 company-owned and franchised offices and through TaxCut(R) online and software solutions. The company also provides business services through RSM McGladrey. For more information visit our Online Press Center at www.hrblock.com.

For Further Information:
Gene King
816-854-4287
Email Contact

SOURCE: H & R Block

http://www2.marketwire.com/mw/emailprcntct?id=49F85E3E6A61BA4C