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Question of the Day: Dependents for Premium Tax Credits

Household size, which is one of the factors in calculating premium tax credits, is determined by the taxpayers and dependents on the tax return. Who can be claimed as a dependent?

Children, siblings, parents, grandchildren, other family members and even people who are unrelated to the taxpayer can be claimed as dependents if they meet the criteria to be either a qualifying child or a qualifying relative under IRS rules. All dependents on the tax return will be included as household members when premium tax credits are calculated.

What are the rules for claiming children on a tax return?

The child must be a citizen or resident of the U.S., Canada or Mexico. (Note that eligibility for premium tax credits is limited to U.S. citizens and lawful residents despite the broader tax dependency rule.) The child must also live with the taxpayer for at least half of the year and be under the age of 19 by the end of the tax year (or under age 24 if a full-time student or any age if disabled). The child must have a relationship with the taxpayer; a “child” can be the taxpayer’s child, grandchild, younger sibling, or younger niece or nephew. Finally, the child must not be paying more than half of his or her own support. Some children who don’t meet this test (e.g., an adult child) may qualify as another type of dependent.

Other than children, who else might qualify as a dependent on a tax return?

Other relatives—or even unrelated people—that the taxpayer supports may be claimed as dependents if they meet the IRS test as a qualifying relative. To be a qualifying relative, the person must be a citizen or resident of the U.S., Canada or Mexico. (Note that eligibility for premium tax credits is limited to U.S. citizens and lawful residents despite the broader tax dependency rule.) In addition, the person must be financially dependent on the taxpayer; he can’t have income greater than \$3,900 (2013 figure) and the taxpayer must pay more than half of his support. A person who is related generally isn’t required to live with the taxpayer to be his dependent, but an unrelated person must live with the taxpayer all year.

If a child lives with one parent (custodial parent) but is claimed by the other (non-custodial parent), who may claim the premium tax credit for the child?



Typically, a child is required to live with the taxpayer for more than half the year in order to be that person's qualifying child. However, there is an exception that allows the custodial parent to release their claim on the child's exemption to the non-custodial parent. If the non-custodial parent gets that release and claims the child on his or her tax return, the child will be in that taxpayer's household when calculating the premium tax credit, even though the child doesn't live there.

Can an adult child living with his parents be claimed as a dependent?

Yes, if the tests for dependency are met. If a child is too old to be considered a "qualifying child" under IRS rules, he or she may still be a dependent (whether or not he lives with his parents) if he earns less than \$3,900 per year (2013 figure) and if his parents pay for more than half of his food, housing and other necessary support.

If a dependent college student does not provide more than half of his own support, but makes more than \$6,100 per year, would that income need to be included in the parent's MAGI?

Yes. A dependent has a tax filing requirement if his or her earned income is greater than \$6,100, if unearned income is greater than \$1,000, or if the combined earned and unearned income is greater than either \$1,000 or earned income (up to \$5,750) plus \$350. If the dependent meets any of these conditions, then they must file a tax return and their income must be included in the calculation of MAGI.

Can a dependent adult child or relative apply for premium tax credits to be used for his own individual health plan?

No, premium tax credits are only available for the taxpayer who claims the personal exemption for the dependent. If a child or relative is eligible to be someone else's dependent, they cannot claim their own personal exemption and therefore, they cannot receive premium tax credits on their own.

Can someone file as head of household if they are divorced and do not have custody of their child, but pays child support that equals over half of the child's expenses?

No, in order to qualify as head of household, the child must live with you. There is no exception to the filing status rules for non-custodial parents. Separately, if the non-custodial parent seeks to claim the child as a dependent on his tax return, he will need to have a signed tax form granting permission from the child's custodial parent.