

It is not Just Peanut Butter and Jelly for the Sandwich Generation

A Tax Fact from The Tax Institute at H&R Block

Caring for aging parents, growing children and yourselves can create some sticky tax situations for those of us often referred to as “the sandwich generation.” But what are those bread and (peanut) butter issues that you should know about before tax time?

Dependency exemptions

Sandwiched with support for aging parents and your own growing children, can you claim dependency exemptions for both your parents and your children? The good news is that tax law can grant you dependency exemptions for your parent or child, but, and there’s always a but, the rules are slightly different.

Qualifying Child rules: A qualifying child is a child who meets certain age, residency, and relationship rules. If the child is your son or daughter, they will qualify if they are under the age of 19 or 24 (if a full-time student) at the end of the year. The child can’t supply more than 50% of his own support nor can the child be a qualifying child of someone else. Except for temporary absences, such as attending school away from home, the child must live with you for more than half the year. Special rules apply if a child is a qualifying child of more than one person.

Rules for claiming your parent: If you wish to claim your parent as a dependent, there are different rules. First, you must provide more than half the cost of their support. In some cases, especially with a parent, no one person will provide more than half the cost. Instead, two or more people may provide the support – for example you and a brother or sister. But for the support test, each of you may be able to claim the exemption. In such a situation, a Multiple Support Agreement can be signed allowing one of the persons who provided more than 10% of the support to claim the dependency exemption. Form 2120, Multiple Support Agreement, must be attached to the tax return of the person claiming the exemption. In addition, your parent must not have more than \$3,400 gross income.

Generally, both a qualifying child or a parent who you wish to claim as an dependent, must be a citizen or resident of the United States. A dependent can not file a joint return unless the dependent files with a spouse only to claim a refund. In this situation, the spouses file only to claim a refund of taxes that were withheld and neither spouses would have a tax liability if they were to file separate tax returns.

Education

Sandwich generation-ers can also find themselves planning or paying education costs that can produce some tax benefits for themselves and their children such as:

- Saving for education through Education Saving Accounts
- Paying for education for children and yourselves can produce education tax credits. The Hope Scholarship credit is available for students in their first two years of college. The Lifetime Learning credit is available for not only a child in college but for anyone pursuing post-secondary education or courses that improve or acquire job skills.

Health care

You are also allowed to deduct medical expenses for your dependents. If you were unable to claim your parent as a dependent merely because of the gross income test, you can still claim medical expenses that you have paid for their medical care.

Retirement Savings

Don’t forget about yourselves! If you are sandwiched between the needs of the preceding and succeeding generation, be sure you save for your own retirement. Take advantage of your employer’s 401(k) or an Individual Retirement Account to prepare for your own retirement years. Remember, your own retirement will be here sooner than you think.

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