Tax Benefits for Single Parents

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If you are a single parent dealing with the complicated tasks of working and raising a family, there are some tax benefits and issues you should be aware of.

Filing Status – Just because you are single or widowed does not mean you have to file your tax returns using the single filing status. Tax law provides two far more beneficial filing statuses that you might qualify for. These statuses provide higher standard deductions and more beneficial tax rates:

> **Head of Household** – If you are unmarried and pay more than half the cost of maintaining a household that is the principal place of abode for your qualified child or children for more than one-half of the year, then you qualify for the head of household status. Qualified children generally include your children, grandchildren, foster children or stepchildren under the age of 19 or a full-time student under the age of 24 who is not self-supporting. This is true even if you allow the other parent to deduct the dependency exemption for the child.
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> **Qualified Widow** – If you are widowed, you may qualify for the head of household status discussed just above. However, if your spouse passed away in one of the two prior years, you have a child or stepchild (not including a foster child or grandchild) whom you can claim as a dependent and who lived with you the whole year, and you paid more than half the cost of keeping up the home, you can use the higher standard deduction for married individuals filing jointly. In comparison, in 2016, the standard deduction for marrieds filing jointly is $12,600, which is twice the amount for a single individual.

Child Support – Any child support you receive from the non-custodial parent is tax-free to you. Child support is also not included in household income for the purposes of determining the premium tax credit if you are otherwise qualified and obtain your health insurance through a government marketplace.

Alimony – In most cases alimony payments received from your former spouse must be included in your income and are subject to tax. However, you can treat the alimony as earned income for purposes of making an IRA contribution of as much as $5,500 ($6,500 for those age 50 and over).

Exemptions – You are entitled to an exemption allowance of $4,050 for yourself and each of your children and others whom you claim as dependents on your tax return. Generally, the custodial parent will be the one eligible to claim a child's exemption allowance. The value of the exemptions you claim is subtracted from your gross income when you are figuring out the amount of your taxable income. For example, if you are in the 25% tax bracket, each exemption allowance you deduct saves you $1,013 of tax. However, if you allow the non-custodial parent to claim the exemption of a qualified child, then you forego the $4,050 exemption allowance for that child.

Releasing the exemption of a child to the noncustodial parent must be done in writing and to IRS's specifications as to required information. The noncustodial parent must then attach the written form to his or her return. The release can be for one year, for specified years or for all future years. If the exemption for the child is released, then the noncustodial parent will be able to claim the child tax credit (discussed below). Note: If a child is older and attending college, keep in mind when relinquishing the child's exemption that the partially refundable tuition credit goes to the one who claims the child.

Child Care Credit – If your child or children are under age 13, and you are working or attending school, you may qualify for the non-refundable child and dependent care credit, which is based upon the amount of your earnings from working (or imputed income if attending school) and the amount of child care expenses, up to $3,000 for one child and $6,000 for two or more children. The credit can be as much as $1,050 for one child and $2,100 for two.

Child Tax Credit – You are also entitled to a non-refundable tax credit of $1,000 for each child under the age of 17 that you claim as a dependent. However, this credit begins to phase out for those filing as head of household with incomes in excess of $75,000. Some taxpayers with lower income may qualify for some portion of this credit to be refundable.

Earned Income Tax Credit (EITC) – If you are working, you may also qualify for the EITC. This refundable credit is available to lower-income taxpayers and is based on your income and the number of children you have, up to three. The maximum credits for 2016 are $506 with no children, $3,373 with one, $5,572 with two, and $6,269 with three or more. The credit is totally phased out at incomes of $14,880 with no children, $39,296 with one, $44,648 with two, and $47,955 with three or more.

As you can see, there are a number of tax benefits that apply to single parents. Please consult with this office to be sure you are not missing out on one or more of the benefits available to you. If you are a custodial parent, before releasing your child's exemption to the noncustodial parent, you may wish to contact this office so the tax impact on your return(s) can be determined.