Income Tax Deductions, Exemptions and Credits that May Be Available When Providing for a Special Needs Dependent

By Theresa M. Varnet, Esq.

Caring for a family member with special needs can be financially costly. Many of these expenses may be deductible on one's income tax returns. Unfortunately, many families are not aware of the many income tax deductions for medical and related expenses that exist in the tax code. The following is a summary of tax deductions, exemptions and credits that families often miss and fail to claim. Families often overlook the dependency exemption, deductions for medical expenses, special education costs, medically required home renovations, impairment-related work expenses and the earned income tax credit.

Many families assume that, if their special needs family member is an adult and receiving SSI, they cannot claim their adult child as a dependent on their tax return. However, this is incorrect. Age is irrelevant when determining the dependency exemption of a disabled adult. The taxpayer's child, stepchild, grandchild, sibling, stepsibling, niece or nephew may meet the requirement of a dependent if he or she is 1) under age 19; 2) under age 24 and a student; or 3) any age if living with the taxpayer for at least six months of the year, and totally and permanently disabled at any time during the year. An individual is considered totally and permanently disabled if he or she is incapable of engaging in substantial gainful activity due to a physical or mental impairment that will end in death within a year or that is expected to last at least a year. The amount of the dependency exemption is the same as the amount of the personal exemption ($4,050 in 2016).

In addition, various deductions may be available if one elects to itemize deductions rather than simply claim the standard deduction (in 2016, $6,300 for single taxpayers and$12,600 for married couples filing jointly). While most families understand the direct costs of medical care are deductible, they may not realize that many instructional or educational expenses may also be claimed as a medical deduction. Medical expenses may be deductible if they exceed 10% of one's adjusted gross income (AGI) (or if they exceed 7.5% of one's AGI if the taxpayer or his/her spouse is at least 65 years old at the end of the tax year). When one adds the additional cost of tutors, therapies and privately funded special education, one may meet the 10%/7.5% eligibility "floor." Education expenses are not generally deductible as a medical expense, but a deduction may be allowed if the primary reason for attending the school is to alleviate the handicap.

Deductions may also be allowed for tuition, lodging, meals, transportation, supervision, care, treatment and special training of a physically or neurologically disabled individual. In addition, a family could set aside certain funds in a flexible spending account (FSA) on a pre-tax basis to pay for some of these expenses.

Family members may also incur costs by attending conferences, seminars and training programs to become more knowledgeable about their child's disability. The registration fees and travel expenses are deductible. There is currently no deduction allowed for lodging or meals. However, if one is an officer with an organization such as The Arc, Williams Syndrome Association, Autism Speaks, etc., one may be able to claim a deduction as a non-cash charitable deduction if one is attending the conference in his/her capacity as an officer of the organization.

If an individual is employed but is privately paying for impairment-related work expenses (IRWE), he or she may deduct the cost of these expenses as a business expense that is not subject to the 2% of AGI floor. The IRWE can be deducted on Form 2106-EZ.

One should be aware that all of the above possible deductions (with the exception of the deduction for medical expenses) may be reduced or entirely unavailable due to an overall limitation on itemized deductions, which affects taxpayers whose AGI exceeds the applicable amount (in 2016, $259,400 for single taxpayers and $311,300 for married couples filing jointly). If affected, one's otherwise allowable itemized deductions for the tax year are reduced by the lesser of 1) 3% of the excess of AGI over the applicable amount or 2) 80% of the itemized deductions otherwise allowable.

Additionally, persons who are disabled but employed and earning less than SGA (Substantial Gainful Activity) often fail to claim the earned income tax credit. The purpose of this credit is to offset the cost of Social Security taxes on one's wages.

Families should consult with an accountant or tax attorney to determine whether they are missing out on tax deductions that they could be taking. Doing so may help alleviate the high costs of providing for a family member with special needs.

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