

EBOOK \\\\\\

# Qualifying dependents



## Introduction

Tax experts must be familiar with the different filing statuses, residency statuses, the definition of a qualifying dependent, and the basic requirements for tax return filing. This knowledge enables them to support the taxpayers they work with and help determine whether or not a taxpayer can claim their dependents on their tax returns.

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Because tax experts play such an important role in helping taxpayers determine whether or not they need to file a federal tax return, this ebook provides key takeaways and resources for qualifying conditions for dependents. You can utilize this resource to help guide taxpayers to make the most appropriate tax return filing decisions based on their individual situations.



## Qualifying conditions for dependents

Taxpayers are sometimes able to claim dependents when they file their taxes.

The term **dependent** means any qualifying child or qualifying relative that the taxpayer supports by providing at least half of the dependent person's total support for the tax year.

To claim a dependent, you will need to review the dependency requirements to determine if their dependent qualifies.

In this ebook, you'll find a helpful overview of the process to follow when determining whether someone is a qualifying dependent.

## Qualifying conditions for dependent children

To claim a child as a dependent on the taxpayer's tax return, the child must meet all four of the following conditions.

### Relationship test

- The child must be an eligible relative of the family, such as the taxpayer's son, daughter, stepchild, foster child, brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant of any of those people.

### Support test

- The child can't provide more than half of his or her own financial support.





## Qualifying conditions for dependent children

### Age test

At least one of the three following criteria must be true to pass this test:

- The child was 18 or younger at the end of the year and younger than the taxpayer and their spouse (if they're married and filing jointly).
- The child was 23 or younger at the end of the year, was a student, and was younger than the taxpayer and their spouse (if they're married and filing jointly). "Student" in this case means a full-time student for at least five calendar months of the year.
- The child is over these age limits but is permanently and totally disabled, as determined by a doctor.

# Qualifying conditions for dependent children

## Residency test

- The child must have lived with the taxpayer for more than half the tax year.
- There are exceptions for temporary absences (for example, if the child was away at college, in the hospital, or in juvenile detention).
- There are also exceptions for children who were born or died during the tax year, for kids of divorced or separated parents, and for kidnapped children.





# Key takeaways

## Qualifying children:

- Must be related to the taxpayer, such as a son, daughter, sibling, or direct descendant, including step or foster children.
- Must meet specific age requirements.
- Must live with the taxpayer for more than half the year, other than short-term absences.
- Cannot provide more than half of their own financial support during the year.
- Do not have to be biological children.
- There are tax credits for certain qualifying children, and credits may be impacted by the taxpayer's overall filing status.

# Qualifying relatives

A **qualifying relative** is a person (of any age) who:

- is not a qualifying child
- satisfies the following three tests
- may be claimed as a dependent for tax purposes

The next page provides an overview of the three tests for qualifying relatives.





## Qualifying conditions for dependent relatives

### Gross income test

- The person's gross income must be [below this threshold](#) as determined by the IRS.

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### Support test

- The taxpayer must provide more than half the person's total financial support for the year.
- Support** generally includes household expenses such as rent, groceries, utilities, clothing, unreimbursed medical fees, travel, and recreation expenses.

# Qualifying conditions for dependent relatives

The relationship test is more inclusive for qualifying relatives than for qualifying children.

## Relationship test

- The person has to be related to the taxpayer or live with the taxpayer, which means the person must be one of the following:
  - the taxpayer's child, stepchild, legally adopted child, foster child, or a descendant of any of those people (for example, a grandchild)
  - the taxpayer's sibling, half-sibling, step-sibling, niece or nephew (including the kids of a half-sibling)
  - a parent, grandparent, stepparent, aunt or uncle, or in-law (but not a foster parent) of the taxpayer





## Key takeaways

### Qualifying relatives

- Dependents may also be a qualifying, non-child relative.
- May be of any age.
- Must either reside with the taxpayer or be related to the taxpayer as described on the previous page.
- Their gross income must not exceed \$5,200.
- The taxpayer must supply over half of the potential dependent's financial support, including costs for housing, food, utilities, and medical expenses.



## Hints and resources

- [Child Tax Credit: Top Requirements](#)
- [Who are Dependents?](#)
- [General rules for dependents](#)
- [Rules for Claiming Dependents on Your Taxes](#)
- [IRS: The Age Test](#)



## Taxable scholarship funds

Some scholarship funds are subject to taxation.

If a student has scholarship money left over after covering all qualified education expenses, they'll need to include that amount as part of their gross taxable income for tax purposes.

In the upcoming section of the ebook, you'll find information and helpful resources on taxable scholarship funds and how to report them.

# When scholarship money counts as income

When it comes to calculating tax liability, scholarship money counts as income when used to pay for:

- Room or board
- Utilities
- Other non-qualified expenses, including school supplies not listed as required in your program



When scholarship money counts as income • 13



# Did you know?

If students have money left over after covering all qualified education expenses and use it on other costs, these funds generally count as taxable income.

For example, if you are a student and you use your scholarship funds for optional books that don't count toward satisfying course requirements and aren't required of every student, they would be subject to taxation.

## Reporting Scholarship Income

# 1098-T

Parents usually report the **1098-T** received by their student on the parent's tax return; however, if scholarship income received in **Box 5** of the 1098-T exceeds the amount reported in **Box 1** for qualified tuition and related expenses, the excess scholarship amount is considered taxable income, and should be reported as income by the student on a dependent tax return.

FILER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone number		<b>1</b> Payments received for qualified tuition and related expenses  \$  <b>2</b>	OMB No. 1545-1574  <b>2023</b>  Form <b>1098-T</b>	<b>Tuition Statement</b>
FILER'S employer identification no.	STUDENT'S TIN	<b>3</b>		
STUDENT'S name		<b>4</b> Adjustments made for a prior year  \$	<b>5</b> Scholarships or grants  \$	<p>This is important tax information and is being furnished to the IRS. This form must be used to complete Form 8863 to claim education credits. Give it to the tax preparer or use it to prepare the tax return.</p>
Street address (including apt. no.)		<b>6</b> Adjustments to scholarships or grants for a prior year  \$	<b>7</b> Checked if the amount in box 1 includes amounts for an academic period beginning January–March 2024 <input type="checkbox"/>	
City or town, state or province, country, and ZIP or foreign postal code				
Service Provider/Acct. No. (see instr.)	<b>8</b> Checked if at least half-time student <input type="checkbox"/>	<b>9</b> Checked if a graduate student <input type="checkbox"/>	<b>10</b> Ins. contract reimb./refund  \$	

## Taxes for Grads

Believe it or not, scholarship funds can sometimes count as taxable income. For scholarships to be completely tax-free, the money must go toward paying qualified educational expenses at qualified institutions.

Scholarship funds that exceed the qualified amount or go toward certain non-qualified expenses like room and board are typically taxable income.

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### To ensure a scholarship is not taxed:

- Utilize the funds for qualified educational expenses, such as tuition, enrollment, course-related costs, mandatory fees, required books, supplies, equipment, and other necessary fees at an eligible institution.
- For scholarships to cover these course-related expenses tax-free, these expenses must be mandatory for all students in your program.





## Key takeaways

### Use of scholarship funds

Scholarship money that exceeds your qualified educational expenses or is used for non-qualified expenses is considered taxable income. Carefully track how scholarship funds are spent to ensure correct tax reporting.

### Tax liability of excess funds

If, after covering all qualified education expenses, there are remaining scholarship funds, these excess funds must be reported as income.

### Reporting excess scholarships on tax returns

If scholarship income on Form 1098-T (Box 5) exceeds the amount in Box 1, the surplus is taxable and should be reported.



## Hints and resources

- [Taxes for Grads: Are Scholarships Taxable?](#)
- [Foreign students, scholars, teachers, researchers, and exchange visitors](#)
- [Tax Considerations for College Students](#)



## Your learning journal

Consider these questions and jot down your thoughts.

- 1. The support test is a critical part of determining who can be claimed as a qualifying child or relative. Imagine a client who shares support for their child with an ex-spouse, or an adult child who helps support an aging parent living in their own home. What specific, probing questions would you ask to accurately calculate who provided more than half of the total support for the year?**
  
- 2. What kind of documentation would you advise them to keep in case the IRS questions the dependency claim?**

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## Your learning journal

Consider these questions and jot down your thoughts.

- 1. A client gives you their dependent college student's Form 1098-T, and you notice the scholarship amount in Box 5 exceeds the tuition costs in Box 1. This excess is likely taxable income to the student. How would you explain to your client (the parent) that their child may now have a requirement to file their own tax return, even while being claimed as a dependent?**
  
- 2. What advice would you give both the parent and the student about tracking educational expenses to minimize this tax liability in the future?**

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**CONGRATULATIONS**

You have completed  
this ebook.