Resources

<u>Caregiver to Foster Children:</u> http://www.AzFamilyResources.org

<u>WIC: Women, Infants and Children formula and food assistance program</u>: http://www.azdhs.gov/azwic (800) 252-5942 All adoptive (who receive AHCCS) and foster children ages 0-5

<u>Arizona Friends of Foster Children Foundation</u>: http://www.affcf.org (602) 252-9445 Financial assistance for foster children for activities and special events.

<u>Arizona Association of Foster and Adoptive Parents</u>: www.AZAFAP.org Support organization

<u>Resource Family Advocate</u>: (602) 542-0210: Help with any licensing issues

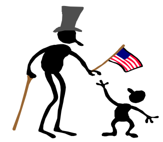
DPS Levels

Level 1:
Normal foster care

Level 2:
Provide transportation to and from visits, provide transportation to specialized doctors or therapies more than 2x per month, frequent school contact due to the child's history.

Level 3:
Medically fragile children, due to a child over 13 with a high transportation need, documented history of sexually reactive disorder, documented history of aggression requiring intense supervision.

1st Choice TAX SERVICES INC.



Let Uncle Sam Reward YOU for Fostering His Kids.

We feed them, we tuck them in bed at night, and we love and protect them just like they are ours. The good news is, sometimes Uncle Sam rewards us the same tax benefits for our foster children as our own biological children. This advantage can translate into thousands of additional dollars for a foster parent household.

The IRS and Congress are constantly changing and redefining the tax code. In 2004 they significantly changed the rules for claiming foster children as dependents. This article will provide you the knowledge you need in order to claim your foster child on your 2017 taxes under the current guidelines.

One question that most foster parents have is "Are the reimbursements that I receive from the state for providing foster care taxable to me?" The answer in most cases is, "NO". There are exceptions if you care for more than 10 foster children at a time, receive certain respite care payments, or if you are considered a group home not a foster home. There are even some states that require you to send back some of your monthly reimbursement to the state if all of the money is not needed to support the child.

We all know that the IRS does not "speak" the same language as a normal person. The IRS official definition of a foster child is "an individual who is placed with a person by an authorized placement agency or judgment, decree, or other order of any court of competent jurisdiction". What does that mean? It means that a foster child placed in your home by the court system on a temporary basis meets the qualifying relationship criteria in the eyes of the IRS.

Now that we have the relationship nailed down, there are three more IRS requirements to meet before your foster child can be claimed on your tax return:

Age – Your foster child must be 18 or younger by the end of 2017 or a full time student and under 24 years of age.
Support – Your foster child cannot pay more than 50% of their support from their own funds. The subsidy payments that you receive are considered government funds and do not count as belonging to the child.
NOTE: Under an old rule the foster parent had to pay more for the child's support out of their own personal funds than what was received from the state, but that is no longer valid.
Residency - The child must have been placed in your home for 183 days or more in the calendar year. The days do not have to be consecutive. The days that the child is away overnight but still in your care count as days in your home. In other words if you are receiving a subsidy for that child for that day it counts as a day in your home.

NOTE: If a child is born in the current year then that child has to be placed in your home the majority of their lifetime. You would calculate that by taking the number of days the child is alive during the year, divide by 2 and add 1 day.

Hooray! You meet the four rules above (relationship, age, support and residency) but the IRS requires one more item… the child's Social Security Number. Unfortunately, obtaining a child's valid Social Security Number can be a challenge for many foster parents. For example, the number could be unknown to the agency, protected by that states privacy laws, or it is possible that the child has never been issued a number. The reality is that unless you have a Social Security Number for the child in your care, you will not be able to claim that child on your tax return. If the existing Social Security Number is obtained later, then you can amend the previously filed return and claim the child if it is within three years.

Helpful Hints

Procedures for Children That Have Already Been Claimed

If you receive notice that your foster child has been claimed as a dependent on a tax return other than yours, you must provide to the IRS documentation that you are the person that should be allowed the deduction. The best documentation is the letter mentioned above from the DCS case manager. Be sure to save your monthly child's billing form as well (yellow's). For online billing you can print each statement and save them with your tax return. This will be additional documentation that the child resided with you if the IRS were to question the child being listed as a dependent on your tax return.

Still Unsure or Have More Questions Regarding Your Taxes?

You should ask your tax advisor or we would be happy to answer as many as you have!
Call us at:

1st Choice Tax Services Inc.
3950 N Campbell Ave.
Tucson, AZ 85719
Phone: 520-320-1041 Fax: 520-320-1053
Email:1stChoice@1stChoiceTaxServices.com
Web address: www.1stchoicetaxservices.com
1st Choice Tax Services Inc. offers foster and adoptive families a 50% (up to $100.00) discount on each year of tax preparation.

What is an Enrolled Agent?
An Enrolled Agent (EA) is a federally-authorized tax practitioner who has technical expertise in the field of taxation and who is empowered by the U.S. Department of the Treasury to represent taxpayers before all administrative levels of the Internal Revenue Service for audits, collections, and appeals.

For medical deductions in 2017 and 2018 the threshold drops to 7.5% of AGI then returns to 10% in 2019.

In the past, alimony paid under a divorce decree was deductible by the ex-spouse who paid it and treated as taxable income by the recipient. Starting with alimony paid under divorce or separation agreements executed after December 31, 2018, the reverse will be true: Payors will no longer get to deduct alimony, but the payments will be tax-free for the ex-spouse who receives them. (That's the same rule that has and will continue to apply to child support payments.)

The moving expense deduction is eliminated except for members of the military.

The new law repeals ALL miscellaneous itemized deductions subject to the 2% of adjusted gross income (AGI) threshold. This includes tax prep fees, investment fees, and the most often used unreimbursed employee business expenses.

In the past Investment Income earned by dependent children under the age of 19 (or 24 for full time students) has been taxed at the parents' rate. Starting in 2018 this income will be taxed at the same rate as trusts and estates. That rate, 37%, kicks in when their investment income reaches $12,500. This tax is better known as the Kiddie Tax.

The new law repeals the penalty for not having health care. This is the tax owed if you do not have health insurance. This repeal does not start until 2019.

There are additional tax changes starting in 2018 that could affect your individual tax situation.

NEW Starting with Tax Year 2015*: If a new SSN, TIN or ATIN is issued after the due date of the tax return, the child cannot be claimed. The due date will be expanded to October 15th if you file an extension. You cannot file the return and amend to include a child later.*

Are you wondering how claiming a foster child affects your return? For 2017 the dependency exemption per child is $4050. If you are a single parent, then having the child in your care could allow you to claim the head of household status which would allow a larger standard deduction and a lower tax rate. In addition, various tax credits are also available to be claimed if the credits additional rules are met. The most common include the Child Tax Credit ($1000), dependent care credit (up to 35% of child care expenses) earned income tax credit (maximum amount of credit $6318). Most states allow you to claim the foster child as a dependent on your state tax return, since states follow the federal rules.

What if the child in your care did not meet the IRS tests and cannot be claimed as your dependent? It is possible to still receive some tax benefits. If you spent more for the care and support of that child than you received in foster reimbursements then you may claim the excess as a charitable contribution, provided that you itemize your deductions and file a Schedule A attachment to your tax return. An exception to this rule is if a child was placed with you for you to adopt then a charitable deduction cannot be taken.

A particular deduction that is often overlooked is the driving the child to medical appointments, therapies, and family visits as well as your trips to case staffing and court proceedings. If you are not reimbursed for those miles, then you qualify for a charitable deduction at 14 cents per mile. A written mileage log needs to be kept to support this deduction.

AFFORDABLE CARE ACT

Starting with the tax year 2014 every person who is claimed as a dependent on a tax return is required to have health insurance for the entire year or there may be a penalty assessed on the return. For foster children their CMDP coverage is acceptable insurance.

The most frequent problem that foster parents have in claiming a foster child as a dependent is to find out after they have filed their return, that another taxpayer has already claimed the same child. If that happens to you, then the IRS will require proof of residency and relationship to you. That proof is as simple as a letter from the state or placement agency stating that the child is a foster child placed in your home for 183 days or more.

Here are some final hints that should make claiming your foster child as simple as possible:

- Upon placement of the child, ask the DCS case worker for the child's Social Security Number and how the child's name appears on the Social Security Card.
- Once you know that you will claim the child on your tax return request a documentation letter from the DCS case manager. The letter needs to be on DCS letterhead, state the child's name, date of birth, social security number, foster parents name, address, and how many days the child was in the home for that year. (**New for 2016, this is now a requirement for documentation purposes)** Ask the DCS case manager to also inform the birth parents.
- Do try to electronically file (e-file) the tax return to be alerted as soon as possible if another taxpayer has claimed the child.

The state of Arizona allows you to claim your foster child as a dependent on your Arizona return if you meet the federal rules.

Foster Parenting is not for everyone. As you know it takes a special person to be a foster parent. If you seek professional tax advice, look for that special tax person who will understand your unique family.

***Reminder**: All the information enclosed is valid for tax year 2017 only unless otherwise stated.*

TAX CHANGES FOR 2018

Standard deductions are almost doubling. Married filing joint (MFJ) is up to $24,000, Head of Household (HOH) is now $18,000, and Single filers will have a standard deduction of $12,000. Individuals 65 and older get an additional $1,250 added to their standard deduction.

Personal exemptions are reduced to 0. Currently $4,050 for 2017.

For a family with children under age 17, the child tax credit is being increased from $1,000 to $2,000 per child. This is a credit which is a direct reduction of taxes. Up to $1,400 of the credit is refundable if there is no tax to offset. For high income households the credit does phase out. Previously $110,000 for MFJ, the limit has been increased to $400,000.

In addition to the child tax credit there is a new nonrefundable $500 credit for dependents who are not qualifying children. An example would be an elderly parent or a child over the age of 16.

The new tax code will reduce the income tax rates as shown in the chart below: