



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 to claim your foster child on your 2020 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 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 2020 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to pay more for the child’s support out of their own personal funds than what was received from the state, but that is no longer valid.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 must 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, 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.

NEW Starting with Tax Year 2015: *If a new SSN, TIN or ATIN is issued after the due date of the tax return or after the return has been filed, 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? If you are a single parent, then having the child as a dependent may 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 additional rules for each credit are met. The most common include the Child Tax Credit at \$2000 for each child under the age of 17. For children 17 and older there is a \$500 credit. A Child Care credit (up to 35% of childcare expenses). Earned Income Tax Credit (maximum amount of credit \$6660). The Child Tax Credit and the Earned Income Credit are both refundable which means that your refund can be increased even if you owe no taxes. 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, if 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 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 or electronic mileage log needs to be kept supporting this deduction.

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. 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.

Reminder: All the information enclosed is valid for tax year 2020 only unless otherwise stated.

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?

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. 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.
3365 N Campbell Ave. Suite #121
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.

Additional

Emergency Clothing:	\$150 maximum per state fiscal year. Independent Living Subsidy program youth are not eligible for this allowance.
Emergency Clothing –Extra	\$100 maximum per state fiscal year. (examples: Fire, Flood, Theft). Independent Living Subsidy program youth are not eligible for this allowance.
Books Education Expenses:	\$82.50 maximum per school year for all dependent children. For books, supplies, course fees, student services and physical education fees/equipment. May be approved for special pre-school and college level, technical and vocational classes.
Supplemental Extra School Tuition and Fees:	\$165 maximum per session. For use during summer sessions or interim sessions at year round schools.
Graduation Expenses:	\$220 maximum. Available for High School only for cap, gown, ring, yearbook, and other graduation related fees.
Special Needs Allowance:	\$22.50 maximum per state fiscal year. Available to assist foster parents with expenses such as holidays, birthdays, and special occasions. Independent Living Subsidy program youth are not eligible for this allowance.
Camp and Vacation:	Allowance Suspended.
Passport Allowance:	Reimbursement for the actual cost of obtaining a passport book or card. Receipts are required. Effective 1/1/09 and is a one-time reimbursement per child.
Diaper – Special:	\$62.50 maximum per month. This allowance must be authorized monthly. Available with medical documentation for children who require additional funds for diapers.

Daily rates are determined by the age of the child on the first day of the month

ARIZONA DEPARTMENT OF CHILD SAFETY
Family Foster Home Care Rates and Fees Schedule
 Rates effective July 1, 2015

	Basic Foster Care			
	Daily Rate	Clothing	Personal	Total
Basic Foster Care 0 – 12 Months	\$19.68	\$0.53	\$2.10*	\$22.31
Basic Foster Care 1 – 2 Years	\$19.68	\$0.53	\$0.95**	\$21.16
Basic Foster Care 3 – 5 Years	\$19.68	\$0.53	\$0.10	\$20.31
Basic Foster Care 6 – 11 Years	\$19.68	\$0.79	\$0.33	\$20.80
Basic Foster Care 12 – 18+ Years	\$27.15	\$1.02	\$0.72	\$28.89

SP2 Level Foster Care				
Special 2 0 – 12 Months	\$23.52	\$0.53	\$ 2.10*	\$26.15
Special 2 1 – 2 Years	\$23.52	\$0.53	\$0.95**	\$25.00
Special 2 3 – 5 Years	\$23.52	\$0.53	\$0.10	\$24.15
Special 2 6 – 11 Years	\$23.52	\$0.79	\$0.33	\$24.64
Special 2 12 – 18+ Years	\$29.40	\$1.02	\$0.72	\$31.14

SP3 Level Foster Care				
Special 3 0 – 12 Months	\$29.94	\$0.53	\$2.10*	\$32.57
Special 3 1 – 2 Years	\$29.94	\$0.53	\$0.95**	\$31.42
Special 3 3 – 5 Years	\$29.94	\$0.53	\$0.10	\$30.57
Special 3 6 – 11 Years	\$29.94	\$0.79	\$0.33	\$31.06
Special 3 12 – 18+ Years	\$37.42	\$1.02	\$0.72	\$39.16

Medically Fragile				
Medically Fragile 0 – 12 Months	\$35.75	\$0.53	\$2.10*	\$38.38
Medically Fragile 1 – 2 Years	\$35.75	\$0.53	\$0.95**	\$37.23
Medically Fragile 3 – 5 Years	\$35.75	\$0.53	\$0.10	\$36.38
Medically Fragile 6 – 11 Years	\$35.75	\$0.79	\$0.33	\$36.87
Medically Fragile 12 – 18+ Years	\$44.69	\$1.02	\$0.72	\$46.43

Kinship Foster Care (Unlicensed Relative)

OR

Kinship Foster Care Licensed applied for

OR

Unlicensed Non-Kinship Providers

0 – 12 Months	\$0.53	\$2.10*	\$2.63
1 -2 Years	\$0.53	\$0.95**	\$1.48
3 – 5 Years	\$0.53	\$0.10	\$.063
6 – 11 Years	\$0.79	\$0.33	\$1.12
12 – 18+ Years	\$1.02	\$0.72	\$1.74

*For diapers and formula **For diapers