

An important issue in the determination of income tax liability is deciding who is a dependent for purposes of the personal exemption. As a taxpayer, you are allowed a personal exemption for yourself, your spouse if you file a joint return, and for any person who meets the technical definition of a dependent. Since the personal exemption amount is \$2,900 (for 2001), the determination of who is your dependent can have important tax consequences.

There are three tests which must be met before a person is considered your dependent: (1) the support test, (2) the relationship test, and (3) the citizenship/residency test. Even when these tests are met, some dependents must also meet a gross income test before the person supporting them can claim their personal exemption.

The support test generally provides that a person is the taxpayer's dependent only if the taxpayer provides more than half of the dependent's support in the year for which the personal exemption is claimed. Although this appears to be a simple test, its application can be difficult. First, it is necessary to determine the dependent's total "support" for the year. Support generally includes the fair rental value of housing provided to the dependent, food and clothing, payments for child care, the cost of private education, medical insurance and medical care, and transportation expenses. Although support includes more than the mere necessities of life, it is often unclear whether a particular expenditure is an element of support.

Once you have determined the total amount of support received by a dependent in the year in question, it is necessary to measure the amount of support contributed by the taxpayer seeking the exemption. You must contribute more than half of total support to claim the exemption. Several special rules apply. First, if you are in a community property state, any support contributions which you make are considered to be made 50-50 by you and your spouse. Similarly, 50% of any support paid by your spouse is considered paid by you. Second, cash contributions are included in the support test only if spent on support in the calendar year. Thus, if you give the dependent cash equal to 51% of his total support, but the dependent's actual support comes from other sources, the support test is not met.

Assuming that you have met the support test for the dependent in question, you must next pass the relationship test. Under this test, the dependent must have a specified relationship with you in order for you to receive the exemption. With respect to the taxpayer, the claimed dependent must be within one of the following relationships: (1) a son or daughter (or one of their descendants); (2) a stepson or stepdaughter (but none of their descendants); (3) a brother, sister, stepbrother, or stepsister; (4) a father, mother, or ancestor of either; (5) a stepfather or stepmother (but not their ancestors); (6) a niece or nephew; (7) an aunt or uncle by blood (not by marriage); and (8) a son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. The relationship test is met even if a taxpayer's son or daughter is born out-of-wedlock. In addition, a claimed dependent who qualifies for none of the listed relationships will meet the test if the taxpayer's residence is the dependent's principle home for the entire year and he is a member of the taxpayer's household.

The final requirement for determining whether a person is your dependent for tax purposes is that they must either be a U.S. citizen or a resident of the U.S., Canada, or Mexico. Thus, if you are supporting

a parent who is not a U.S. citizen, and resides outside the U.S., Canada and Mexico, you will not be entitled to an exemption for him or her.

Even if these three tests are met, the dependent must also meet a gross income test if he or she is not your child. This test requires that the claimed dependent must not have gross income for tax purposes in excess of the exemption amount. If the claimed dependent's gross income exceeds the exemption amount, you will not be entitled to an exemption even if the three other tests are met. This rule does not apply to the taxpayer's children as long as they are under the age of 19 or full-time students under the age of 24.

Finally, an important exception to the rules governing personal exemptions is that anyone who may be claimed as a dependent by another taxpayer is not entitled to an exemption on their own tax return. For example, if you supply more than 50% of the support for your college-age daughter, you may take an exemption for her on your tax return. If she, however, files a tax return based on her own income, she will be unable to take a personal exemption.