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How Family Caregivers Can Get the Tax Breaks They Deserve

Caring for a loved one could make you eligible for deductions and tax credits

As a family caregiver, you went into the job knowing it would take much of your time.

You may not have expected it to take quite so much of your money. The average family caregiver spends about $7,200 a year on household, medical and other costs related to caring for a loved one.

Fortunately, you'll find some light at the end of the tax year: federal tax credits and deductions that apply directly or indirectly to caregiving costs. Here are some ways family caregivers may be able to reduce their tax burden.

Tax credit for 'other dependents'

Taxpayers have long been able to claim a tax credit for children up to age 16. Unlike a deduction, which lowers your taxable income, a tax credit directly reduces your tax bill. The 2017 federal tax law expanded the Child Tax Credit (CTC) to allow taxpayers to claim up to $500 as a nonrefundable Credit for Other Dependents, including parents in your care.

Under this provision, in effect through the 2025 tax year, the Internal Revenue Service allows family caregivers to claim some individuals related by adoption, blood or marriage — and even some friends — as other dependents on their federal tax return if both parties meet these IRS requirements:

Legal residency. Your loved one is a U.S. citizen, U.S. national or legal U.S. resident and has a valid identification number — a Social Security number, Individual Taxpayer Identification Number or Adoption Taxpayer Identification Number.

Income. Your loved one's gross income is not greater than that tax year's cutoff amount, which in 2023 is $4,700. Unless you request an extension, the deadline to file your 2023 federal tax return is April 15, 2024.

Dependence on you. Your loved one lives with you and you pay more than 50 percent of that person's living expenses, including clothing, food, lodging, medical and dental care, recreation, transportation and other necessities.

Two or more people can split these expenses, generally laid out in a legal document called a multiple support agreement. But only one can claim the person as a dependent, and that person must pay more than 10 percent of the support costs.

Living arrangements. You may claim a friend, honorary auntie or other unrelated loved one as a dependent, but he or she must have lived with you the entire year.

Married dependent considerations. You can claim a dependent who is married only if he or she does not file a joint return with the spouse or files a joint return only to get a refund of income tax withheld and does not claim any other credits or deductions.

Not a dependent yourself. You can claim a dependent only if you are not a dependent of another taxpayer.

The IRS has an interactive tool to help you determine if a dependent qualifies you for a tax credit.

Tips to help support your claim

1. Keep detailed records. For example, create a log to show the dependent lived with you for at least half the year.

2. Keep receipts and keep a written log of all related expenses. This record will ensure you don't miss any allowable deductions, and it can serve as part of your documentation if you are audited.

3. Be aware that adding a dependent makes that person part of your household, which could have implications in areas such as Medicaid eligibility or the cost of health insurance purchased through the Affordable Care Act marketplace.

Bonus: Head of household status

If you are a single taxpayer or married but living apart from your spouse, adding a dependent relative who lives with you could bump you up to head of household.

The change in status raises your standard deduction for the 2023 tax year to $21,900, up from $14,600 if you are single or married but filing separately. Remember that taking the standard deduction means you can't claim any personal exemptions.

A parent does not need to live with you for you to claim head of household status. Any other relative must have lived with you for at least half of the tax year.

If you use a multiple support agreement to claim your dependent, you cannot use the dependent to file as a head of household.

Deduct a dependent's medical expenses

You can deduct the money you paid to cover your loved one's unreimbursed medical costs if the qualified medical expenses of everyone claimed on your taxes totals more than 7.5 percent of your adjusted gross income for that year and if your total itemized deductions are more than your standard deduction.

Check IRS Publication 502 to see what is and isn't deductible. Here is a sample of acceptable deductions:

- Activities for older people with special needs.
- Acupuncture.
- Adult day care or a home health care worker if you work outside the house.
- Assisted living costs when incurred for medical reasons.
- Bandages.
- Copayments and deductibles.
- Eyeglasses.
- Hearing aids.
- Home and vehicle modifications needed for safety or mobility.
- Insulin.
- Physical therapy.
- Prescribed medicines and equipment, such as a cane or walker.
- Professional health aide costs during respite care.
- Transportation for medical appointments or services.

Not deductible: Items and services that benefit the household, not just the one receiving care.

Flexible spending and health savings accounts

Flexible spending accounts (FSAs) and health savings accounts (HSAs) take money from your earnings before taxes are deducted and deposit it in a medical savings plan you can use to pay out-of-pocket health care costs for yourself and dependents.

You may use one of these accounts to pay your dependent's medical bills, copays, insurance deductibles, over-the-counter medical supplies, personal protective equipment and even some treatments that your insurance doesn't cover. However, if you pay using an FSA or HSA, you cannot take a tax deduction for that bill as a medical expense.

Child and dependent care credits

Unlike the Child Tax Credit or Credit for Other Dependents, which confer a tax break based on the existence of a qualifying child or other dependent, the Child and Dependent Care Credit is based on money you spend to have someone else care for that person or people depending on the circumstances. For the 2023 tax year, you can claim a portion of up to $3,000 in caregiving costs for one qualifying person and up to $6,000 for two or more.

Oddly, given the name, this tax credit does not require that your loved one qualify as your dependent in certain circumstances. But the IRS has rules for when you can claim it. Among them:

- **Cohabitation.** The person you are claiming the credit for must have lived with you for at least six months during the tax year.
- **Dependency.** The person is your dependent or could be except for having gross income higher than the allowed maximum, which is $4,700 in 2023, or filing a joint tax return with a spouse that year.
- **Incapacity.** The person is physically or mentally unable to care for himself or herself.
- **Necessity for employment.** You pay an adult day care program, child care program or a home health worker to assist your loved one so you can go to

work or look for work.
- **Spousal qualifications.** If you are married, your spouse also must work, be a student or be disabled for you to qualify for this credit.

If you plan to claim any of these credits or deductions, be sure to outline all of your costs and get someone to help you with your taxes, says Lynnette Lee-Villanueva, vice president of AARP Foundation's Tax-Aide. AARP volunteers staff this free tax-preparation service.

Tax-Aide has more than 5,000 sites nationwide that are open annually during tax season. An online site locator can help you find one near you.

This article was updated by AARP on February 7, 2023

AARP was founded in 1958 and has over 38 million members. It is a nonprofit, nonpartisan organization for people over the age of 50. AARP is well-known for its advocacy efforts, providing its members with important information, products and services that enhance quality of life as they age. They also promote community service and keep members and the public informed on issues relating to the over 50 age group.

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