TAX STRATEGIES FOR FAMILIES WITH A CHILD WITH A SPECIAL NEED

A QUICK GUIDE TO MAXIMIZING YOUR AVAILABLE TAX BENEFITS

PREPARED BY

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If you have a child with a special need, maximizing tax benefits is essential. This guide provides a quick summary of some of the available income tax benefits. A good tax advisor can help you maximize the benefits available to you.

Medical Expense Deduction

Medical expenses are generally deductible to the extent they exceed 10% of Adjusted Gross Income (AGI). In addition to the expenses that are normally deducted for medical purposes (doctors, dentists, hospitals, etc.), following are some additional items that may apply to a child with special needs:

- Special schooling including tuition or tutoring by someone especially trained to meet the child's needs. The purpose and primary reason for the choice of school must be to alleviate or remediate the disability.
- Aides required for a child to benefit from regular or special education
- Special instruction, training or therapy such as Occupational Therapy (OT), speech, remedial reading, etc.
- Diagnostic evaluations by qualified personnel.
- Exercise program, if recommended by qualified medical personnel to treat a specific condition, including yoga, dance, horseback riding, etc.
- Transportation:
    - Mileage to/from special schools or therapy sessions (20¢/mile for 2019).
    - Parking fees.
    - Airfare for parents and child to obtain treatment or testing.
    - Diapers - if related to a medical condition, such as autism.
- Equipment or devices used primarily for the alleviation of a person's illness - examples include a specially designed bed, car seats, etc.
- Home Improvements - cost are deductible to the extent they exceed any increase in the home's fair market value. Certain improvements (e.g., altering the location of or otherwise modifying electrical outlets and fixtures) are deemed to have no affect on the home's fair market value and, thus, the full cost can be claimed as a medical deduction.
- Parents' attendance at a disability related conference. Attendance is considered to be primarily for and essential to the care of the dependent if:
    - Attendance at the conference has been recommended by a medical provider treating the child AND
    - The conference provides medical information concerning the child's condition - specific issues, not just general well-being AND

    - The primary purpose of the visit is to attend the conference.
    - But, costs of food and lodging generally are NOT deductible. Lodging can be if you are staying in a hotel while your child receives medical attention in a hospital or related setting. Then lodging is limited to $50 per day. Meals are NOT deductible.
- Special diets such as gluten-free, casein-free diets. Only the excess cost of the gluten-free product over what you would pay for a similar item at a grocery store. You can also claim mileage expense for the trips to the health food store and postal costs on gluten-free products ordered by mail. Home improvement costs are deductible to the extent they exceed any increase in the home's fair market value.

Additional Things to Consider

Subsequent Reimbursement

If you anticipate receiving reimbursement from a school district or insurance company for any of these costs, that reimbursement will be includable in income when received if deductions have been taken.

401K/IRA Funds

If used for a medical expense, it can be used to justify a "hardship" withdrawal from a 401(k) retirement plan. The amount not subject to the additional 10% tax penalty is the amount over 10% of AGI. Regular tax must be paid on all IRA/401K withdrawals. Also, beware that the inclusion in gross income will increase AGI and thus reduce the medical expense deduction.

Health savings accounts (HSA) or Flexible Savings Accounts (FSA)

Tax-wise this is the most advantageous option as you are paying for these items with pre-tax dollars and are not subject to the 10% limitation.

Health Savings Accounts

For 2019, a family can contribute $7,000 to an HSA on a pre-tax basis and use if for medical expenses. An HSA may only be opened when the employee has a "high deductible" health insurance plan. If you do not maintain an HSA compatible plan through December 31st of the following year, your maximum contribution will be prorated. Amounts placed in an HSA may be carried over to subsequent years if not used.

Flexible Spending Account

FSAs can be part of an employer's cafeteria plan. Employers may make contributions to the FSA account, but are not required to do so. You can use these funds to pay for medical expenses not covered by insurance, such as co-pays and deductibles. Currently, for 2019,the maximum annual FSA contribution limit is $2,700. Contributions are deducted from each paycheck throughout the year. However, the full annual contribution amount is available for immediate use.

Tax-wise, HSA or FSA programs provide the most advantageous option as you are paying for these items with pre-tax dollars and are not subject to the 10% limitation.

Funds in the FSA not used by the end of the year (or by March 15th of the following year if the employer offers a grace period. Up to $500 can be carried forward to the next year.

Child & Dependent Care Credit Child C

Child & Dependent Car Credit credit is available for work related expenses for dependents of the taxpayer. Dependent must be under the age of 13. BUT, if the child is disabled and requires supervision, the age limit no longer applies.

Covered expenses are allowed for up to $3,000 per year per dependent, maximum for all dependents of $6,000. Regular childcare, after-school programs and day camp qualify. Sleep-away camps do not qualify. Payments to a relative to care for a child also qualify, as long as the relative is not a dependent of the taxpayer. Credit is calculated at 20-35% of expenses, based on AGI. Maximum dependent credit for one qualifying dependent is $1,050. Minimum dependent credit for one qualifying dependent is $600.

Retroactive claims for refunds

You can file amended tax returns and collect refunds for unclaimed tax benefits retroactively for up to three years.