

Tax Breaks for Elder Care

Good News: Tax Breaks for Medical Care Can Alleviate Financial Pain

A Complimentary Resource from
Breedlove & Associates

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When you hire a household employee to provide care for an elderly family member, you may be entitled to tax breaks to offset some of the payroll and tax expenses. There are two tax breaks available, of which one or both may help ease the financial burden of household employment. The following provides a basic explanation of these tax breaks.

Itemized Tax Deduction for Medical Expenses

What is the medical expense deduction? You may take an itemized deduction for medical expenses that you claim on Schedule A, Form 1040. You may deduct only the part of the medical expense that is more than 7.5% of your adjusted gross income.

Who qualifies for the medical expense deduction? You can take a tax deduction on expenses you paid for medical care for yourself or your spouse, or for a parent you claim as a dependent.

What types of care can be included in figuring your medical expense deduction? The most common forms of qualifying care are listed below (for additional detail please refer to IRS Publication 502 and/or your personal income tax professional):

- *Disabled dependent care expenses.* This includes expenses incurred for care of a disabled spouse or dependent parent.
- *Long-term care services.* Long-term care services that are qualified include those that are necessary, preventative, therapeutic, treating, rehabilitative services, and maintenance & personal care services. These services are required by a chronically ill individual and are provided pursuant to a plan of care prescribed by a licensed healthcare practitioner.
- *Nursing services.* You can include in medical expenses wages you pay for nursing services. The services need not be performed by a nurse as long as the services are of a kind generally performed by a nurse. This includes services connected with caring for the patient's condition.

For tax deduction purposes, your medical expenses cannot include the cost of household services, even if the help is recommended by a doctor. However, you may be able to get a tax break on household services through the Child and Dependent Care Tax Break described below.

Child and Dependent Care Tax Break

What is the child and dependent care tax break? This is a tax break that helps offset some of the expense of household services. This tax break is offered as a tax credit on Form 1040 or as a pre-tax savings via a Flexible Spending Account. To qualify for this tax break, the expenses must be work-related. This means that these expenses are incurred to allow you to work *and* the expenses are for a qualifying person's care. This tax break saves employers between \$600 and \$2,300 per year, depending on whether you utilize the tax credit or the flexible spending account.

Who qualifies for the child and dependent care expense tax break? Your household employment wages qualify for this tax break if your spouse (or your dependent parent) is physically or mentally not able to care for himself or herself.

What types of household services can be applied toward the dependent care tax break? You may include "usual and ordinary" services performed in and around your home in order to run your home. They include the services of a personal assistant, housekeeper or cook.

An Important Footnote: The same expenses cannot be applied toward both medical *and* dependent care tax breaks; you must determine which tax break applies to the form of care or household services you have employed. To maximize your tax savings, please seek the advice of a personal income tax professional.



Tax & Payroll Services for Household Employers