Chapter 7: The Rules of Dependency

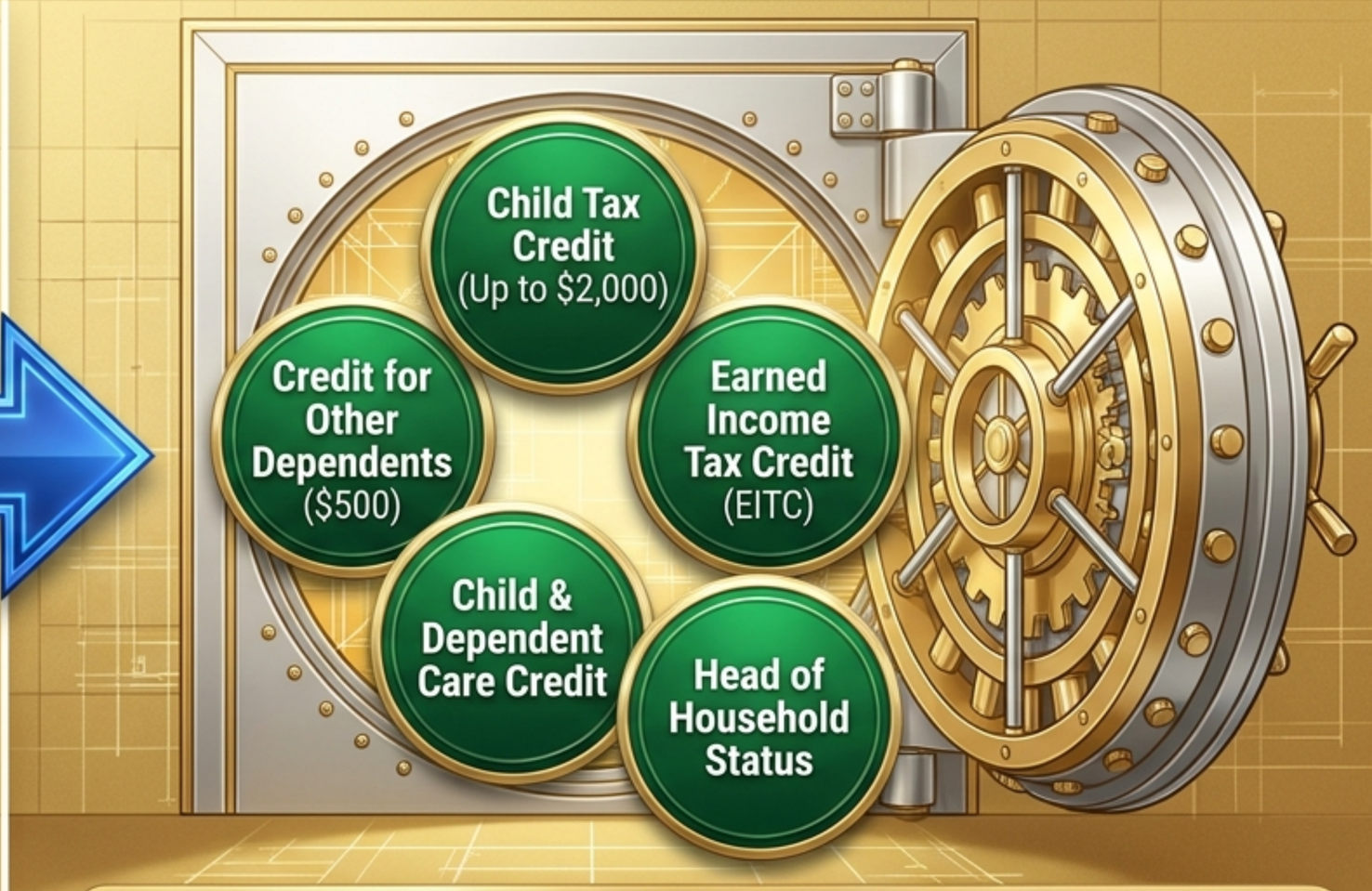
Qualifying Child vs. Qualifying Relative Master Decision Sequence.



Tax Pro 360 | Tax Boot Camp by Dr. Geno Bradley

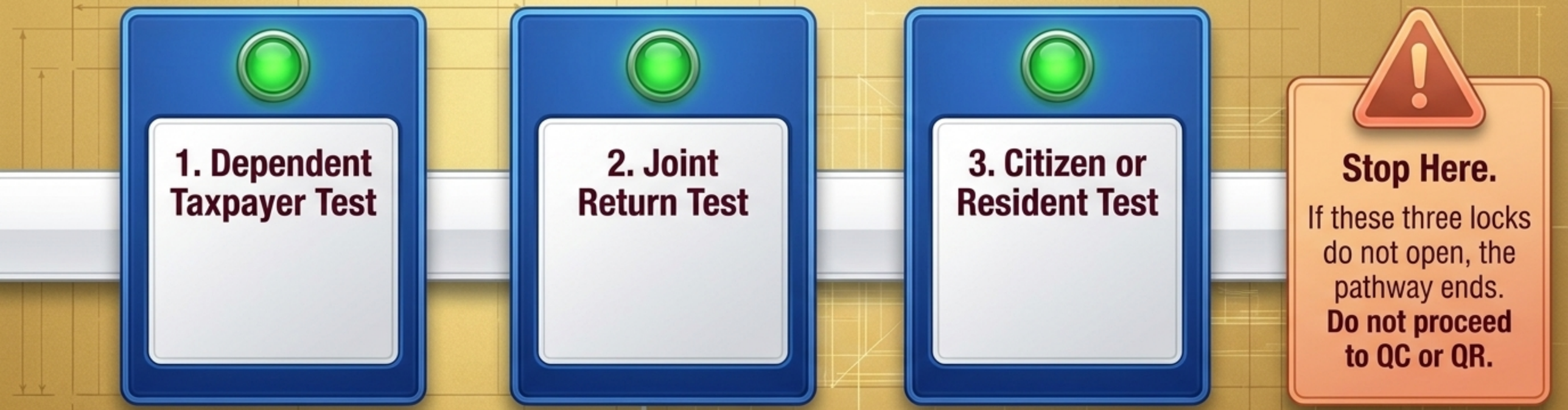
Dependency is the Ultimate Gateway to Tax Wealth

Personal Exemption Deduction = $0
(Through 2025)



You cannot claim these high-value financial assets without first proving statutory dependency.

The Entry Gate: Three Baseline Tests



A taxpayer generally cannot claim a dependent if the taxpayer can be claimed by someone else.

Cannot claim a married person if they file a joint return (Exception: filed solely to claim a refund of withheld tax and no tax liability exists).

Must be a U.S. citizen, U.S. resident alien, U.S. national, or resident of Canada or Mexico for part of the year.

Qualifying Child (QC) Mastery: The First Three Gates

Tier 1: Relationship Test

Valid: Son, daughter, stepchild, foster child, sibling (half/step), or descendant of any of these.

~~**Invalid:** Cousins do not meet this test.~~

Tier 2: Age Test

- **Condition A:** Under 19 (end of year) and younger than taxpayer.
- **Condition B:** Under 24, full-time student (at least 5 months), and younger than taxpayer.
- **Condition C:** Permanently/totally disabled at any age.

Tier 3: Residency Test

Rule: Must live with the taxpayer for more than 6 months (183+ days).

Nuance: Temporary absences (school, illness, military, juvenile detention) count as time lived at home.

Qualifying Child (QC) Mastery: Support and Joint Returns

The QC Support Test



The test is **NOT** that the **taxpayer provided more than 50%**. The test is that the **CHILD did NOT provide more than 50%** of their own support.

Scenario: A 19-year-old earns $15k but saves it all in the bank. They did NOT provide their own support. Test passed.

The Joint Return Test - Tier 5

Tier 5: Joint Return Test

The child cannot file a joint return for the year.

Exception: Permitted ONLY if filed solely to claim a refund of withheld tax or estimated tax paid.

Qualifying Relative (QR) Mastery: Establishing the Base

The “Not a QC” Test

Rule: An individual CANNOT be your qualifying relative if they are the qualifying child of any other taxpayer.

The **IRS Hierarchy** is **absolute.** Qualifying Child rules always take precedence over Qualifying Relative claims.

Relationship or Household Test

Path A (Blood/Marriage): Parent, grandparent, uncle, aunt, in-law, etc.

→ **Does NOT** have to live with the taxpayer.

Path B (Non-Relative): Friend, boyfriend, girlfriend.

→ **MUST** live with the taxpayer as a member of the household for the full 365 days.

Qualifying Relative (QR) Mastery: Income Limits and the Support Shift

Gross Income Test



The dependent's gross income MUST be less than the statutory limit **($5,050 for 2024).**

Note: Excludes tax-exempt income (e.g., non-taxable Social Security).

The QR Support Test



The TAXPAYER must provide MORE than 50% of the individual's total financial support. (A direct contrast to the QC rule).

The Gatekeeper's Cheat Sheet: Master QC vs. QR Matrix

Dimension	Qualifying Child (QC)	Qualifying Relative (QR)
Relationship	Child, sibling, descendant (No cousins).	Extended relative OR anyone living with you all year.
Age Limit	Under 19, or under 24 student (No limit if disabled).	No age limit.
Residency	Lived with you > 6 months.	Relatives (0 months), Non-Relatives (Full 12 months).
Gross Income	No Limit	$5,050 Statutory (2024)
Support Test	Child provided < 50%.	Taxpayer provided > 50%.
Primary Benefit	CTC, EITC, HOH.	$500 Credit for Other Dependents.

Resolving Conflict: The IRS Tie-Breaker Hierarchy

Step 1: Parent vs. Non-Parent

Winner: The Parent automatically wins.

Step 2: Parent vs. Parent (Unequal Time)

Winner: The parent with whom the child lived the longest.

Step 3: Parent vs. Parent (Equal Time)

Winner: The parent with the higher Adjusted Gross Income (AGI).

Step 4: Non-Parent vs. Non-Parent

Winner: The taxpayer with the highest Adjusted Gross Income (AGI).

Form 8332: Releasing the Claim (Divorced/Separated Parents)

Custodial Parent

Retains: Head of Household, EITC, Child & Dependent Care Credit.



Custodial parent signs release of claim.

Non-Custodial Parent

Unlocks: Child Tax Tax Credit ($2k) & Credit for Other Dependents ($500).

Takeaway: Form 8332 ONLY transfers the CTC/ODC. It does not transfer EITC or HOH status.

Triage Application A: The Live-In Girlfriend & Her Child

The Scenario

Marcus provides 100% support for his girlfriend Sarah (no income) and her 4-year-old son Leo.

They lived together all 365 days.

Analyzing Sarah

Status: Not a QC.

Passes QR tests (365 days, $0 income, 100% support).

Result: Marcus claims Sarah for the $500 ODC.

Analyzing Leo (The Trap)

Conflict: Leo is Sarah's Qualifying Child, which normally disqualifies Marcus from claiming him as a QR.

The Loophole

Because Sarah has $0 income and is not required to file a return, the "Not a QC" block is lifted.

Result: Marcus claims Leo as a QR for the $500 ODC
(Cannot claim CTC because Leo is not his biological/adopted QC).

Triage Scenarios B & C: Generational Conflict & College Absences

Grandmother vs. Divorced Mother

Scenario
Toby lives with Mom (AGI $12k) and Grandma (AGI $55k). Both want to claim Toby.

Diagnostic
Tie-breaker defaults to Mom (Parent beats Non-Parent). Grandma can ONLY claim Toby if Mom voluntarily steps aside AND Grandma has a higher AGI (which she does).

The College Student

Scenario
21-year-old Tyler lives in a dorm 9 months a year, earns $8k in summer. Parents pay tuition/rent.

Diagnostic **Diagnostic**
Temporary absence rule applies (passes residency). Tyler provided <50% support. $8k income does not matter because QC has no income limit. Parents claim QC.

The Gatekeeper's Blueprint: Standardizing the Intake Workflow

Step 1: Mandatory Intake Questionnaires

Force digital "Yes/No" answers prior to the interview (e.g., "Did anyone else live in the home?", "Did the child pay for >50% of their living expenses?").

Step 2: Proof of Residency Storage

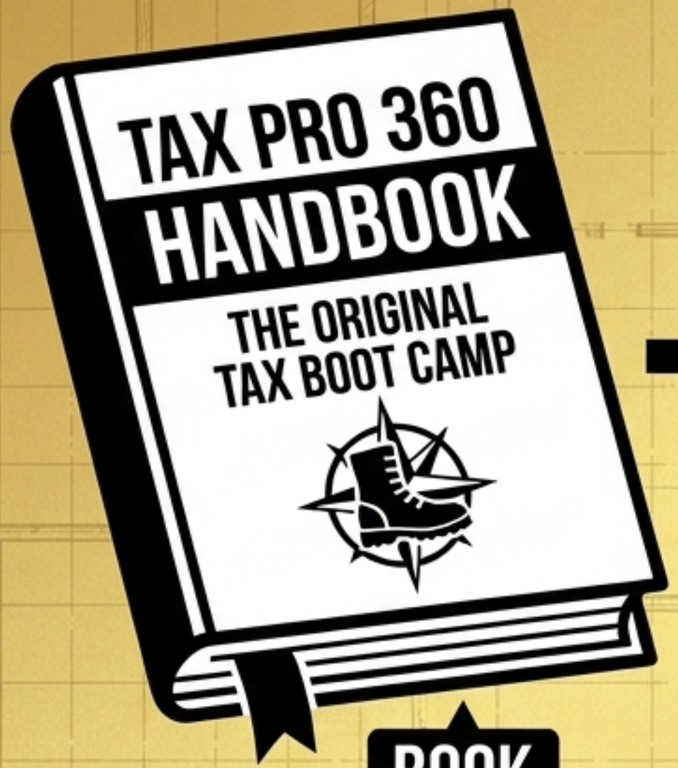
Scan and upload school records, medical bills, or daycare statements to the secure client portal.

Step 3: Preparer Documentation Notes

Log detailed manual notes in the tax software.

> ***Example:*** *"Verified nephew lived with taxpayer 8 months. Taxpayer provided >50% support. Mother does not file."*

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