



MEMO

To: TRI-AD FSA Participants
From: TRI-AD Flexible Spending Account Participant Services
Re: **Definition of “Dependent” Under Tax Law**

The Federal Government has changed the way you determine whether or not someone is a dependent starting January 1, 2005. Because you can claim reimbursement for expenses for dependents through your Flexible Spending Account (FSA), this might impact your FSA elections.

Who Is *Not* Affected?

You can disregard this notice if you only submit FSA claims for expenses incurred by yourself, your children under age 19 who live with you, and/or your spouse who lives with you.

Who Is a “Dependent” or “Tax Dependent”?

There are two types of dependents:

- **A Qualified child:** To qualify as a dependent “child” for tax purposes, the child must:
 - Be your legal child and not be the tax code dependent of another person;
 - Be under 19 if not a full-time student, or under age 24 if a full-time student;
 - Have your household as his/her primary residence; and
 - Not provide more than half of his/her own support.
- **A Qualified relative:** If the person is not a “qualified child”, he/she might be a “qualified relative”:
 - The person is your child or descendent of child, sibling, parent, niece/nephew, in-law, or any other member of your household;
 - The person earns less than \$3,200 for the year;
 - You provide at least half the person’s support during the tax year; and
 - The person is not a qualified child of another taxpayer.

Who Is Most Likely to Be Affected?

- **Divorced employees with children.** Starting January 1, the child is the dependent of the parent (or person) with whom he/she lives, not the one who provides the most financial support. If custody is split 50/50, the parent who makes the most money is the parent who can take the deduction.
- **Grandparents with grandchildren living with them.** Because residence, rather than support, becomes the determining factor, the child now becomes the grandparent’s tax dependent.
- **Employees with over-age disabled children or other relatives living with them who earn more than \$3,200 annually.** There is a maximum amount the relative can earn and still be considered as a dependent for tax purposes. This amount will change annually.

- **Employees who live with their parents and their children.** Because of the removal of the “head of household” rule, the taxpayer who lives with his/her parents can claim tax-free reimbursement for health and/or dependent care expenses through the FSAs.
- **Employees with full-time student children away at school.** Because the primary rule for determining child status has shifted from support to residency, if a taxpayer’s child is away at school full-time, has an apartment at the school location, and rarely comes home, he/she would most likely no longer qualify as a tax dependent. There is an exception for “temporarily away from home for school”, but this would be more limited to situations like a student living in a dorm who comes home for vacations and breaks.

If you have any questions, we urge you to consult your tax advisor if you are unsure as to whether a family member qualifies as a dependent for FSA purposes.