

CHILD-RELATED EXEMPTIONS, CREDITS AND DEDUCTIONS

Pursuant to I.R.C. Section 152 (e), the custodial parent is entitled to the dependency exemption, assuming that the parents together (or at least one of them) contributed one-half of the child's support. The custodial parent can relinquish the claim. In this situation, the non custodial parent must attach Form 8332 or a statement substantially conforming (including the appropriate page of a judgment, order or written agreement, *only* if signed by the non custodial parent) to their return.

The majority rule in the United States provides that a state court has the authority to allocate the dependency exemption by ordering a parent to execute the appropriate waiver. The State of New Jersey follows the majority rule pursuant to Gwodz v Gwodz, 234 N.J. Super. 56 (A.D.1989). There is no minimum support required for the non custodial parent to claim the child as was the case under prior code provisions.

The value of the dependency exemption is adjusted for inflation. For 2002, it is \$3,000.00. Accordingly, at the ten percent tax bracket, the tax savings is \$300.00, at fifteen percent, \$450.00, and at twenty-eight percent, \$810.00. Note that when a taxpayer reaches a certain level of income, the right to use the dependency exemption phases out.

As an entirely separate matter, the child tax credit represents an offset against tax liability. It cannot be split from the right to claim the child as a dependent exemption. A qualifying child must be under the age of seventeen at the end of the tax year. Until 2004, the credit is \$600.00, and by 2010 it will be raised to \$1,000.00. There is also a different phase out provision based upon income levels.

The Code also provides for a household and dependent care credit, available for children under the age of thirteen or disabled. Again, it can not be separated from the right to claim the child as a dependent exemption. It is designed to allow a taxpayer to receive a credit for a percentage of work-related child care expenses, theoretically encouraging custodial parents with child care responsibilities to work. Starting after the 2002 calendar year, the credit can not exceed \$3,000.00 for one child or \$6,000.00 for two or more children. In New Jersey, the credit is factored into the Child Support Guidelines.

Also, with some exceptions, either the custodial or non custodial parent may deduct expenditures for medical bills related to the maintenance of minor children on their separate returns. Previously, only the parent entitled to the dependency exemption could deduct the expense.