



# Faggio Financial

EQUITABLE SOLUTIONS AND PROSPERITY PLANNING  
*Professional Guidance for Divorcing Individuals*

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## DID YOU KNOW

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### **That Both Parents, Divorced or Separated, Can Now Claim Certain Tax Breaks Regarding Their Children?**

Settlement agreements specify who will be claiming the dependency exemption, and that exemption can be released in future years. Some tax breaks, for example the Child Care Credit, belong to the custodial parent even if that parent releases the exemption to the noncustodial parent. But what about other tax benefits that may be attributed to the payor parent, who is not entitled to the dependency exemption?

Last year, the IRS issued Rev. Proc. 2008-48, which identifies the tax benefits that BOTH parents are entitled to, *regardless of whether or not* the custodial parent releases the exemption to the noncustodial parent. **Both** parents can treat the child as a dependent for the purposes of these tax breaks ("for that child"):

1. Itemized deductions for medical expenses
2. Tax-free employer reimbursements for medical expenses
3. Tax-free treatment for employee discounts and no-additional-cost services
4. Tax-free distributions from medical savings accounts (MSA's) when the distribution is used to pay the child's qualified medical expenses
5. Tax-free employer provided coverage under a health plan
6. Tax-free distributions from health savings accounts (HSA's) when the distribution is used to pay the child's qualified medical expenses

This rule *only applies* to parents who are divorced, legally separated, or live apart at ALL times during the last six months of the year **and** the following tests are met:

- Over half of the child's support during the year is provided by the child's parents
- The child is in the custody of one or both parents for more than half the year
- The child is a qualifying child or qualifying relative of one of the parents

*During these tough economic times, divorcing parents will be pleased to know that some tax breaks will remain with them after the divorce is final.*