

Tax Benefit Checklist for Families Caring for Children with Special Needs

2021 Tax Year

✓ **Deducting the cost of a Special School or Institution**

What is a special school?

Schools with programs to “mainstream” children with neurological disabilities (i.e., autism spectrum disorders)

What is deductible?

- Lodging
- Meals
- Transportation
- Incidental educational costs provided by the institution
- Costs of supervision, care, treatment, and training

When can regular schools be classified as a “special school” for an individual?

Where School has special curriculum for neurologically disabled individuals

Private tutoring by a specially trained teacher

Therapeutic and behavioral support services (see Revenue Rulings 70-285 and 78-340)

Special education for children with dyslexia

Provided program enables children to deal with disability caused by medical condition (2005’s Letter Ruling 200521003)

✓ Deduction for Medical Conferences and Seminars

Both transportation and conference fees deductible (per Revenue Ruling 2000-24)

✓ Special Diet Foods

Generally, only the cost of special diet food over and above normal food (i.e., the premium; see Revenue Rulings 2002-19 and 55-261)

✓ Prescribed Vitamin Therapy; Hyperbaric Oxygen Therapy; Chelation Therapy; Equestrian Therapy; Individualized or Group Art, Dance, Music, and Play Therapies; Summer Camps, etc.

✓ Medical Travel and Transportation

- For 2022 tax returns: 18 cents per mile (16 cents per mile for 2021)
- Lodging costs (but not meals) up to \$50 per day per person are deductible for the Taxpayer (TP) and one additional person if an overnight stay is necessary

Note: Un-reimbursed Medical Expenses are deductible only to the extent the TP itemizes their deductions (Schedule A) and they exceed 7.5% of adjusted gross income (AGI).

✓ Consider a FSA (Flexible Spending Account) Health Care Plan if ineligible for medical expense deduction!

The maximum pre-tax contribution is \$2,850 for 2022 (\$2,750 for 2021). The CARES Act of 2020 permits individuals enrolled in these pre-tax accounts to pay for over-the-counter drugs and medicines without a prescription (no current expiration date).

✓ Impairment Related Work Expenses

- Business deduction in lieu of a medical deduction for attendant care services at place of employment (ordinary and necessary expense to help in performing job)
- Avoids AGI limitation imposed on un-reimbursed medical expenses
- NOT subject to prior law's 2% AGI limitation imposed on un-reimbursed employee business expenses

✓ Expanded definition of a “qualifying child”

- An individual with special needs can be older than 19 or 24 and qualify as a “dependent”
- No gross income limitation for a “qualifying child” (The “gross income” limitation applies to a “qualifying relative” and is \$4,400 for 2022 (\$4,300 for 2021review ALL requirements!)

Note: Personal and Dependency Exemptions have been suspended (reducing the exemption amounts to zero) under 2017's Tax Cuts and Jobs Act for 2018 through 2025. However, the definition of a dependent is still key for other deductions and credits such as the expanded child (\$2,000...up to \$3,600) and dependent credits (\$500).

The Tax Cuts and Jobs Act increased the child tax credit from \$1,000 to \$2,000 per dependent child under the age of 17 and increased the refundable portion of the credit to \$1,400. The Act provides a \$500 nonrefundable credit for a qualifying dependent other than a qualifying child (i.e., a 17 year old child or a parent).

However, the American Rescue Plan of 2021 made significant temporary enhancements to the Child Tax Credit for 2021. The new law increased it to as much as \$3,000 per child for dependents ages 6 through 17, and \$3,600 for dependents under age 6, made it fully refundable, and made it possible for families to receive up to half of it, in advance for the last half of 2021.

✓ Credit for Special Needs Adoption Expenses

- \$14,890 for a child with special needs in 2022 (\$14,440 for 2021)...regardless of adoption expenses

- An eligible child is an individual who is under the age of 18, or is physically or mentally incapable of self-care
- Must be a U.S. citizen or resident, state authorities must have determined the child cannot or should not be returned to the parents' home, and the child's adoption requires adoption assistance as determined by state authorities
- Qualifying expenses include: legal fees, court costs, and other related adoption costs
- The limit is per child, not per year (The credit is non-refundable with a carryover of 5 years)
- Credit is phased-out for taxpayers with adjusted gross income exceeding \$223,410 for 2022 (\$216,660 in 2021)
- The credit is completely phased-out at \$40,000 above the threshold
- The credit is claimed in the year the adoption becomes finalized regardless of actual expenses paid or incurred in the year the adoption becomes final for a "special needs" adoption.

✓ **10% Penalty Exception for Retirement Plan and Individual Retirement Account (IRA) Distributions**

- 10% penalty does not apply to a distribution that is less than or equal to the allowable medical expense deduction on Schedule A (regardless of whether the individual actually itemizes deductions) if the distributions are used to pay for the medical care during the year.
- Penalty waiver only applies to taxable amount of the distribution. The income tax still applies to the taxable component of the distribution.

Where to Get More Information

Contact a Certified Public Accountant (CPA) or an attorney specializing in special needs planning, or a financial planner with a practice focusing on families with dependents with special needs.



This handy checklist was created by:
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Call Special Care Planner Jerry Hulick at (571) 378-0245 for a confidential consultation.

SpecialCare is a program created by MassMutual that provides access to information, specialists and financial solutions to people with disabilities and their families. For more information about Massachusetts Mutual Life Insurance Company (MassMutual) and its SpecialCare program, please visit www.massmutual.com/specialcare.

The Special Care Planner title is used by MassMutual financial professionals who have received advanced training and information in estate and tax planning concepts, special needs trusts, government programs, and the emotional dynamics of working with people with disabilities and other special needs and their families.

Provided by Jerry L. Hulick, courtesy of Massachusetts Mutual Life Insurance Company (MassMutual)

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