

Instructions

A. Who May Claim This Deduction.—If you maintain a household which includes as a member one or more qualifying individuals, you may be allowed a deduction for employment-related expenses PAID during the taxable year.

You will be treated as maintaining a household for any year only if you furnish over half the cost of maintaining the household for such year. If you are married for a year, you and your wife (husband) must provide over half of the maintenance cost for such year.

The expenses of maintaining a household include property taxes, mortgage interest, rent, utility charges, upkeep and repairs, property insurance, and food consumed on the premises. Such expenses do not include the cost of clothing, education, medical treatment, vacations, life insurance, and transportation.

B. Qualifying Individual.—The term “qualifying individual” means:

- (1) A child who is under the age of 15 and with respect to whom you are entitled to a deduction for an exemption.
- (2) A dependent 15 years of age or over (a person who except for the fact that she (he) had more than \$750 adjusted gross income would be eligible to be claimed by you as an exemption) of yours who is physically or mentally incapable of caring for herself (himself), or
- (3) Your wife (husband), if she (he) is physically or mentally incapable of caring for herself (himself).

Whether a person is a qualifying individual will be determined on a daily basis. For example, if your dependent or wife (husband) for whom employment-related expenses were incurred ceases to be a qualifying individual on September 16, the dependent or wife (husband) will be treated as a qualifying individual through September 15 only.

C. Employment-related Expenses.—The term “employment-related expenses” means amounts paid for the following expenses, but only if such expenses are incurred to enable you to be gainfully employed:

- (1) Expenses for household services, and
- (2) Expenses for the care of a qualifying individual.

Amounts paid to an individual who is employed by you predominantly as a gardener, bartender, or chauffeur do not constitute employment-related expenses.

D. Limitation on Amounts Deductible.—A deduction not in excess of \$400 shall be allowed for employment-related expense INCURRED during any month. Incurred means owed for payment, whether or not paid. However, the expenses to be deductible must be paid during your taxable year and must be within the limitations. The expenses must be for services in your household. Exception—Employment-related expenses which are incurred for services outside your household shall be taken into account if incurred for the care of a child under the age of 15 for whom you are entitled to claim an exemption, but only if such expenses incurred during any month do not exceed:

- (1) \$200, in the case of one such individual,
- (2) \$300, in the case of two such individuals, and
- (3) \$400, in the case of three or more such individuals.

E. Reduction for Certain Payments.—If employment-related expenses were incurred during the taxable year solely for a physically or mentally incapable dependent 15 years of age or over or wife (husband), the amount of such expenses shall be reduced as follows:

- (1) Physically or mentally incapable dependent 15 years of age or over by her (his) adjusted gross income and disability payments received during the taxable year which exceed \$750.
- (2) Physically or mentally incapable wife (husband) by her (his) disability payments received during the taxable year.

The term “disability payment” means a payment (other than a gift) which is made on account of the physical or mental condition of an individual and which is not included in gross income.

Examples—A taxpayer has a child, age 6, and his wife is physically incapable of caring for herself. He incurs employment-related expenses of \$500 solely attributable to the care of the child, of \$1,000 solely attributable to the care of his wife, and of \$1,500 for household services attributable to both the child and wife. Of the taxpayer's total employment-related expenses of \$3,000 only the \$1,000 solely attributable to his wife must be reduced as provided in E(2).

A taxpayer has a dependent, age 15, and a wife both of whom are physically incapable of caring for themselves. He incurs employment-related expenses of \$500 solely attributable to the care of the

dependent, of \$1,000 solely attributable to the care of his wife, and of \$1,500 for household services equally attributable to both the dependent and wife. The \$1,500 of household expenses must be allocated one-half to the dependent and one-half to the wife. Accordingly, employment-related expenses of \$1,250 are attributable to the dependent, and employment-related expenses of \$1,750 are attributable to the wife. The expenses attributable to each must be reduced as provided in E(1) and E(2).

F. Income Limitation.—If your adjusted gross income exceeds \$18,000 for the taxable year during which the expenses are incurred, the amount of the employment-related expenses incurred during any month of the taxable year shall be reduced by one-half the excess of the adjusted gross income over \$18,000 properly allocated to such month. If you are married during any period of the taxable year, there shall be taken into account the combined adjusted gross income of you and your wife (husband) for such period.

G. Special Rules.—

(1) *Married couples must file joint returns.*—If you are married at the end of the taxable year, the deduction for employment-related expenses shall be allowed only if you and your wife (husband) file a joint return for the taxable year.

(2) *Gainful employment requirement.*—If you are married for any period during the taxable year, there shall be taken into account employment-related expenses incurred during any month of such period only if:

- (a) Both you and your wife (husband) are gainfully employed on a substantially (three-quarters or more of the normal or customary work week or the equivalent during the month) full-time basis, or actually seeking gainful employment, or
- (b) Your wife (husband) is physically or mentally incapable of caring for herself (himself).

Self-employment is considered gainful employment for purpose of this deduction.

(3) *Payments to related individuals.*—No deduction shall be allowed for employment-related expenses paid to an individual related to you or your wife (husband).

H. Short-year filers.—If your return covers a period of less than 12 months, consult an Internal Revenue office for information concerning computation of limitations.