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Tax Benefits for Families: Recent Changes for the Head of Household Filing Status

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Abstract. The Working Families Tax Relief Act of 2004 (P.L. 108-311) created a more uniform definition of a child for tax purposes, beginning in tax year 2005, by defining a qualified child and qualified relative. As part of these changes, P.L. 108-311 altered several tax provisions used by families, including the requirements for head of household filing status, to reflect the new definitions of a qualified child and qualified relative. During the recent tax filing season (for tax year 2005), some taxpayers who in previous years filed their federal income tax returns as heads of household discovered that they are no longer eligible to do so. Instead they had to file as single taxpayers. There is an advantage to filing as a head of household (instead of filing as a single taxpayer) because the standard deduction is larger and the tax rate schedule is more favorable.

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Tax Benefits for Families: Recent Changes for the Head of Household Filing Status

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Summary

To file a federal income tax return as a head of household, a taxpayer must meet three basic requirements. The taxpayer must (1) be unmarried (or considered unmarried) at the end of the tax year; (2) pay more than half of the costs of keeping up the taxpayer's home for the tax year; and (3) have a qualifying person live with the taxpayer for more than half of the tax year.

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Head of Household Filing Status

For a given level of income, and with everything else being equal, a taxpayer's federal income tax liability will depend upon the taxpayer's filing status. This is because the standard deduction and tax rate schedule vary by filing status.¹ As shown in **Table 1**, the standard deduction for the head of household filing status is larger than for the single filing status. The table also shows the level of taxable income subject to a 10% rate

¹ For more information on federal income tax rates, see CRS Report RL30007, *Individual Income Tax Rates: 1989 through 2007*, by Gregg A. Esenwein.

or a 15% rate is higher for a taxpayer filing as a head of household than for a taxpayer filing as a single taxpayer. The tax rates on taxable income vary by filing status until taxable income is greater than \$336,550 (in tax year 2006).

Table 1. Standard Deduction, 10% and 15% Tax Rate Brackets by Filing Status for Tax Years 2004 through 2006

Filing Status	Standard Deduction	10% Rate Bracket ^a	15% Rate Bracket ^b
Tax Year 2004			
Single	\$4,850	\$1 - \$7,150	\$7,151 - \$29,050
Head of Household	\$7,150	\$1 - \$10,200	\$10,201 - \$38,900
Tax Year 2005			
Single	\$5,000	\$1 - \$7,300	\$7,301 - \$29,700
Head of Household	\$7,350	\$1 - \$10,450	\$10,451 - \$39,800
Tax Year 2006			
Single	\$5,150	\$1 - \$7,550	\$7,551 - \$30,650
Head of Household	\$7,550	\$1 - \$10,750	\$10,751 - \$41,050

Source: Table prepared by the Congressional Research Service.

a. Amount of taxable income subject to a 10% tax rate.

b. Amount of taxable income subject to a 15% tax rate.

For a taxpayer to file a federal income tax return using the head of household filing status, the taxpayer must meet three basic requirements. The taxpayer must (1) be unmarried (or considered unmarried)² at the end of the tax year; (2) pay more than half the cost of keeping the taxpayer's home for the tax year; and (3) have a qualifying person live with the taxpayer for more than half of the tax year.

Number of Heads of Household. For tax year 2004, there were 19.6 million tax returns filed using the head of household filing status.³ This represented 14.9% of all tax returns filed for tax year 2004. Data for tax year 2005 on the number of head of household returns and total returns are not yet available.

² A married person may be considered unmarried for head of household filing status if the person filed a separate tax return (from his or her spouse); paid more than half of the cost of keeping up his or her home; the person's spouse did not live with the person for at least the last half (six months) of the tax year; the person's home was the primary residence of the person's child, stepchild or eligible foster child; and the person could claim an exemption for the child.

³ Internal Revenue Service, *Individual Income Tax Returns, Publication 1304*, Table 1.2.

Recent Changes

The Working Families Tax Relief Act of 2004 (P.L. 108-311) created a more uniform definition of a child for tax purposes. This affected the definition of a qualifying person for head of household filing status beginning in tax year 2005.⁴ As a result of the changes, some taxpayers, beginning in tax year 2005, were no longer able to file their tax returns using the head of household filing status. The most significant difference is for taxpayers who claim head of household filing status on the basis of a child, stepchild, or grandchild. The other two requirements for head of household filing status were not affected by P.L. 108-311.

Table 2 shows the qualifying persons (by relationship) requirement for the head of household filing status for tax year 2004 and tax year 2005 (and later tax years).

Child, Stepchild, or Grandchild. In tax year 2004, a taxpayer's child, stepchild, or grandchild had only to be unmarried to be a qualifying person (in addition to living with the taxpayer more than half of the tax year). Beginning in tax year 2005, to be a qualified person for head of household filing status, the child, stepchild, or grandchild must meet the requirements of a qualified child for the personal exemption. The two additional requirements are (1) age — under age 19 at the end of the tax year, or 24 if a full-time student (however, there is no age limitation if the child is permanently and totally disabled); and (2) support — the child could not provide more than half of his or her own support for the tax year.⁵

For example, in tax year 2004, an unmarried taxpayer would have been able to file a federal income tax return using the head of household filing status if the taxpayer's 40-year-old son (regardless of his income) lived with the taxpayer for more than half of the tax year. Beginning in tax year 2005, however, this same taxpayer would not have been able to file a federal income tax return using the head of household filing status as the 40-year-old son did not meet the age requirement, and therefore was not a *qualifying child* of the taxpayer. The taxpayer could claim the son as a *qualified relative* if the son lived with the taxpayer for more than half the tax year, and *if* the taxpayer could claim an exemption for the son (see the notes at the end of **Table 2** for an explanation of the exemption rules for tax years 2004, 2005, and later).

Sibling, Step Sibling, or Half Sibling. In tax year 2004, to be a qualifying person, a sibling (brother or sister), half sibling (half brother or half sister), or step sibling (step brother or step sister) must have lived with the taxpayer for more than half of the tax year and the taxpayer must have been able to claim an exemption for the person. Beginning in tax year 2005, the person must meet the requirements for either a qualifying child or qualifying relative (for whom the taxpayer can claim an exemption). The requirements for a qualified relative are essentially the same as the previous law requirement for siblings. In other words, as a qualifying relative, the sibling must live with the taxpayer for more than half of the tax year, and the taxpayer must be able to

⁴ For more information, see CRS Report RS22016, *Tax Benefits for Families: Changes in the Definition of a Child*, by Christine Scott.

⁵ Ibid.

claim the sibling as a dependent. If the sibling meets the requirements of a qualifying child and is unmarried, however, the taxpayer does not need to be able to claim an exemption for the sibling.

Parents. In tax year 2004, for the parent of a taxpayer to be a qualifying person, the taxpayer must have been able to claim the parent as a dependent.⁶ However, a dependent parent does not have to live with the taxpayer. This was unchanged by P.L. 108-311.

Foster Child. In tax year 2004, to be a qualifying person, a foster child had to live with the taxpayer all year, and the taxpayer had to be able to claim an exemption for the child. Beginning with tax year 2005, a foster child placed with the taxpayer by an authorized placement agency or by any judgement, order, or court decree, who meets the other requirements for a qualifying child (including living with the taxpayer for at least half the tax year) is a qualifying person for head of household filing status.

Other Relationships. Persons with relationships to the taxpayer other than those above — grandparent, stepmother, stepfather, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law — may also be a qualifying person for purposes of the head of household filing status. In tax year 2004, for a person with one of these relationships to a taxpayer to be a qualifying person, they had to live with the taxpayer, and the taxpayer had to be able to claim an exemption for that person. The requirements for these relationships to be qualifying persons for head of household filing status were not changed by P.L. 108-311. For the aunt, uncle, niece, and nephew relationships, in tax year 2004, there was the added requirement that the person had to be related to the taxpayer by blood. P.L. 108-311 provided that aunt, uncle, niece, and nephew relationships, beginning in tax year 2005, were no longer required to be blood relationships.

⁶ Ibid.

Table 2. Head of Household Filing Status — Qualifying Person Requirements by Relationship to Taxpayer, Tax Years 2004 and 2005 (and later)

Relationship	Tax Year 2004	Tax Year 2005 (and later)
Son, daughter, stepchild, or grandchild	<ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; and — is unmarried (if married the taxpayer must be able to claim an exemption for the child).^a 	<p>Meet the definition of a qualified child:</p> <ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; — was under age 19 at the end of the tax year (or 24 if a full-time student), with no age limit if the child is permanently and totally disabled; — did <i>not</i> provide more than half of his or her own support; and — is unmarried (if married, the taxpayer must be able to claim an exemption for the child).^a <p style="text-align: center;"><i>or</i></p> <p>meet the definition of a qualified relative:</p> <ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; and — the taxpayer can claim an exemption for the person.^b
Brother, sister, stepbrother, stepsister, half brother, or half sister	<ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; and — the taxpayer must be able to claim an exemption for the person.^a 	<p>Meet the definition of a qualified child:</p> <ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; — was under age 19 at the end of the tax year (or 24 if a full-time student), with no age limit if the child is permanently and totally disabled; — did <i>not</i> provide more than half of his or her own support; and — is unmarried (if married, the taxpayer must be able to claim an exemption for the child).^b <p style="text-align: center;"><i>or</i></p> <p>meet the definition of a qualified relative:</p> <ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; and — the taxpayer can claim an exemption for the person.
Father or mother	<ul style="list-style-type: none"> — the taxpayer must be able to claim an exemption for the person.^a 	the taxpayer must be able to claim an exemption for the person. ^b
Aunt, uncle, nephew or niece	<ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; — is related to the taxpayer by blood; and — the taxpayer can claim an exemption for the person.^a 	<ul style="list-style-type: none"> — lived with the taxpayer for more than half the tax year; and — the taxpayer can claim an exemption for the person.^b

Relationship	Tax Year 2004	Tax Year 2005 (and later)
Foster child	<ul style="list-style-type: none"> — lived with the taxpayer all tax year; and — the taxpayer can claim an exemption for the child.^a 	<p>Meet the definition of a qualified child:</p> <ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; — was under age 19 at the end of the tax year (or 24 if a full-time student), with no age limit if the child is permanently and totally disabled; — did <i>not</i> provide more than half of his or her own support; — is unmarried (if married, the taxpayer must be able to claim an exemption for the child)^b; <p style="text-align: center;"><i>and</i></p> <ul style="list-style-type: none"> — was placed with the taxpayer by an authorized placement agency, or by decree or other court order.
Grandparent, stepmother, stepfather, mother-in-law, father-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law	<ul style="list-style-type: none"> — lived with the taxpayer more than half the tax year; and — the taxpayer can claim an exemption for the person.^a 	<ul style="list-style-type: none"> — lived with the taxpayer for more than half the tax year; and — the taxpayer can claim an exemption for the person.^b

Source: Table prepared by the Congressional Research Service

- a. For tax year 2004, for a taxpayer to claim an exemption for a person (other than a spouse or child), the person must have a relationship to the taxpayer or be a member of the taxpayer's household; be a U.S. citizen or resident; not file a joint tax return with another person; have gross income of less than the exemption amount; live with the taxpayer all of the tax year; and have more than half of his or her support provided by the taxpayer. The requirement for gross income below the exemption amount does not apply to the taxpayer's son, stepson, daughter, stepdaughter, adopted child, or foster child who lived with the taxpayer all year.
- b. For tax year 2005, for a taxpayer to claim an exemption for a person, the person must be a U.S. citizen or resident; not file a joint tax return with another person; meet the requirements for a qualifying relative or qualifying child. To be the *qualifying relative* of a taxpayer, a person cannot be the qualifying child of another taxpayer; must have a relationship to the taxpayer or live with the taxpayer all year; must have gross income of less than the exemption amount; and have more than half of his or her support provided by the taxpayer. To be the *qualifying child* of a taxpayer, a child must be the taxpayer's child, stepchild, eligible foster child, sibling, step sibling, half sibling, or descendant of any of them; under age 19 (24 if a full-time student) at the end of the tax year; live with the taxpayer for more than half the tax year; not have provided more than half of his or her own support; and if the child is the qualified child of more than one person, the taxpayer must be the person entitled to claim the child as a qualifying child. There is no age limitation if the child is permanently and totally disabled.