



ALLIANT ADVISORS

FIND DIRECTION



The Navigator

Important Markers To Guide Your Way

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Welcome! At Alliant Advisors we have the passion to help our clients Find Direction for both business and personal goals. To support this promise we will continue to send you bits of helpful and useful information through e-mail to keep you up to date on any current changes, due date reminders or other information that may be relevant to your specific needs.

We hope you will enjoy and value this information. If you do not wish to receive this information by email please respond to this message and we will remove you from our list. For more information about any aspect of our services, visit www.alliant-advisors.com or call your local office.

The Alliant Team

Follow new IRS guidelines for dependents

The IRS has issued new proposed regulations on dependency exemptions for qualifying children. This often serves as a point of contention between divorced and separated taxpayers.

Advice: Follow the IRS' lead. The new regulations provide some much-needed guidance in this area.

Here's the whole story: Tax laws enacted in 2004 and 2005 modified the rules for claiming dependency exemptions for children when the parents are divorced, legally separated or living apart for the last six months of the year. In brief, a parent may claim the exemption for a "qualifying child" who had the same principal place of abode for more than half the year. Generally, a non-custodial parent can claim a dependency exemption for a qualifying child only if the custodial parent releases his or her claim to the exemption. The new proposed regulations define the "custodial parent" as the parent with whom the child resides for the greater number of nights during the calendar year. The IRS defines the non-custodial parent as the parent who is not the custodial parent. If a child is temporarily absent from a parent's home, the child is treated as staying with the parent with whom he or she normally resides on that night.

Key point: If a child resides with each parent for an equal amount of time during the year, the IRS treats the parent with the higher AGI for that year as the custodial parent. This is a new tie-breaking rule feature in the proposed regulations. The new regulations also clarify the rules for waivers. The custodial parent must sign a written and

unconditional declaration that he or she will not claim the child as a dependent. The non-custodial parent then attaches the declaration to his or her return for that year. Use Form 8332, *Release of Claim to*

Exemption for Child of Divorced or Separated Parents. An exemption may be released for just one year, multiple years or all future years. A declaration specifying all future years begins in the first taxable year following the year the release is executed.

Under the new regulations, a custodial parent can revoke the release for future tax years by providing written notice to the non-custodial parent. The revocation should be made on an IRS-designated form or through a comparable written declaration. The revoking parent must keep a copy of the revocation and confirm delivery to the non-custodial parent.

Tip: The custodial parent should also attach the revocation to his or her tax return for any year he or she claims the dependency exemption.

Never married? The tax rules still apply

In a recent case, the Tax Court determined that the dependency-exemption rules for divorced and legally separated parents also applied to other, unmarried parents who have been living apart.

The facts: Both parents, who lived in separate residences for the entire year, claimed a dependency exemption for the same child. But the custodial parent had executed a waiver of the exemption. The court concluded that the tax-code section referring to married parents who “live apart at all times during the last six months of the year” also covers those parents who were never married. Thus, the release of the exemption is valid. (*King, 121 TC 24*)

Just a reminder that the Fair Labor Standards Act increases the federal minimum wage this month. It will be a gradual increase over 3 years:

- July 24, 2007, \$5.85 per hour
- July 24, 2008, \$6.55 per hour
- July 24, 2009, \$7.25 per hour

See the U.S. Department of Labor’s Wage and Hour Web site or call the DOL toll-free help line at 1-866-4US-Wage (487-9243) for more information and a copy of the [poster](#) every employer with employees subject to the Fair Labor Standard Act’s minimum wage provisions is required to display at their business.
