A WORKING GUIDE FOR FAMILIES & ADVISORS

Tax Benefits for Families Caring for a Child with Disabilities

Dependency • Earned Income Credit • Medical Expense Tracking

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Three federal benefits that hinge on disability.

When a child has a disability, three separate corners of the tax code shift in your family's favor — but only if you know where to look and what to document. This session walks through each one with plain language and a working example.

Dependency

Age cap waived for permanent disability.

Earned Income Credit

Disabled child qualifies regardless of age.

Medical Deduction

Track everything; deduct above 7.5% of AGI.

THE NUMBER TO REMEMBER

7.5%

of AGI

Only unreimbursed medical expenses above this floor become a Schedule A deduction.

WHAT YOU'LL LEAVE WITH

Three objectives. Three working tools.

1

Identify dependency

Determine when a child with a disability qualifies as a dependent — including when age would otherwise disqualify them.

2

Apply EIC age rules

Apply the earned income credit qualifying-child rules when disability is in the picture.

3

Track medical expenses

Walk away with a working spreadsheet template that captures exactly what Schedule A will need.

PART 1 of 3

Who qualifies as a dependent?

The five tests, the disability exception, and the rules that still apply.

The five tests, all required.

Before disability changes anything, the child still has to satisfy five tests to be a qualifying child.

01

Relationship

Son, daughter, stepchild, foster child, sibling, half-sibling, or a descendant of any of these.

02

Age

Under 19, or under 24 if a full-time student. Disability changes this rule — see next slide.

03

Residency

Lived with the taxpayer in the U.S. for more than half the year.

04

Support

The child did not provide more than half of their own support for the year.

05

Joint return

Not filing a joint return (except solely to claim a refund of withholding or estimated tax).

Disability removes the age cap.

THE RULE

Any age.

If the child is permanently and totally disabled at any time during the year, the age test is met — regardless of how old the child is.

What does NOT change

Even with the age cap waived, the family must still satisfy the remaining four tests:

- **Relationship**
  Family relationship still required.
- **Residency**
  More than half the year living with you.
- **Support**
  Child didn't provide more than half their own support.
- **Joint return**
  Not filing a joint return (refund-only exception).

What 'permanent and total disability' means.

This is a specific legal standard — not a doctor's general impression. Both parts must be present.

PART ONE

Cannot engage in substantial gainful activity

The child cannot engage in any substantial gainful activity because of a physical or mental condition.

AND

PART TWO

Doctor-certified duration

A doctor has determined the condition has lasted — or can be expected to last — continuously for at least a year, or can lead to death.

PRESENTER NOTE *Have the physician's certification on file before relying on this exception for dependency or EIC.*

Sheltered workshop income is excluded.

If the child fails the qualifying-child test, can they still be a dependent as a qualifying relative? The gross-income test usually decides — but disability gets a carve-out.

THE PROBLEM

Income would normally disqualify

A qualifying relative generally must have gross income below the annual threshold. Even modest wages can push the dependent over the line — eliminating the deduction and any tied-in benefits.

THE CARVE-OUT

Sheltered workshop income is excluded

Income from services performed at a sheltered workshop by a permanently and totally disabled individual is excluded from gross income for the qualifying-relative test — preserving dependent status that would otherwise be lost.

This applies only to qualifying-relative gross-income testing. It does not affect EIC earned-income calculations.

PART 2 of 3

The Earned Income Credit.

Where disability rewrites the age test — and where every other rule still applies.

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Three ways a child can clear the age bar.

For Earned Income Credit purposes, a qualifying child passes the age test if any one of these is true:

PATH A

Under 19

At the end of the tax year.

PATH B

Under 24, full-time student

Enrolled as a student at the end of the tax year.

PATH C

Any age, if disabled

Permanently and totally disabled at any time during the year — regardless of age.

Bottom line: *A disabled adult child can still be an EIC qualifying child — only if every other EIC rule is also met.*

Don't lose the credit on a checklist item.

Other tests still apply

Disability waives the age test only. Every one of these still has to clear:

- **Relationship test** — *Same categories as dependency.*
- **Residency test** — *More than half the year in the U.S. with the taxpayer.*
- **Joint return test** — *Child not filing a joint return (refund-only exception).*
- **SSN requirement** — *Valid SSN issued by the due date of the return.*
- **Filing status** — *Married filing separately generally won't qualify.*
- **Income limits** — *Earned and AGI both within the annual EIC threshold.*

HIGH-VALUE EDGE CASE

Disability retirement income counts as earned income.

For EIC purposes, disability benefits received from an employer's disability retirement plan are treated as earned income — but only until the recipient reaches minimum retirement age.

Particularly relevant when the caregiving parent is themselves a disabled worker.

PART 3 of 3

The medical expense deduction.

Where good recordkeeping turns ordinary expenses into a real Schedule A line.

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ILLUSTRATIVE · 2025

The 7.5% AGI rule, with real numbers.

Only unreimbursed medical care expenses above 7.5% of AGI flow onto Schedule A. Below the floor, nothing deducts. This is why tracking matters.

Adjusted Gross Income (AGI)	**$85,000**	—
7.5% AGI floor	**$6,375**	*Threshold to clear*
Total qualifying medical paid	**$14,200**	*All unreimbursed*
Insurance & HSA reimbursements	**($2,800)**	*Subtract*
Net unreimbursed medical	**$11,400**	*Used in calc*
Deductible on Schedule A	**$5,025**	*$11,400 – $6,375*

Takeaway: *Every $1 of reimbursement reduces the deduction by $1. Tracking what insurance, HSA, FSA, or HRA paid is just as important as tracking what you paid.*

What counts, what doesn't.

COUNTS AS MEDICAL CARE

- Doctors, dentists, therapists, psychiatrists
- Prescription drugs and diagnostic devices
- Special education when primarily to overcome a disability
- Service animal acquisition, training, and care
- Home modifications for medical access (capital improvement rules apply)
- Transportation primarily for medical care — incl. 21¢/mile (2025)
- Nursing and qualified long-term care services

GENERALLY NOT DEDUCTIBLE

- Childcare for a healthy, non-disabled child
- Health club or gym memberships
- General wellness vitamins or supplements
- Cosmetic procedures (unless medically necessary)
- Household help (unless it's nursing-type care)
- Funeral or burial expenses
- Anything reimbursed by insurance, HSA, FSA, or HRA

Eight fields turn an expense into a deduction.

If you capture these eight pieces for every medical expense as it happens, year-end Schedule A prep becomes a 30-minute task instead of a 10-hour scramble.

Date paid

Cash-method: deduct in year paid.

Patient name

Who received the care.

Provider

Name, address, NPI when available.

Category

Match a Schedule A medical category.

Amount paid

Out-of-pocket cost.

Reimbursement

Insurance, HSA, FSA, HRA recovery.

Medical purpose

Diagnosis or treatment connection.

Receipt on file

Where the supporting doc lives.

INCLUDED: *A four-tab Excel template captures all of this — Instructions, Expense Log, Mileage Log, and Annual Summary with live deduction calculation.*

THE THREE THINGS WORTH REMEMBERING

Key takeaways.

01

Disability removes the age cap for dependency.

A child who is permanently and totally disabled at any time during the year clears the qualifying-child age test regardless of age — provided the other four tests are met.

02

Disability removes the age cap for EIC too.

Same exception extends to the Earned Income Credit qualifying-child rule — but every other EIC test (relationship, residency, SSN, income) still has to clear.

03

Track every medical dollar with reimbursement detail.

Only unreimbursed medical care above 7.5% of AGI deducts. A consistent tracking habit during the year is what turns the rule into actual money on Schedule A.

Continue to contact information →

LET'S TALK

Have a personal, business, or financial situation to discuss?

You're welcome to reach out through any of the channels on this page.

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Thank you.