

1. Dependency exemption. You may be able to claim the cared-for individual as your dependent, thus qualifying for an exemption. To qualify, (a) you must provide more than 50% of the individual's support costs, (b) he must either live with you or be related, (c) he must not have gross income in excess of the exemption amount, which is \$3,400 for 2007 (\$3,300 for 2006), (d) he must not himself file a joint return for the year, and (e) he must be a U.S. citizen or a resident of the U.S., Canada, or Mexico. If the support test ((a), above) can only be met by a group (several children, for example, combining to support a parent), a "multiple support" form can be filed to grant one of the group the exemption, subject to certain conditions.

2. Medical expenses. If the individual qualifies as your dependent, you can include any medical expenses you incur for him along with your own when determining your medical deduction. If he doesn't qualify as your dependent only because of the gross income or joint return test ((c) and (d), above), you can still include these medical costs with your own. The costs of qualified long-term care services required by a chronically ill individual and eligible long-term care insurance premiums are included in the definition of deductible medical expenses. There's an annual cap on the amount of premiums that can be deducted. The cap is based on age, going as high as \$3,680 for 2007 (\$3,530 in 2006) for an individual over 70.

3. Filing status. If you aren't married, you may qualify for "head of household" status by virtue of the individual you're caring for. If the person you're caring for (a) lives in your household, (b) you cover more than half the household costs, (c) he qualifies as your dependent, and (d) he is a relative, you can claim head of household filing status. If the person you're caring for is your parent, he need not live with you, as long as you provide more than half of his household costs and he qualifies as your dependent.

4. Dependent care credit. If the cared-for individual qualifies as your dependent, lives with you, and physically or mentally cannot take care of himself, you may qualify for the dependent care credit for costs you incur for his care to enable you and your spouse to go to work.

5. Exclusion for payments under life insurance contracts. Any lifetime payments received under a life insurance contract on the life of a person who is either terminally or chronically ill are excluded from gross income. A similar exclusion applies to the sale or assignment of a life insurance contract to a person who regularly buys or takes assignments of such contracts and meets other qualifying standards.