IPADD SSI TOPIC ON FAIR SHARE CHARGES VERSUS RENT

This question comes up a lot from IPADD families when getting SSI benefits up and running. Here is a summary of previous posts on the topic.

**QUESTION:   
I'm struggling with the the math of SSI and how to deal with sharing household expenses. I'd like to use the following example to understand the math.  
  
Let's say that my child is getting SSI and that she lives in my home. She is set up as her own household, so we are sharing the costs for mortgage, food and utilities. If the total cost of mortgage, food and utilities is $1,600 and there are four people in the home, then her share is $400. Since she is paying us her fair share of these household expenses, her SSI check isn't affected by the one-third reduction and she receives the full $710 per month in 2013. I think this is right so far, but I'm not sure about how to move on from here.  
  
In the above example, her "fair share" of household expenses is $400. Does she then contribute that $400 to me as part of her $710/month SSI income or is she limited to only the 1/3rd of the $710 (which would be only $236.67)?  
  
Two somewhat-related questions:  
- Should I call this "rent" or "shared household expenses" or something else?  
- Can I still claim her as a deduction on my taxes, assuming that I can show that I provide more than 50% of her total support? (I'm a little concerned about the use of the term "household" in both the IRS and the SSI documentation.)**

RESPONSES:

Hi Phil,  
There are two ways to get the full SSI check of $710 per month. One is to charge fair share of household expenses which is a fraction of 1 over the # of people in the home for the following 9 expenses only:

You do not want to charge "rent" per se.  You want to charge fair share of household expenses.  To do this you will add up only the following expenses: your mortgage, homeowners insurance, taxes,  heat, light, garbage, sewer, water and food.  Remember that food is food.  It is not your grocery bill which contains cleaning products, paper products, pet products, etc.   As Brian advised in an earlier email, rent is taxable income but fair share of household expenses is not.  If your child is living at home and only paying fair share of household expenses and has earned income (not counting SSI) of LESS THAN $4,000 per year, you can claim your child as a dependent.  If s/he earns MORE THAN $4,000 per year, you will need to prove you are paying more than 50% of his/her expenses.  The IRS has an excellent chart for this purpose which is a help in making this determination.   All other expenses like cell phone, land line, cable, misc. houshold cleaning supplies, recreation, haircuts, clothing, copays on insurance, prorata share of lawn care and snow removal, even gifts such as birthday,Christmas presents for others, etc. costs are added up to determine the 51% of care.  Please see the IRS publication on Who You Can Claim as A Dependent for more detailed information.  However parents do not want to use the term 'rent' when charging their child for household expenses.  The proper term is fair share of household expenses and these expenses are limited to the 9 that I listed above so it is fairly easy to determine.    
Terrie Varnet

The other way is to charge 'rent' of around $400 per month and just document your costs to be sure you are not making a profit. (i.e. if 3 of you live in your home and expenses to run your home are $1500, the most you can charge is $500). If you are charging fair share or 'rent', you will need to add up all expenses in providing for your child. (The IRS has a wonderful worksheet to determine who you can claim as a dependent). If you can prove you are paying 51% of your child's care and support, you can claim him/her on your taxes.  
  
Many parents naively tell SSI that they are not charging their child rent or for living expenses as they feel they will be seen as 'bad' parents for doing so. Unfortunately this results in a loss of over $200 each month which is not small change. Always advise SSI you are charging your child for the food and shelter s/he receives in your home either through rent or  
contributing toward fair share. What you do with this 'rent' money is your business but when my daughter was living at home, I saved the money in my name and SS# and used it for her when needed. I also added a Payable on Death on the account to her special needs trust so that these savings which were legally mine but in my heart morally Jen's, would go to her special needs trust had I died prematurely.  
  
I hope that helps. Terrie Varnet

QUESTION: If your child is receiving SSI and you charge fair share of household expenses or charge 'rent'. Does the parent have to claim this money as income?  
  
RESPONSE: If rent, it is income as to profit.  You still want the child to contribute NO MORE than his fair share of household expenses. If you charge child $500 per month and the child's pro rata share of the costs to run your home are only $400 per month, then you have a $100 profit and that is reportable income.   If you check with IRS, the income is offset by actual expenses so you only have reportable income if you are charging more than actual expenses. The next  
thing to consider is claiming your child as a dependent for income tax purposes. My previous email addressed this question. Terrie Varnet

Sun Jul 15, 2012 5:17 pm (PDT) . Posted by: "Theresa Varnet" tvarnet You do not want to charge "rent" per se.  You want to charge fair share of household expenses.  To do this you will add up only the following expenses: your mortgage, homeowners insurance, taxes,  heat, light, garbage, sewer, water and food.  Remember that food is food.  It is not your grocery bill which contains cleaning products, paper products, pet products, etc.   As Brian advised in an earlier email, rent is taxable income but fair share of household expenses is not.  If your child is living at home and only paying fair share of household expenses and has earned income (does not count SSI) of LESS THAN $4,000 per year, you can claim your child as a dependent.  If s/he earns MORE THAN $4,000 per year, you will need to prove you are paying more than 50% of his/her expenses.  The IRS has an excellent chart for this purpose which is a help in making this determination.   All other expenses like cell phone, land line, cable, misc. houshold cleaning supplies, recreation, haircuts, clothing, copays on insurance, prorata share of lawn care and snow removal, even gifts such as birthday,Christmas presents for others, etc. costs are added up to determine the 51% of care.  Please see the IRS publication on Who You Can Claim as A Dependent for more detailed information.  However parents do not want to use the term 'rent' when charging their child for household expenses.  The proper term is fair share of household expenses and these expenses are limited to the 9 that I listed above so it is fairly easy to determine.    
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