Reed v. Commissioner, 50 T. C. 630 (1968)

For tax dependency exemptions, 'child' is strictly defined as a natural or legally adopted child, not including foster children.

Summary

In Reed v. Commissioner, the U. S. Tax Court ruled that foster children do not qualify as dependents for tax exemption purposes if they earn over $600 annually, unless they are the natural or legally adopted children of the taxpayer. The petitioners, Edward and Eloise Reed, sought to claim dependency exemptions for their two foster sons, who were full-time students and earned over $600 each in 1964. The court held that under IRC Section 151(e)(1)(B), only a 'child of the taxpayer'—defined as a natural or legally adopted child—qualifies for the exemption, excluding foster children not placed for adoption.

Facts

Edward and Eloise Reed took two foster sons, Thomas Elston and John Bishop, into their home from the Methodist Children's Village in Detroit. Thomas had lived with the Reeds for over seven years, and John for about five years. Both boys were 18 years old in 1964 and were full-time students at different institutions. They each earned over $600 that year. The Reeds provided over half of the boys' support and considered them part of their family, but had agreed not to adopt them, as required by the foster care arrangement.

Procedural History

The Reeds filed a joint federal income tax return for 1964, claiming dependency exemptions for Thomas and John. The Commissioner of Internal Revenue determined a deficiency in their taxes, denying the exemptions. The Reeds petitioned the U. S. Tax Court for review of the Commissioner's determination.

Issue(s)

1. Whether Thomas Elston and John Bishop, as foster children, qualify as dependents under IRC Section 151(e)(1)(B), allowing the Reeds to claim a $600 exemption for each, despite the boys earning over $600 in 1964.

Holding

1. No, because under IRC Section 151(e)(1)(B), the term 'child' is defined to include only natural or legally adopted children, and does not extend to foster children not placed in the home for adoption.

Court's Reasoning

© 2025 SCOTUSreports.com. All rights reserved.

The court analyzed the statutory language of IRC Section 151(e)(1)(B) and Section 152, which define ‘dependent’ and ‘child’. It emphasized that ‘child’ is specifically defined to include only natural children, legally adopted children, and children placed in the home for adoption. The court noted that Congress had provided a separate provision, Section 152(a)(9), for foster children to be claimed as dependents, but only if their earnings were below $600. The legislative history supported this interpretation, showing Congress’s intent to limit the exemption to natural or adopted children when earnings exceeded $600. The court rejected the Reeds’ argument that the term ‘child’ should be interpreted more broadly to include foster children, stating that such an interpretation would constitute ‘judicial legislation’ and was not supported by the statute or its legislative history.

Practical Implications

This decision clarifies that foster children, even if treated as part of the family, do not qualify for the dependency exemption under IRC Section 151(e)(1)(B) if they earn over $600 annually, unless they are legally adopted or placed for adoption. Tax practitioners must advise clients that only natural or legally adopted children can be claimed as dependents without regard to the $600 earnings limit. This ruling impacts families with foster children, as they cannot claim the exemption if the foster child’s earnings exceed the threshold. Subsequent cases have followed this interpretation, reinforcing the strict definition of ‘child’ for tax purposes.

© 2025 SCOTUSreports.com. All rights reserved.