

Carter v. Commissioner, 55 T. C. 109 (1970)

For dependency deductions under federal tax law, the actual support provided to the dependent, rather than the source of funds, determines eligibility.

Summary

In *Carter v. Commissioner*, the U. S. Tax Court ruled that Eddie L. Carter could claim his grandmother as a dependent for the 1967 tax year. The court found that Carter provided over half of his grandmother's total support, despite her receiving old-age assistance payments from the State of Texas. The key issue was whether these payments constituted support or if Carter's contributions in kind were sufficient. The court held that the actual use of the funds by the grandmother, rather than their source, was critical in determining support, allowing Carter to claim the dependency exemption.

Facts

Eddie L. Carter and his wife filed a joint federal income tax return for 1967, claiming a dependency exemption for Carter's paternal grandmother, Zula B. Carter, who lived with them. Zula received \$942 in old-age assistance payments from the State of Texas, plus \$70. 36 in Medicare and Medicaid premiums. Carter provided Zula with lodging, utilities, food, laundry services, and transportation, totaling \$915. 40 in value. Zula used her state payments for various personal expenses, including some that were not for her support.

Procedural History

The Commissioner of Internal Revenue disallowed Carter's dependency exemption claim, asserting he did not provide more than half of Zula's support. Carter petitioned the U. S. Tax Court, which heard the case and issued a decision on October 22, 1970, affirming Carter's right to claim the exemption.

Issue(s)

1. Whether Eddie L. Carter provided more than half of his grandmother Zula B. Carter's total support in 1967, allowing him to claim her as a dependent under section 151 of the Internal Revenue Code of 1954.

Holding

1. Yes, because Carter's contributions in kind, including lodging, utilities, food, and transportation, exceeded the actual support provided by the State's old-age assistance payments after accounting for Zula's nonsupport expenditures.

Court's Reasoning

The court applied section 151 of the Internal Revenue Code, which allows a dependency exemption if the taxpayer provides over half of the dependent's support. The court emphasized that the test for support under federal tax law focuses on the actual use of funds rather than their source. Despite the state payments, Zula's expenditures on nonsupport items (burial insurance, gifts) reduced the amount considered as support from the state. The court found that Carter's in-kind contributions, combined with unaccounted-for recreational transportation, exceeded the state's contribution to Zula's actual support. The court cited *Emily Marx and Burnet v. Harmel* to support its focus on actual support rather than state characterizations of payments.

Practical Implications

This decision clarifies that for dependency exemptions, attorneys should focus on the actual support provided to the dependent rather than the source of funds. Taxpayers can claim dependents even if the dependent receives government assistance, as long as the taxpayer's contributions exceed half of the dependent's total support. This ruling may affect how taxpayers calculate support for dependents receiving various forms of assistance, emphasizing the need for detailed records of expenditures. Subsequent cases and IRS guidance have reinforced this focus on actual support in determining dependency status.