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(This is part of our series of “sweet 16” year-end tax planning ideas.)

As with itemized deductions, the tax benefit of personal exemptions, including exemptions for dependents, is subject to a special phase-out rule. However, unlike deductible expenses that might be moved from one tax year to another, the approach

for personal exemptions at year-end is usually pretty straightforward: Take any

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exemption is \$4,000 (up from \$3,950 in 2014). In addition, an exemption for a dependent is available if the following requirements are met:

- You're not a dependent of another taxpayer.
- The individual claimed as a dependent can't file a joint tax return (with certain limited exceptions).
- The individual claimed as a dependent is a citizen, national or resident alien of the U.S. or a resident of Canada or Mexico.
- The individual claimed as a dependent meets the requirements for either a qualifying child or a qualifying relative.

There is a two-part test to qualify: (1) You have to provide more than half of the annual support of the person claimed as a dependent and (2) that person can't have more than the personal exemption amount in gross income subject to tax. For a qualifying child under age 19 or a full-time student under age 24, the "gross income" part of the test doesn't apply.

For example, suppose your daughter graduated from college in May and recently landed her first full-time job. She expects to provide \$20,000 of support for herself this year and you've already provided \$19,500 in support to her. By giving her some extra spending money in December – just \$501 is enough to do the trick – you'll exceed the half-support mark and qualify for a dependency exemption. The amount of her gross income doesn't matter

It's usually tougher to secure an extra exemption for a relative because you also have to meet the gross income test. But Social Security retiree benefits don't count as gross income for exemption purposes (although they still count for the half-support test). Thus, you may be able to lock in an exemption for an elderly relative – say, your mom or dad — living on a small fixed income and Social Security benefits.

Finally, be aware of the personal exemption phaseout (PEP) rule. Under the PEP rule,

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