Kiddie Tax

Sprague & Jackson
ACCOUNTANTS AND ENROLLED AGENTS
The Seneca Building • 121 E Seneca St • Ithaca, NY 14850

David W. Sprague, EA, ABA Principal
Angie Jackson, EA, MSA Principal

Phone: (607) 273-5322
Fax: (607) 273-8138
Email: Admin@sprjac.com

Kiddie Tax

"Kiddie Tax" is the term used for the tax on certain unearned income of children taxed at the parent's rate instead of the child's rate. Children typically are in a lower tax bracket than their parents and the Kiddie Tax was developed to prevent parents from lowering their tax liability by shifting investment income assets to their children.

Tax Treatment of Child's Unearned Income*

Income Amount	*On Child's Return*	*On Parent's Return*
First $1,250	Not taxed.	Not taxed.
Second $1,250	Taxed at 10% (0% for capital gains and qualified dividends).	Taxed at 10%.
Amounts over $2,500	Taxed at parent's rate for ordinary income and/or capital gains.	Added to parent's income as ordinary income, qualified dividends, or capital gain distributions.

*For dependents with no earned income.

Kiddie Tax General Rules

Children Subject to Kiddie Tax

• Child's unearned income (investment-type income) was more than $2,500.	• The child is required to file a tax return for the year.
• At least one of the child's parents was alive at the end of the tax year.	• The child does not file a joint tax return for the year.

• The child meets one of the following age requirements:

Under Age 18	Kiddie Tax applies
Age 18	Kiddie tax applies unless the child's earned income was more than half of his or her support.
Full-Time Students Ages 19 – 23	Kiddie tax applies unless the child's earned income was more than half of his or her support.

Age is determined on January 1.*

* **January 1 birthdays.** Under Kiddie Tax rules, a child born on January 1 reaches that age at the end of the previous year. For example, a child born on January 1, 2006, reaches age 18 on December 31, 2023.

Unearned income. Unearned income is generally all income other than earned income. It includes investment-type income such as taxable interest, dividends, capital gains (including capital gain distributions), rents, royalties, taxable Social Security benefits, pension and annuity income, taxable scholarship and fellowship grants not reported on Form W-2, unemployment compensation, alimony, and unearned income received as the beneficiary of a trust. Unearned income includes amounts produced by assets the child obtained with earned income (such as interest on a savings account into which the child deposited wages).

Nontaxable income. Unearned income includes only amounts the child must include in gross income. Nontaxable unearned income, such as tax-exempt interest and the nontaxable part of Social Security and pension payments, is not included in gross income.

Capital loss. A child's capital losses are taken into account in computing the child's unearned income. Capital losses are first applied against capital gains. If the capital losses are more than the capital gains, the difference (up to $3,000) is subtracted from the child's interest, dividends, and other unearned income. Any difference over $3,000 is carried to the next year.

Income from property received as a gift. A child's unearned income includes all income produced by property belonging to the child. This is true even if the property was transferred to the child, regardless of when the property was transferred or purchased or who transferred it. A child's unearned income includes income produced by property given as a gift to the child. This includes gifts to the child from grandparents or any other person and gifts made under the Uniform Gift to Minors Act.