

## TAXES and KIDS

It comes as a surprise to some parents that their children may have to file a tax return. Although [most] minor children are dependents of their parents, they are subject to taxes if they receive income. A dependent child is one that obtains more than half of her support from her parents, is under the age of 19 or under the age of 24 and a student. A child that is 19 or older qualifies as a student if that child attends school for any five months of the calendar year. The child must attend the school full time and the school must have a regular teaching staff, course of study and regular student body or be an on-farm training course. Whether a dependent child must file a separate tax return depends upon the amount of earned and unearned income made by the child. The following is a review of the basic rules governing dependent tax returns. Different rules apply if the dependent child is blind or married.

Earned income is, as you might suspect, income that a child makes by actively working at a job. Unearned income, on the other hand, is income that a child receives from passive interests. If a child's earned income exceeds \$4,750.00 or his unearned income exceeds \$750.00 (figures valid for the 2003 tax year only) then that child must file an income tax return. If a dependent child is self employed he must file an income tax return if he had net earnings of at least \$400.00. If a dependent child receives both earned and unearned income in the same tax year then the question as to whether she must file a tax return depends on the result of the following worksheet:

Dependents earned income + \$250	=	1. _____.
Minimum amount	=	2. <u>\$750.</u>
Larger number of lines 1 and 2	=	3. _____.
Maximum amount	=	4. <u>\$4750</u>
Smaller number of lines 3 and 4	=	5. _____.
Total earned and unearned income	=	6. _____.

If the number in line 6 is greater than the number in line 5, the dependent child must file an income tax return.

Debra

Deb is 17 years old, single and still living with and receiving over half of her support from her parents. Her parents claim an exemption for her on their tax return. Although a full time high school student, Deb worked as a river guide during her 2003 summer vacation. In tips and wages she earned \$3,900.00. She had a savings account that earned \$50.00 in interest. Deb does not need to file an income tax return because her total income of \$3,950.00 is less than \$4,150.00 (the total of her earned income plus \$250.00 which is greater than \$750.00 but less than \$4750.00).

For federal income tax purposes, a child's income is their own. Thus, it is not included on the parent's return. However, depending upon state law, parents may have the right to receive and use the earnings of their dependent children. The reality is that parents are ultimately responsible for filing their minor children's tax returns and if the tax is not paid, the parent rather than the child is liable. If a child is too young to sign the return then the parent or guardian should sign the return on the child's behalf by writing: "By (signature) parent (or guardian) for minor child." If a parent or guardian signs on behalf of a child that parent or guardian has the authority to act on the child's behalf on all matters connected with the return.

Parents also need to be aware of what is commonly referred to as the "kiddie tax". Investment income of a child under 14 may be taxed at the parent's tax rate if it totals more than \$1,500.00 and the child is otherwise required to file a tax return for that year.

In certain circumstances a parent may elect to include on their own tax return the unearned income of a dependent child who is under the age of fourteen at the close of the tax year. This is the case if any of the following apply:

- The child has only unearned income from interest or dividends (including capital gain distributions and Alaska Permanent Fund Dividends);
- The dividend interest income totaled less than \$7,500.00;
- The child did not make estimated tax payments throughout the tax year;
- If the child filed a previous return they cannot have received an overpayment;
- No federal income tax was withheld from the child's income.

If a parent chooses to make this election he cannot file Form 1040EZ or Form 1040A. To make the election the parent must complete Form 8814 for each child that they choose to make the election for and attach it to their return (Form 1040 or Form 1040NR). Electing to include your child's income on your own tax return may cause a moderate increase of the tax. As always, consult with a tax professional before making any decisions.