

## Children's Taxes (Kiddie Tax)

Beginning in 2018, unearned income of a child under age 18 is taxed at ordinary income and preferential rates applied to trusts and estates. Earned (compensation) income received by a child under age 18 is taxed at the rates applied to single filers.

The kiddie tax applies to full-time students who have not attained the age of 24 by the end of the taxable year and non-full-time students who have not attained the age of 19 by the end of the taxable year, but in either case, only if the child's earned income does not exceed one-half of the amount of the child's support.

A child with earned income may claim a standard deduction up to \$12,000 for 2018 and may be eligible for the \$5,500 deductible IRA contribution. Therefore, the child may earn \$17,500 without paying federal income tax. The child should also consider a contribution to a nondeductible Roth IRA.

**Planning Suggestion:** If you own a business, consider hiring and paying a salary to your child. This income will be taxed at the child's rates, and the payment will be deductible by your business. This technique can be used to fund a college education. Of course, the child must perform services to earn the compensation, and the compensation must be reasonable for the services provided.

If the child is 18 or over, this compensation will be subject to social security tax. It will also be subject to federal unemployment insurance tax if the child is 21 or older. The child's compensation could also be subject to state and local income and payroll taxes.

For 2018, a child under age 18 is not required to file a tax return if the child only has interest and dividend income up to \$1,050, has not made estimated payments, has total gross income less than \$10,500, and is not subject to backup withholding. However, the parents must include the child's income exceeding \$2,100 on his/her tax return.

**Caution:** A child under 18 who has capital gains or earned income must file his or her own tax return. Estimated taxes may have to be paid during the year if withholding taxes are not sufficient to cover the child's tax liability.

**Planning Suggestion:** Consider making gifts of growth stock or Series EE bonds (which can defer taxation of the interest until maturity) to a child under age 18 (or 24, if appropriate). These investments can be converted to investments producing current income after the child reaches 18 (or 24, if appropriate). The resulting income will be taxed at the child's rates rather than the parents' top rate. Further, parents in the higher tax brackets should consider making gifts of income-producing property to a child who is 18 (or 24, if appropriate) or older to take advantage of the child's lower tax bracket (see "[Year-End Gifts](#)").

**Reminder:** Your income tax return must report social security numbers for all children whom you claim as dependents. A social security number can be obtained by filing an application on Form SS-5 with your local Social Security Administration office.

If you claim a dependent care credit, you must report the service provider's social security or employer identification number on your tax return. You should use IRS Form W-10 to obtain this number from the provider.