FRANZEN & FRANZEN, LLP
CERTIFIED PUBLIC ACCOUNTANTS

September 6, 2012 – Kiddie Tax

Certain children who have investment income greater than $1,900 may be subject to tax based on their parents' income (the so-called "Kiddie Tax").

Kiddie Tax is owed if all the following apply:

- The child is 18 and under or a student under age 24 at the end of the year;
- The child has more than $1,900 of investment income for the year;
- At least one of the child's parents was alive at the end of the year;
- The child does not have earned income that exceeds over half of their support; and
- The child does not file a joint return for the tax year.

The child's investment income may be reported by using one of the following options:

1) Child files his/her own return. Federal Form 8615 must be completed and attached to the child's Form 1040. This method is available to any child. If the parents have more than one child subject to Kiddie Tax, investment income of all such children is combined with the income of the parents to determine the tax rate.

2) Parents report child's income on their tax return. If a child's only income is investment income and the child's total gross income is less than $9,500, the parents of the child may elect to report the child's income on their own tax return.

Like Federal law, California also requires qualified investment income of children to be taxed at the parent's tax rate if the parent's tax rate is higher. The Franchise Tax Board has forms and options similar to the IRS. Interestingly, there is no requirement to use the same Kiddie Tax reporting election for Federal and California tax returns in the same year. If different elections are made, the FTB Schedule CA would be used to report the necessary adjustments.

For more information on the Kiddie Tax and how it might apply to your family, please feel free to call our office.

2927 De La Vina Street, Suite C, Santa Barbara, CA 93105 Phone: (805) 563-0821