

February 18, 2019

### ***Kiddie Tax***

The Tax Code imposes a “kiddie tax” on the unearned or investment income of children who are under 19 (under 24 if a student). Beginning in 2018 and continuing thereafter, legislation has simplified the calculation of the kiddie tax. In accordance with the 2017 Tax Cuts and Jobs Act, a child’s unearned income above a certain amount (\$2,200 for 2019) will be subject to tax based on the tax rate schedule for trusts and estates. As a result, in 2019 a child’s unearned income in excess of \$14,950 will be taxed at 37%.

Before 2018, if a child had unearned income above the threshold amount (\$2,100 for 2017), the kiddie tax would be applied at the parents’ tax rate which was usually much higher than the child’s tax rate. This tax was created to lessen the effectiveness of intra-family transfers of income-producing property. Without the kiddie tax, families could shift income produced from income-producing property from the parents’ high marginal tax rate to the child’s generally lower tax bracket, thereby reducing a family’s overall income tax liability.

As a result of this change, the completion of kiddie tax returns will no longer have to be delayed until the completion of the parents’ tax return. The kiddie tax applies when at least one of the child’s parents is alive at the close of the tax year, the child is not married, and the child falls in one of the three categories. The categories are:

1. The child has not attained the age of 18 by the close of the tax year;
2. The child has not attained the age of 19 by the close of the tax year, and the child’s earned income is less than one-half of the child’s support for the year; or
3. The child is a student who has not attained the age of 24 by the close of the tax year, and the child’s earned income is less than one-half of the child’s support for the year.

Please don’t hesitate to contact us to discuss the changes made to kiddie tax provisions and explore the opportunities available to reduce your family’s combined income tax liability.

**MillerSearles LLC**

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