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What is the kiddie tax?

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Question:

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Answer:

Special rules commonly referred to as the "kiddie tax" rules apply when a child has unearned income (for example, investment income). Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount. For 2009, this amount is \$1,900 (the first \$950 is tax free and the next \$950 is taxed at the child's rate). The kiddie tax rules apply to (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

In some cases, a parent has the option of reporting the child's unearned income on his or her tax return. In other cases, the child must file his or her own return. Each method of filing has several advantages and disadvantages. Note that the kiddie tax rules apply regardless of whether the child is your dependent. Further, the definition of a child includes your legally adopted child and your stepchild.

You should note that a child who has significant tax exempt interest, or tax preferences or adjustments, may be subject to the alternative minimum tax.

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