PacificCPE

COURSE
34001C

Kiddie Tax Rules

Navigating tax rules for dependents and children with unearned income requires careful attention to detail. This updated course covers filing requirements for dependents, the standard deduction, wage withholding, and who is responsible for filing a child's return. You'll also explore the kiddie tax rules for children with unearned income, including the parent's election to report a child's interest and dividends on their own return. A practical resource for tax professionals preparing returns for families with minor or college-age children.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓

Final Exam Copy ↓

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify various filing requirements for individuals who can be claimed as a dependent on another person's tax return.
- Recognize various requirements for figuring and reporting the "Kiddie Tax."

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: June 2026

TABLE OF CONTENTS

CHAPTER 00

Introduction 4

CHAPTER 01

Rules For All Dependents 5

1.01 I. What'S New/Reminders 5

1.02 II. Filing Requirements 6

1.03 III. Should A Return Be Filed Even If Not Required? 13

1.04 IV. Responsibility For Child'S Return 14

1.05 V. Standard Deduction 15

1.06 VI. Dependent'S Own Exemption 18

1.07 VII. Withholding From Wages 18

Test Your Knowledge 20

CHAPTER 02

Tax On Unearned Income Of Certain Children 28

2.01 I. Introduction 28

2.02 II. Parent'S Election To Report Child'S Interest And Dividends 29

2.03 III. Tax For Certain Children Who Have Unearned Income 35

Test Your Knowledge 55

Final Exam Copy 60

Index .....

INTRODUCTION

This course outlines the filing requirements for individuals considered dependents, including how to calculate the dependent's standard deduction and any applicable exemptions. It also includes information on how investment income should be reported for children, regardless of whether those children are claimed as dependents. While children are the most commonly recognized type of dependent, the aged and disabled also fall into that category.

Chapter 1 explains the filing requirements and other tax information for individuals who can be claimed as a dependent on another person's tax return.

Chapter 2 explains how to report and figure the tax, commonly referred to as the "Kiddie Tax," that is applied to unearned income of certain children (whether or not they can be claimed as dependents).

A dependent is a person, other than the taxpayer or the taxpayer's spouse, that can be claimed on a tax return. To be a taxpayer's dependent, a person must be his or her qualifying child or qualifying relative.

Generally, a person is a qualifying child if that person:

- Is the taxpayer's child, stepchild, foster child, brother, sister, stepbrother, stepsister, or a descendant of any of them,
- Lived with the taxpayer for more than half of the year,
- Did not provide more than half of his or her own support for the year,
- Was under age 19 at the end of the year and younger than the taxpayer (or the taxpayer's spouse if filing jointly) (or was under age 24 at the end of the year, a student, and younger than the taxpayer (or the taxpayer's spouse if filing jointly), or was any age and permanently and totally disabled), and
- Did not file a joint return with his or her spouse.

Generally, a person is a qualifying relative if that person:

- Lives with or is related to the taxpayer,
- Does not have $5,200 (2025) or more of gross (total) income,
- Is supported (generally more than 50%) by the taxpayer, and
- Is neither the taxpayer's qualifying child nor the qualifying child of anyone else.

Chapter 1: RULES FOR ALL DEPENDENTS

Chapter Objective

After completing this chapter, you should be able to:

- Identify various filing requirements for individuals who can be claimed as a dependent on another person's tax return.

This chapter discusses the filing requirements for dependents, who is responsible for a child's return, how to figure a dependent's standard deduction and exemption (if any), and whether a dependent can claim exemption from federal income tax withholding.

I. WHAT'S NEW/REMINDERS

The alternative minimum tax (AMT) exemption amount no longer limited. For tax years beginning after 2017, the AMT exemption amount for certain children with unearned income is no longer limited to their earned income plus the additional AMT exemption amount.

Standard deduction amounts increased. For 2025, the standard deduction amount has been increased for all filers. The amounts are:

- Single or Married filing separately — $15,750,
- Married filing jointly or Qualifying surviving spouse —$31,500, and
- Head of household — $23,625.

For married taxpayers who are age 65 or over or blind, the standard deduction is increased an additional amount of $1,600 ($2,000 if head of household or single).

For individuals who can be claimed as a dependent, the standard deduction cannot exceed the greater of $1,350 or the sum of $450 and the individual's earned income, but the total cannot exceed the applicable standard deduction for the dependent's filing status (including any additional amount for being age 65 or older and/or blind, if applicable).

Due to the increase in the standard deduction and reduced usage of itemized deductions, if you are employed, you may want to consider completing a new Form W-4, *Employee's Withholding Certificate*, and giving it to your employer.

II. FILING REQUIREMENTS

Whether a dependent has to file a return generally depends on the amount of the dependent's earned and unearned income and whether the dependent is married, is age 65 or older, or is blind.

Note

A dependent may have to file a return even if their income is less than the amount that would normally require a return. See *Other Filing Requirements,* later.

The following sections apply to dependents with:

- **Earned income** only (salaries, wages, tips, professional fees, and other amounts received as pay for work actually performed),
- **Unearned income only** (income other than earned income such as interest, dividends, capital gains (including capital gain distributions), rents, and royalties. Distributions of interest, dividends, capital gains, and other unearned income from a trust are also unearned income to a beneficiary of the trust, and
- **Both earned and unearned income.**

To find out whether a dependent must file, read the section that applies, or use Table 1.

TABLE 1. 2025 FILING REQUIREMENTS FOR DEPENDENTS

See *Dependents* to find out if you are a dependent.

CAUTION! *If your gross income was $5,200 or more, you usually can't be claimed as a dependent unless you are a qualifying child. For details, see Dependents.*

Single dependents – Were you **either** age 65 or older **or** blind?

☐ **No**. You must file a return if **any** of the following apply.

- Your unearned income was over $1,350.
- Your earned income was over $15,750.
- Your gross income was more than the larger of –
  - $1,350, or
  - Your earned income (up to $15,300) plus $450.

☐ **Yes**. You must file a return if **any** of the following apply.

- Your unearned income was over $3,350 ($5,350 if 65 or older **and** blind),
- Your earned income was over $17,750 ($19,750 if 65 or older **and** blind),
- Your gross income was more than the larger of –
  - $3,350 ($5,350 if 65 or older **and** blind), or
  - Your earned income (up to $15,300) plus $2,450 ($4,450 if 65 or older **and** blind).

Married dependents – Were you **either** age 65 or older **or** blind?

☐ **No**. You must file a return if **any** of the following apply.

- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over $1,350.
- Your earned income was over $15,750.
- Your gross income was more than the larger of –
  - $1,350, or
  - Your earned income (up to $15,300) plus $450.

☐ **Yes**. You must file a return if **any** of the following apply.

- Your gross income was at least $5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over $2,950 ($4,550 if 65 or older **and** blind),
- Your earned income was over $17,350 ($18,950 if 65 or older **and** blind),
- Your gross income was more than the larger of –
  - $2,950 ($4,550 if 65 or older **and** blind), or
  - Your earned income (up to $15,300) plus $2,050 ($3,650 if 65 or older **and** blind).

A. EARNED INCOME ONLY

A dependent whose gross income is only earned income must file a return if the gross income is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	$15,750
Either 65 or older or blind	$17,750
65 or older and blind	$19,750
Married*	
Under 65 and not blind	$15,750
Either 65 or older or blind	$17,350
65 or older and blind	$18,950

**If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has $5 or more of gross income (earned and/or unearned).*

Example

William is 16. His mother claims him as a dependent on her income tax return. He worked part time on weekends during the school year and full time during the summer. He earned $16,250 in wages. He did not have any unearned income.

He must file a tax return because he has earned income only and his gross income is more than $15,750. If he is blind, he does not have to file a return because his gross income is not more than $17,750.

B. UNEARNED INCOME ONLY

A dependent whose gross income is only unearned income must file a return if the gross income is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	$1,350
Either 65 or older or blind	$3,350
65 or older and blind	$5,350
Married*	
Under 65 and not blind	$1,350
Either 65 or older or blind	$2,950
65 or older and blind	$4,550

**If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has $5 or more of gross income (earned and/or unearned).*

Example

Sarah is 18 and single. Her parents can claim her as a dependent on their income tax return. She received $2,420 of taxable interest and dividend income. She did not work during the year.

She must file a tax return because she has unearned income only and her gross income is more than $1,350. If she is blind, she does not have to file a return because she has unearned income only and her gross income is not more than $3,350.

Election to report child's unearned income on parent's return. A parent of a child under age 19 (or under age 24 if a full-time student) may be able to elect to include the **child's interest and dividend income on the parent's return.** See **Parent's Election to Report Child's Interest and Dividends** in Chapter 2. If the parent makes this election, the child does not have to file a return.

C. BOTH EARNED AND UNEARNED INCOME

A dependent who has both earned and unearned income generally must file a return if the dependent's gross income is more than line 5 of the following worksheet.

Filing Requirement Worksheet for Most Dependents

Filing Requirement Worksheet for Most Dependents	
1. Enter dependent's earned income plus $450	_____
2. Minimum amount	$1,350
3. Compare lines 1 and 2. Enter the **larger** amount	_____
4. Maximum amount	$15,750
5. Compare lines 3 and 4. Enter the **smaller** amount	_____
6. Enter the dependent's gross income. If line 6 is more than line 5, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is $5 or more	_____

Example 1

Joe is 20, single, not blind, and a full-time college student. He does not provide more than half of his own support, and his parents claim him as a dependent on their income tax return. He received $200 taxable interest income and earned $2,800 from a part-time job. He does not have to file a tax return because his gross income of $3,000 ($200 interest plus $2,800 in wages) is not more than $3,250, the amount on line 5 of his filled-in *(Example 1) Filing Requirement Worksheet for Most Dependents* (shown next).

Filled-in Example 1 Filing Requirement Worksheet for Most Dependents

1. Enter dependent's earned income plus $450	$3,250
2. Minimum amount	1,350
3. Compare lines 1 and 2. Enter the **larger** amount	3,250
4. Maximum amount	15,750
5. Compare lines 3 and 4. Enter the **smaller** amount	3,250
6. Enter the dependent's gross income. If line 6 is more than line 5, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is $5 or more	$3,000