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The “Kiddie” Tax or How Children Are Taxed

Children are subject to income taxes just like their parents. However, there are some special rules that apply and some of them can get complicated. This is commonly called the “Kiddie” Tax. The Tax Cuts and Jobs Act of 2017 made substantial changes to the rules. This article provides some general information, but you may want to consult your tax advisor to better understand how your children are being taxed.

To Whom does the Kiddie Tax Apply?

The Kiddie Tax can apply to a child until the year the child reaches age 24. It can apply in any of the three cases:

- The child is 17 or younger at year end.
- The child is 18 at year end and has earned income that is less than half of his support.
- The child is between 19 and 23 at year end and is a student and has earned income that is less than half of his support.

The General Rules

If the child has earned income, the normal income tax rules apply including the use of a standard deduction limited to the lesser of $12,400 or the amount of earned income. In other words, the earned income of a child gets taxed as if he was an adult.

Unearned income (interest, qualifying dividends and capital gains) is subject to special rules. All net unearned income above a threshold amount ($2,200 for 2020) is taxed like the income of trusts and estates.

2020 Ordinary Income Tax Rates	
Taxable income	Tax rate on ordinary unearned income (interest, short term capital gains)
$0 to $2,600	10%
$2,601 to $9,450	24%
$9,451 - $12,950	35%
Above $12,950	37%

In addition, long term capital gains and qualifying dividends qualify for preferential treatment.

2020 Long Term Capital Gains and Qualifying Dividends Tax Rates	
Taxable income	Tax Rate on long term capital gains and qualifying dividends
$0 to $2,650	0%
$2,651 to $12,950	15%
Above $12,950	20%

The application of these rules can get complicated and a qualified tax advisor may be needed.