

What Parents Should Know about Their Child's Investment Income

Parents need to be aware of the tax rules that affect their children's investment income. Here are four facts from the IRS that will help parents determine whether their child's investment income will be taxed at the parents' rate or the child's rate:

1. **Investment Income** Children with investment income may have part or all of this income taxed at their parents' tax rate rather than at the child's rate. Investment income includes interest, dividends, capital gains and other unearned income

2. **Age Requirement** The child's tax must be figured using the parents' rates if the child has investment income of more than \$1,900 and meets one of three age requirements for 2010:

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Was under age 18 at the end of the year,

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Was age 18 at the end of the year and did not have earned income that was more than half of his or her support, or

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Was a full-time student over age 18 and under age 24 at the end of the year and did not have earned income that was more than half of his or her support.

3. **Form 8615** To figure the child's tax using the parents' rate for the child's return, fill out Form 8615, Tax for Certain Children Who Have Investment Income of More Than \$1,900, and attach it to the child's federal income tax return.

4. **Form 8814** When certain conditions are met, a parent may be able to avoid having to file a tax return for the child by including the child's income on the parent's tax return. In this situation, the parent would file Form 8814, Parents' Election To Report Child's Interest and Dividends.

More information can be found in IRS Publication 929, Tax Rules for Children and Dependents. This publication and Forms 8615 and 8814 are available at <http://www.irs.gov> or by calling 800-TAX-FORM (800-829-3676).