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Service

# Tax Rules for Children and Dependents

- For All Dependents
- For Children Under 14  
With Investment Income

For use in preparing  
**1994** Returns

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## Important Changes for 1994

**Filing requirements for dependents.** The amount of gross income certain dependents can have during the year without having to file a return has increased. See *Filing Requirements for Dependents* in *Part 1* for more information.

**Standard deduction for dependents.** The maximum standard deduction for a dependent with earned income (wages, tips, etc.) has increased. See *Standard Deduction for Dependents* in *Part 1* for more information.

## Important Reminders

**Exemption for dependents.** A person who can be claimed as a dependent cannot claim an exemption for himself or herself on his or her own return.

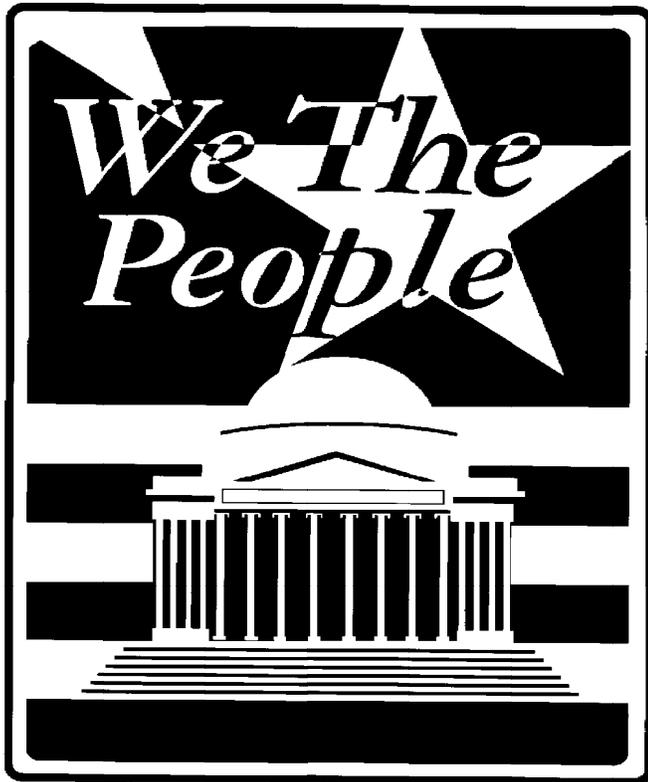
**Parent's election to report child's unearned income.** You may be able to elect to include your child's unearned income on your tax return. If you make this election, the child does not have to file a return. See *Parent's Election to Report Child's Unearned Income*, in *Part 2*.

**Social security numbers for dependents.** You must list on your tax return the social security number of any dependent you claim who is **age 1 or older** at the end of the year.

## Introduction

*Part 1* of this publication provides tax information for individuals who can be claimed as a dependent on another person's tax return.

*Part 2* explains how to report and figure the tax on certain investment income of children



under age 14 (whether or not they can be claimed as dependents).

**Definitions.** Many of the terms used in this publication, such as “dependent,” “earned income,” and “unearned income,” are defined in the *Glossary* at the back of this publication.

## Useful Items

You may want to see:

### Publication

- 501** Exemptions, Standard Deduction, and Filing Information
- 505** Tax Withholding and Estimated Tax
- 520** Scholarships and Fellowships

### Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- 6251** Alternative Minimum Tax — Individuals
- 8615** Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,200
- 8814** Parents' Election To Report Child's Interest and Dividends

**Ordering publications and forms.** To order free publications and forms, call our toll-free telephone number 1-800-TAX-FORM (1-800-829-3676). If you have access to TDD equipment, you can call 1-800-829-4059. See your tax package for the hours of operation. You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address.

**Asking tax questions.** You can call the IRS with your tax question Monday through Friday during regular business hours. Check your telephone book or your tax package for the local number or you can call toll-free 1-800-829-1040 (1-800-829-4059 for TDD users).

## Part 1. Rules for All Dependents

*Part 1* of this publication discusses the filing requirements for dependents, who is responsible for a child's return, how to figure a dependent's standard deduction, the fact that a dependent cannot claim his or her own exemption, and whether a dependent can claim exemption from federal income tax withholding.

## Filing Requirements for Dependents

**Words you may need to know (see Glossary):**

Dependent  
Earned income  
Gross income  
Unearned income

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.

**How to use this section.** This section explains the filing requirements for dependents who have earned income only, unearned income only, or both earned income and unearned income. You can find whether a dependent must file a return either by reading the discussion that follows or by using *Figures 1, 2, and 3* on the next page.

**Note.** A dependent may have to file a return even if his or her income is below the amount that would normally require a return. See *Other Filing Requirements*, later.

**Child's earnings.** If a child receives income for his or her services (labor), that income is the child's, even if under State law, the parent is entitled to and receives that income.

### Earned Income Only

A dependent must file a return if all his or her income is earned income, and the total is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	\$3,800
Either 65 or older or blind	\$4,750
65 or older and blind	\$5,700
Married*	
Under 65 and not blind	\$3,175
Either 65 or older or blind	\$3,925
65 or older and blind	\$4,675

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

### Unearned Income Only

A dependent must file a return if all his or her income is unearned income, and the total is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	\$ 600
Either 65 or older or blind	\$1,550
65 or older and blind	\$2,500
Married*	
Under 65 and not blind	\$ 600
Either 65 or older or blind	\$1,350
65 or older and blind	\$2,100

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

**Election to report child's unearned income on parent's return.** A parent of a child under age 14 may be able to elect to include the child's interest and dividend income (including Alaska Permanent Fund dividends) on the parent's return. See *Parent's Election to Report Child's Unearned Income*, in *Part 2*. If this election is made, the child does not have to file a return.

## Earned and Unearned Income

A dependent who has both earned and unearned income generally must file a return if his or her gross (total) income is **more than \$600**. However, if the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file a return if his or her gross income is \$5 or more.

**65 or older and/or blind.** A dependent who is 65 or older and/or blind must file a return if his or her gross (total) income is more than the amount from line 7 of the following worksheet.

### Filing Requirement Worksheet for Dependents Who Are 65 or Older and/or Blind

- Enter dependent's earned income . . . . . \_\_\_\_\_
  - Minimum amount . . . . . **\$ 600**
  - Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts . . . . . \_\_\_\_\_
  - Enter the appropriate amount from the following table . . . . . \_\_\_\_\_
- | Marital Status | Amount   |
|----------------|----------|
| Single         | \$ 3,800 |
| Married        | \$ 3,175 |
- Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts . . . . . \_\_\_\_\_
  - Enter the amount from the following table that applies to the dependent . . . . . \_\_\_\_\_
- | Marital Status              | Amount   |
|-----------------------------|----------|
| Single                      |          |
| Either 65 or older or blind | \$ 950   |
| 65 or older and blind       | \$ 1,900 |
| Married                     |          |
| Either 65 or older or blind | \$ 750   |
| 65 or older and blind       | \$ 1,500 |
- Add the amounts on lines 5 and 6. Enter the total . . . . . \_\_\_\_\_
  - Enter the dependent's gross (total) income . . . . . \_\_\_\_\_

If the amount on line 8 is more than the amount on line 7, 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 gross income is \$5 or more.

## Examples

The following examples illustrate the filing requirements for dependents.

**Example 1.** William is 16. His mother claims an exemption for him on her income tax return. He worked part time on weekends during the school year and full time during the summer. He earned \$4,000 in wages. He did not have any unearned income.

**Instructions for Figures 1, 2, and 3**

Use these to determine whether a dependent must file a return.

**Figure 1** is for all dependents who are under 65 and are not blind.

**Figure 2** is for single dependents who are 65 or older and/or blind.

**Figure 3** is for married dependents who are 65 or older and/or blind.

Use only the *Figure* that fits the dependent's circumstances.

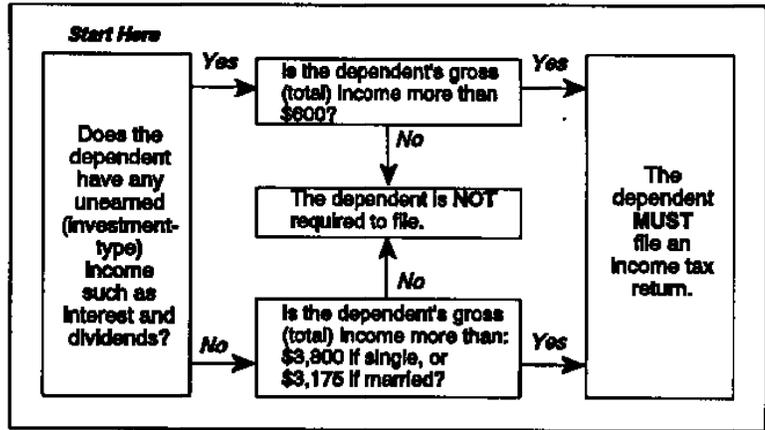
Do not use a *Figure* for the dependents listed below. The following persons either must file a return, or should file a return in order to get a refund.

- A married dependent with at least \$5 of income whose spouse itemizes deductions on a separate return
- A dependent with at least \$400 of net self-employment income
- A dependent who owes certain other taxes
- A dependent who had income tax withheld

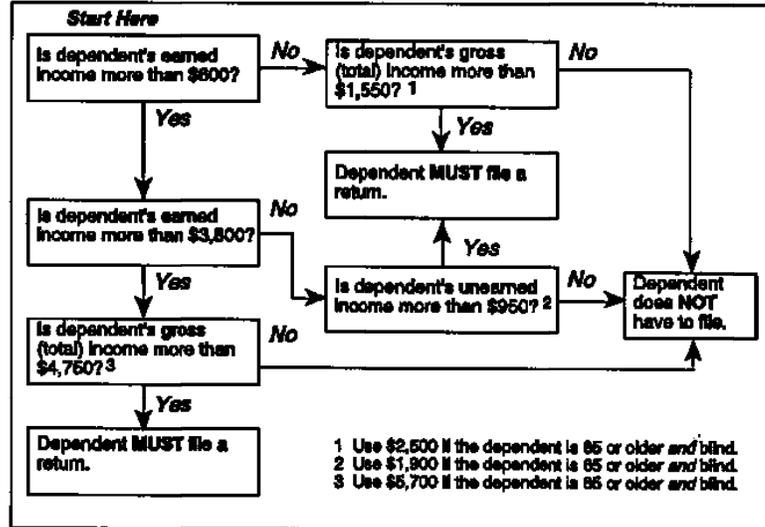
**How to use.** Answer the questions in the block labeled "Start Here." Follow the arrow marked "Yes" or the arrow marked "No," depending on your answer to the question in the block. Continue answering questions and following arrows until you reach a block that does not have a question in it. That block will tell you whether or not the dependent must file a return.

**Caution:** Do not use Figures 1, 2, and 3 to determine whether an individual is a dependent. To make that determination, see the definition of "dependent" in the Glossary at the end of the publication.

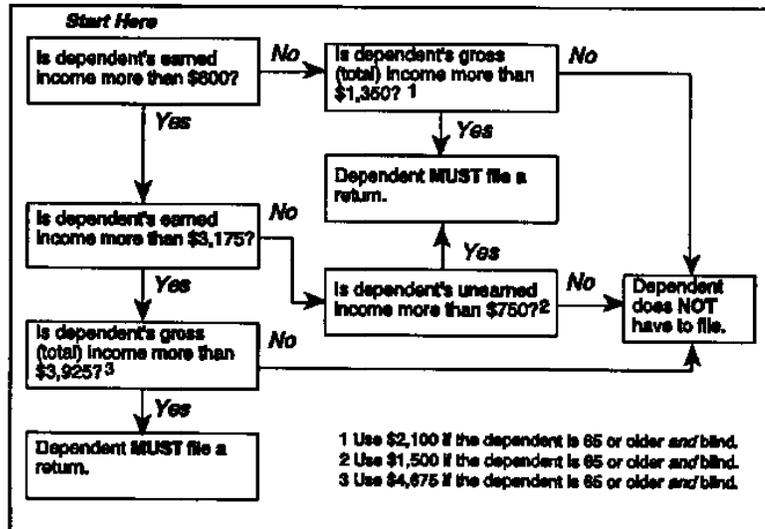
**Figure 1. Dependents Under 65 and Not Blind**



**Figure 2. Single Dependents 65 or Older or Blind**



**Figure 3. Married Dependents 65 or Older or Blind**



He must file a tax return because he has earned income only and his total income is more than \$3,800. If he were blind, he would not have to file a return because his total income is not more than \$4,750.

**Example 2.** Kim is 18 and single. Her parents can claim an exemption for her on their income tax return. She received \$800 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 total income of \$800 is more than \$600. If she were blind, she would not have to file a return because she has unearned income only and her total income is not more than \$1,550.

**Example 3.** Joe is 20, single, and a full-time college student. His parents provide most of his support and claim an exemption for him on their income tax return. He received \$400 taxable interest income and earned \$2,500 from a part-time job.

He must file a tax return because his total income of \$2,900 (\$400 interest plus \$2,500 wages) consists of both earned and unearned income and is more than \$600.

If he were blind, he would not have to file a return because his total income of \$2,900 is not more than \$3,450 (figured by filling in the *Filing Requirement Worksheet for Dependents Who Are 65 or Older and/or Blind*, as shown next).

**Filing Requirement Worksheet for Dependents Who Are 65 or Older and/or Blind**

1. Enter dependent's earned income ..... \$2,500
2. Minimum amount ..... \$ 600
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts .... \$2,500
4. Enter the appropriate amount from the following table ..... \$3,800

<u>Marital Status</u>	<u>Amount</u>
Single	\$ 3,800
Married	\$ 3,175

5. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts ..... \$2,500
6. Enter the amount from the following table that applies to the dependent ..... \$ 950

<u>Marital Status</u>	<u>Amount</u>
Single	
Either 65 or older or blind	\$ 950
65 or older and blind	\$ 1,900
Married	
Either 65 or older or blind	\$ 750
65 or older and blind	\$ 1,500

7. Add the amounts on lines 5 and 6. Enter the total ..... \$3,450
8. Enter the dependent's gross (total) income ..... \$2,900

If the amount on line 8 is more than the amount on line 7, the dependent must file an income tax return.

**Other Filing Requirements**

Some dependents may have to file tax returns even if their income is below the amount that would normally require them to file a return.

Some dependents who are not required to file a tax return should still file in order to receive a refund (for example, if they had tax withheld from their pay).

**Other taxes owed.** A dependent must file a tax return if he or she owes any other taxes, such as:

- 1) Social security and Medicare tax on tips not reported to his or her employer,
- 2) Uncollected social security and Medicare or railroad retirement tax on tips reported to his or her employer,
- 3) Uncollected social security and Medicare or railroad retirement tax on group-term life insurance,
- 4) Alternative minimum tax,
- 5) Tax on a qualified retirement plan, including an individual retirement arrangement (IRA), or
- 6) Tax from a recapture of investment credit, low-income housing credit, or recapture tax on the disposition of a home purchased with a federally subsidized mortgage.

**A dependent must also file** a tax return if he or she:

- 1) Received any advance earned income credit payments from his or her employers in 1994,
- 2) Had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes, or
- 3) Had net earnings from self-employment of at least \$400.

**Married and spouse itemizes.** A dependent must file a return if the dependent's spouse itemizes deductions on a separate return and the dependent has at least \$5 of gross income (earned and/or unearned).

**Refund of withheld tax.** An individual who is not required to file a return but who had federal income tax withheld can get a refund of the withheld tax by filing a return.

**Responsibility for Child's Return**

If a child is required to file a return, the following rules apply.

**Child's expenses.** Deductions for payments that are attributable to the child's earnings are the child's, even if the payments are made by the parent.

**Example.** You made payments on your child's behalf that qualify as business and charitable contribution tax deductions. All these payments are made out of your child's earnings. Only your child can take these tax deductions.

**Child's responsibility.** Generally, the child is responsible for filing his or her own tax return and for the payment of any tax, penalties, or interest on that return.

**Parent's or guardian's responsibility.** If a child is unable to file his or her own return for any reason, such as age, the child's parent or guardian is responsible for filing a return on his or her behalf.

The child's parent may also be liable for the child's tax to the extent it is attributable to income for personal services performed by the child.

If the child cannot sign his or her return, the parent or guardian can sign the child's name in the space provided at the bottom of the tax return. After the parent or guardian signs the child's name, he or she should add: "By (parent's or guardian's signature), parent or guardian for minor child."

**Notify the IRS that a child is involved.** If you or the child receive a notice from the Internal Revenue Service concerning the child's return or tax liability, you should immediately inform the IRS that the notice concerns a child. The notice will show exactly who to contact. The IRS will make every effort to resolve the matter with the parent(s) or guardian(s) of the child consistent with their authority.

**Authority of parent or guardian.** A parent or guardian who signs a return on a child's behalf may deal with the IRS on all matters connected with the return. A parent or guardian who does not sign the child's return may only provide information concerning the child's return and pay the child's tax. That parent or guardian is not entitled to receive information from the IRS or legally bind the child with respect to a tax liability arising in connection with that return.

However, that parent or guardian may receive notices and information concerning the child's return if he or she is designated as the child's representative by the child or the person signing the return on the child's behalf. That representative may not, however, legally bind the child to a tax liability unless authorized to do so by the law of the state in which the child lives.

To be designated as a child's representative, a Form 2848, *Power of Attorney and Declaration of Representative*, should be filled out. See Publication 947, *Practice Before the IRS and Power of Attorney*, for more information.

**Standard Deduction for Dependents**

**Words you may need to know (see Glossary):**

- Dependent
- Earned income
- Filing status
- Gross income
- Itemized deductions
- Standard deduction
- Unearned income

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the larger of:

- 1) \$600, or
- 2) The individual's earned income for the year, but not more than the regular standard deduction amount (generally \$3,800).

However, if you are a dependent who is 65 or older or blind, your standard deduction may be higher.

Some dependents cannot claim any standard deduction. See *Dependents for Whom the Standard Deduction Is Zero*, later.

**Worksheet.** Use the worksheet in *Table 1* to find the amount of a dependent's standard deduction.

**Example 1.** Michael is single, 15, and not blind. His parents can claim him as a dependent on their tax return. He has taxable interest income of \$650 and wages of \$150. Michael uses *Table 1* to find his standard deduction. He enters his earned income, \$150, on line 1. On line 3, he enters \$600, the larger of his earned income (\$150) and \$600. Because Michael is single, he enters \$3,800 on line 4. On line 5a, he enters \$600, the smaller of \$600 and \$3,800. \$600 is his standard deduction.

**Example 2.** Judy, a full-time student, is single, age 22, and not blind. Her parents can claim her as a dependent on their tax return. She has dividend income of \$75 and wages of \$2,500. To find her standard deduction, she enters her earned income, \$2,500, on line 1 of *Table 1*. On line 3, she enters \$2,500, the larger of her earned income (\$2,500) and \$600. She enters \$3,800 on line 4. On line 5a, she enters \$2,500 (the smaller of \$2,500 and \$3,800) as her standard deduction.

**Example 3.** Amy, who is single, is claimed as a dependent on her parents' tax return. She is 18 and blind. She has taxable interest income of \$1,000 and wages of \$2,000. To find her standard deduction, she enters her earned income (\$2,000) on line 1 of *Table 1*. She enters \$2,000 (the larger of \$2,000 or \$600) on line 3, \$3,800 on line 4, and \$2,000 (the smaller of \$2,000 or \$3,800) on line 5a. Because Amy is blind, she checked the box for blindness at the top of *Table 1* and enters \$950 on line 5b. Her standard deduction, entered on line 5c, is \$2,950 (\$2,000 + \$950).

## Dependents for Whom the Standard Deduction Is Zero

The standard deduction for the following dependents is zero:

- 1) A married dependent filing a separate return whose spouse itemizes deductions,
- 2) A dependent who files a return for a period of less than 12 months due to a change in his or her annual accounting period, and

**Table 1. Standard Deduction Worksheet for Dependents**

Use this worksheet ONLY if someone can claim you as a dependent.	
If you were 65 or older and/or blind, check the correct number of boxes below. Then go to the worksheet.	
You	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
Your spouse, if claiming spouse's exemption	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
<b>Total number of boxes you checked</b> <input type="checkbox"/>	
<b>1.</b> Enter your <b>earned income</b> (defined below). If none, go on to line 3.	<b>1.</b> _____
<b>2.</b> Minimum amount	<b>2.</b> \$600
<b>3.</b> Compare the amounts on lines 1 and 2. Enter the <b>larger</b> of the two amounts here.	<b>3.</b> _____
<b>4.</b> Enter on line 4 the amount shown below for your filing status. › Single, enter \$3,800 › Married filing separate return, enter \$3,175 › Married filing jointly or Qualifying widow(er) with dependent child, enter \$6,350 › Head of household, enter \$5,600	<b>4.</b> _____
<b>5. Standard deduction.</b> <b>a.</b> Compare the amounts on lines 3 and 4. Enter the <b>smaller</b> of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b. <b>b.</b> If 65 or older or blind, multiply \$950 (\$750 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result here. <b>c.</b> Add lines 5a and 5b. This is your standard deduction for 1994.	<b>5a.</b> _____ <b>5b.</b> _____ <b>5c.</b> _____
<b>Earned income</b> includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.	

- 3) A nonresident or dual-status alien dependent.

**Example.** Jennifer, who is a dependent of her parents, is entitled to file a joint return with her husband. However, her husband elects to file a separate return and itemize his deductions. Because he itemizes, Jennifer's standard deduction on her return is zero. She can, however, itemize any allowable deductions she has.

**Note.** If you are a nonresident alien who is married to a U.S. citizen or resident at the end of 1994, you can choose to be treated as a U.S. resident for 1994. See Publication 519, *U.S. Tax Guide for Aliens*.

You are considered a dual-status alien if you were both a nonresident alien and a resident alien during the year.

## Dependent's Own Exemption

**Words you may need to know (see Glossary):**

Dependent  
Exemption

A person who qualifies to be claimed as a dependent on another taxpayer's return cannot

claim his or her own exemption. It does not matter whether the other taxpayer actually claims the exemption.

**Example.** James and Barbara have a dependent child, Ben. Ben is a full-time college student who works during the summer and must file a tax return. James and Barbara can claim Ben as a dependent on their tax return. Ben cannot claim his own exemption on his return. This would be true even if James and Barbara choose not to claim Ben as a dependent.

## Exemption From Withholding

**Words you may need to know (see Glossary):**

Dependent  
Gross income  
Unearned income

If you have a job, your employer usually will withhold federal income tax, social security tax, and Medicare tax from your wages. But if you claim exemption from withholding on **Form W-4, Employee's Withholding Allowance Certificate**, your employer will not withhold federal income tax. The exemption from withholding does not apply to social security or Medicare taxes.

You can claim exemption from withholding for 1995 only if both of the following situations apply.

- 1) For 1994 you had a right to a refund of all income tax withheld because you had no tax liability.
- 2) For 1995 you expect a refund of all income tax withheld because you expect to have no tax liability.

**Dependents.** You ordinarily cannot claim exemption from withholding if:

- 1) Someone will be able to claim you as a dependent for 1995,
- 2) Your total income will be more than \$600 (plus any cost-of-living increase; see 1995 Form W-4), and
- 3) You will have any unearned (investment-type) income.

But if you are 65 or older or blind, or will claim adjustments to income, itemized deductions, or tax credits on your 1995 tax return, you may be able to claim exemption from withholding even if you are a dependent. See the discussions in Chapter 1 of Publication 505 under *Exemption From Withholding* if you need more information.

**Example.** Guy is 17 and a student. During the summer he works part time at a grocery store. He expects to earn about \$1,000 in 1995. He also worked at the store last summer and received a refund of all his withheld income tax because he did not have a tax liability. The only other income he expects in 1995 is \$75 interest on a savings account. He expects to be claimed as a dependent on his parents' tax return.

Guy is not blind and will not claim adjustments to income, itemized deductions, or tax

credits on his return. He cannot claim exemption from withholding when he fills out Form W-4 for his employer because his parents will be able to claim him as a dependent, his total income will be more than \$600 (plus any 1995 cost-of-living increase), and he will have unearned income.

**Claiming exemption.** To claim an exemption from withholding, you must use Form W-4. If you meet all the conditions for line 7, write "EXEMPT" in the space provided. Complete the rest of the form and give it to your employer.

**Renewing an exemption.** An exemption from withholding is good for only one year. You must file a new Form W-4 by February 15 each year to continue the exemption.

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## Part 2. Tax on Investment Income of Child Under 14

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### Words you may need to know (see Glossary):

Adjusted gross income  
Adjustments to income  
Alternative minimum tax  
Capital gain distribution  
Dependent  
Earned income  
Filing status  
Gross income  
Investment income  
Itemized deductions  
Net investment income  
Standard deduction  
Tax year  
Taxable income  
Unearned income

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Two special tax rules apply to certain investment income of a child under age 14:

- 1) A child's parent may be able to choose to include the child's interest and dividend income on the parent's return rather than file a return for the child (see *Parent's Election to Report Child's Unearned Income*, later).
- 2) If a child's interest, dividends, and other investment income total more than \$1,200, part of that income may be taxed at the parent's tax rate (see *Child's Return Filed (Parent's Election Not Made)*, later).

For this purpose, the term "child" includes a legally adopted child and a stepchild. These rules apply whether or not the child is a dependent.

These rules do **not** apply if:

- The child is not required to file a tax return (see *Filing Requirements for Dependents*, in *Part 1*), or
- Neither of the child's parents were living at the end of the tax year.

### Which Parent's Return to Use

For parents who do not file a joint return, the following discussions explain which parent's tax return must be used when applying the special tax rules for the investment income of a child under 14. Only that parent can make the election described later under *Parent's Election to Report Child's Unearned Income*, and only that parent's tax rate and other return information is used in the computations explained later under *Child's Return Filed (Parent's Election Not Made)*.

### Child's Parents Married

If a child's parents are married to each other and file separate returns, use the return of the parent with the greater taxable income. If they file a joint return, use the joint return.

**Parents treated as not married.** If a child's parents are married but not living together, and the parent with whom the child lives (the custodial parent) is considered unmarried, use the return of the custodial parent. If the custodial parent is not considered unmarried, use the return of the parent with the greater taxable income.

For an explanation of when a married person living apart from his or her spouse is considered unmarried, see *Head of Household* in Publication 501.

### Child's Parents Divorced

If a child's parents are divorced or legally separated, and the parent who had custody of the child for the greater part of the year (the custodial parent) has not remarried, use the return of the custodial parent.

**Custodial parent remarried.** If the custodial parent has remarried, the stepparent (rather than the noncustodial parent) is treated as the child's other parent. Therefore, the earlier discussion under *Child's Parents Married* applies.

### Child's Parents Never Married

If a child's parents did not marry each other, but lived together all year, use the return of the parent with the greater taxable income. If the parents did not live together all year, the rules explained earlier under *Child's Parents Divorced* apply.

### Widows and Widowers

Widows and widowers must use the rules explained earlier under *Child's Parents Divorced*.

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## Parent's Election to Report Child's Unearned Income

If you elect to include your child's interest and dividend income on your tax return, the child will not have to file a return.

You can make this election for 1994 only if **all** the following conditions are met.

- 1) Your child was under age 14 on January 1, 1995.
- 2) Your child is required to file a return for 1994 unless you make this election.
- 3) Your child had income only from interest and dividends (including Alaska Permanent Fund dividends).
- 4) The dividend and interest income was less than \$5,000.
- 5) No estimated tax payments were made for 1994 and no 1993 overpayment was applied to 1994 under your child's name and social security number.

- 6) No federal income tax was withheld from your child's income under the backup withholding rules.
- 7) You are the parent whose return must be used when applying the special tax rules for children under 14. (See *Which Parent's Return to Use*, on this page.)

These conditions are also shown in *Figure 4*.

**How to elect.** Make the election by attaching **Form 8814** to your Form 1040 or Form 1040NR. Attach a separate Form 8814 for each child for whom you make the election. If you file Form 8814, you cannot file Form 1040A or Form 1040EZ.

**Tax effect of election.** The federal income tax on your child's income may be more if you make the Form 8814 election rather than file a return for the child. The Form 8814, Step 1 base amount (\$1,000 not taxed at your higher rate) and the Step 2 nontaxable amount (\$500) are not increased for inflation, as are comparable tax benefits on the child's return. Also, by making the Form 8814 election, you cannot take certain deductions the child would be entitled to on his or her return, as explained next.

**Deductions you cannot take.** If you use Form 8814, you cannot take any of the following deductions that could have been taken on your child's return:

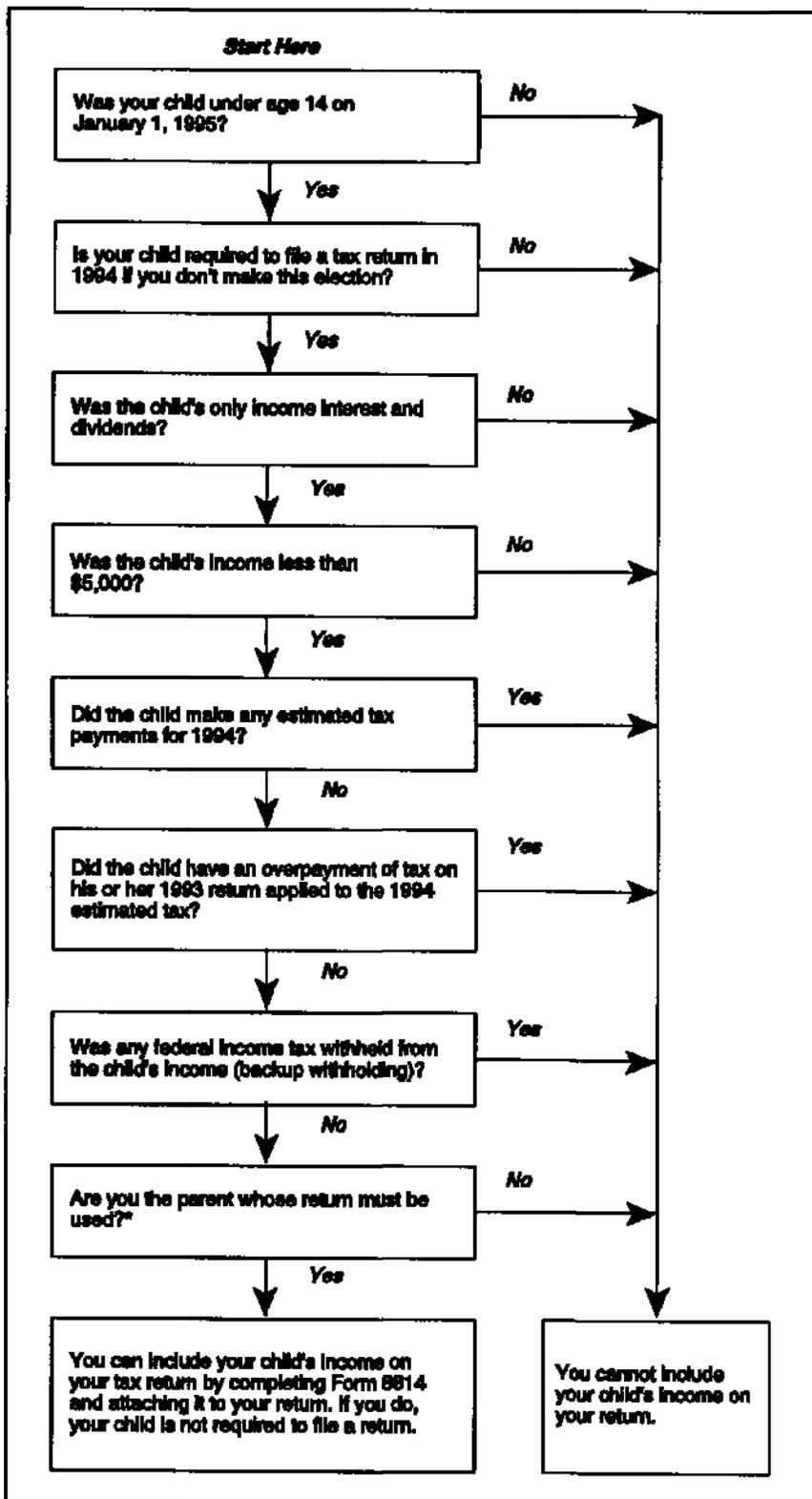
- 1) Standard deduction of \$600 (\$1,550 if your child was blind),
- 2) Deduction for penalty on early withdrawal of your child's savings, and
- 3) Itemized deductions (such as your child's investment expenses or charitable contributions).

**Deductible investment interest.** If you use Form 8814, your child's investment income will be considered your investment income. Thus, for purposes of figuring the limit on your deductible investment interest, increase your investment income by that amount. However, if your child received capital gain distributions or Alaska Permanent Fund dividends, see Publication 550, *Investment Income and Expenses*, for information about how to figure the limit on your investment interest deduction.

**Increased adjusted gross income.** If you use Form 8814 to add your child's income to yours, your increased adjusted gross income may reduce certain items on your return, including the following:

- 1) Deduction for contributions to an individual retirement arrangement (IRA),
- 2) Itemized deductions for medical expenses, casualty and theft losses, and certain miscellaneous expenses,
- 3) Total itemized deductions,
- 4) Credit for child and dependent care expenses,
- 5) Personal exemptions, and
- 6) Earned income credit.

**Figure 4. Can You Include Your Child's Income On Your Tax Return?**



**Penalty for underpayment of estimated tax.** If you make this election for 1994 and did not have enough tax withheld or pay enough estimated tax to cover the tax you owe, you may be subject to a penalty. If you plan to make this election for 1995, you may need to increase your federal income tax withholding or your estimated tax payments to avoid the penalty. Get Publication 505 for more information.

## Figuring Amount of Child's Income to Report

Step 1 of Form 8814 is used to figure the amount of your child's income to report on your return. Only the amount in excess of \$1,000 is added to your income. Include the amount from line 5 of all your Forms 8814 in the total on line 21, Form 1040 or Form 1040NR. In the space next to line 21, write "Form 8814" and the total from line 5 of all your Forms 8814.

**Alternative minimum tax.** If your child received any tax-exempt interest from private activity bonds that is a tax preference item, include it as a tax preference item when figuring your alternative minimum tax. For more information, get the instructions for Form 6251, *Alternative Minimum Tax—Individuals*.

**Capital gain distributions.** Include in the total on line 2a of Form 8814 any capital gain distributions your child received. Treat these capital gain distributions in the same way as ordinary dividends, unless one or both of the following is true:

- 1) You file Schedule D (Form 1040) to report capital gains and losses. If you file Schedule D, you should report part or all of these capital gain distributions on that schedule, where they may be offset by your capital losses.
- 2) You can use the Capital Gain Tax Worksheet to figure your tax because your taxable income (Form 1040, line 37) is more than: \$91,850 if married filing jointly or qualifying widow(er); \$55,100 if single; \$78,700 if head of household; or \$45,925 if married filing separately.

If (1) and/or (2) is true, use the following worksheet to figure the amount to report on Schedule D (or on line 13, Form 1040 if you are not filing Schedule D) and the amount to report on line 5, Form 8814.

### Worksheet (Keep for your records)

1. Enter amount of any capital gain distribution included on Form 8814, line 2a .....
2. Enter amount from Form 8814, line 3 .....
3. Divide the amount on line 1 by the amount on line 2 and enter result .....
4. Base amount ..... 1,000

5. Subtract the amount on line 4 from the amount on line 2 .....
6. Multiply the amount on line 5 by the decimal on line 3. Enter the result here and on Schedule D, line 14 (or on line 13, Form 1040, if you are not filing Schedule D) .....
7. Subtract the amount on line 6 from the amount on line 5. Enter the result here and on Form 8814, line 5 .....

On the dotted line next to line 5, Form 8814, write "CGD" and the amount from line 6 of this worksheet. On the dotted line next to line 14, Schedule D, write "Form 8814" and the amount from line 6 of this worksheet. If you are not filing Schedule D, write "CGD" and the amount from line 6 of this worksheet on the dotted line next to line 13, Form 1040.

**Example.** Fred is 6 years old. In 1994, he received dividend income of \$1,500, which included a \$300 capital gain distribution from a mutual fund. He has no other income and is not subject to backup withholding. No estimated tax payments were made under his name and social security number.

Fred's parents elect to include Fred's income on their tax return instead of filing a return for him. They enter \$1,500 on line 2a, Form 8814. Fred had no nontaxable dividends or other income, so they also enter \$1,500 on lines 2c and 3.

\$500 of Fred's income must be included as income on his parents' tax return (\$1,500 gross income minus \$1,000). However, because they file Schedule D (Form 1040), they figure the amount to report on that schedule and the amount to report on line 5, Form 8814, as follows:

### Worksheet (Keep for your records)

1. Enter amount of any capital gain distribution included on Form 8814, line 2a ..... \$ 300
2. Enter amount from Form 8814, line 3 ..... \$ 1,500
3. Divide the amount on line 1 by the amount on line 2 and enter result ..... .20
4. Base amount ..... 1,000
5. Subtract the amount on line 4 from the amount on line 2 ..... \$ 500
6. Multiply the amount on line 5 by the decimal on line 3. Enter the result here and on Schedule D, line 14 (or on line 13, Form 1040, if you are not filing Schedule D) ..... \$ 100
7. Subtract the amount on line 6 from the amount on line 5. Enter the result here and on Form 8814, line 5 ..... \$ 400

Fred's parents enter \$400 on line 5 of Form 8814 and write "CGD-\$100" on the dotted line next to line 5. They include the \$400 on line 21 of their Form 1040 and write "Form 8814-\$400" on the dotted line next to the total. On Schedule D they include \$100 on line 14 and write "Form 8814-\$100" on the dotted line next to this line.

Fred's parents also complete Step 2 of Form 8814. (See *Figuring Additional Tax*, next.) They add their \$75 additional tax to the tax otherwise entered on line 38 of their Form 1040 and also enter \$75 in the space provided next to line 38.

## Figuring Additional Tax

Step 2 of Form 8814 is used to figure the tax on the amount of your child's interest and dividends that you do not include in your income (\$1,000 or less), minus \$500. This tax is added to the tax figured on your taxable income.

This additional tax is figured at the lowest tax rate (15%) on the **smaller** of:

- 1) Your child's gross income minus \$500, or
- 2) \$500 (\$1,000 - \$500).

The tax cannot be more than \$75 (15% × \$500).

Include the amount from line 8 of all your Forms 8814 in the total on line 38, Form 1040, or line 37, Form 1040NR. On Form 1040, enter the total from line 8 of all your Forms 8814 in the space provided next to line 38. On Form 1040NR, enter the total of the line 8 amounts in the space provided next to line 37.

## Illustrated Example

This example shows how to fill in Form 8814.

David and Linda Parks are married and will file separate tax returns for 1994. Their only child, Philip, is 8. For 1994, Philip received a Form 1099-INT showing \$3,200 taxable interest income and a Form 1099-DIV showing \$300 ordinary dividends. His parents decide to include that income on one of their returns so that they will not have to file a return for Philip.

First, David and Linda each figure their taxable income (Form 1040, line 37) without regard to Philip's income. David's taxable income is \$41,700 and Linda's is \$59,300. Because her taxable income is greater, Linda can elect to include Philip's income on her return.

On Form 8814, Linda enters her name and social security number, then Philip's name and social security number. She enters Philip's taxable interest income, \$3,200, on line 1a. Philip had no tax-exempt interest income, so she leaves line 1b blank. Linda enters Philip's ordinary dividends, \$300, on line 2a. Philip did not have any nontaxable distributions, so she leaves line 2b blank and enters \$300 on line 2c.

Linda adds the amounts on lines 1a and 2c and enters the result, \$3,500, on line 3. From that amount she subtracts the \$1,000 base amount shown on line 4 and enters the result, \$2,500, on line 5. This is the portion of Philip's income that Linda must add to her income.

Linda includes the \$2,500 in the total on line 21 of her Form 1040 and in the space next to that line writes "Form 8814-\$2,500." Adding that amount to her income increases each of the amounts on lines 22, 31, 32, 35, and 37 of her Form 1040 by \$2,500. Linda is not claiming any deductions or credits that are affected by the increase to her income. Therefore, her

revised taxable income on line 37 is \$61,800 (\$59,300 + \$2,500).

On Form 8814, Linda subtracts the \$500 shown on line 6 from the \$3,500 on line 3 and enters the result, \$3,000, on line 7. Because that amount is \$500 or more, she enters \$75 on line 8. This is the tax on the \$1,000 of Philip's income that Linda did not add to her income. She must add this additional tax to the tax figured on her revised taxable income.

Linda enters \$75 in the space provided next to line 38 of her Form 1040. She figures the tax on her \$61,800 revised taxable income to be \$15,318, then adds \$75, and enters the \$15,393 total on line 38.

Linda attaches Form 8814 to her Form 1040.

## Child's Return Filed (Parent's Election Not Made)

Part of a child's 1994 investment income may be subject to tax at the parent's tax rate if:

- 1) The child was under age 14 on January 1, 1995,
- 2) The child's investment income was more than \$1,200, and
- 3) The child is required to file a tax return for 1994.

Figure 5 illustrates this.

If the child's parent does not or cannot choose to include the child's income on his or her return, figure the child's tax on **Form 8615**. Attach the form to the child's Form 1040, Form 1040A, or Form 1040NR.

On Form 8615, enter the names and social security numbers of the child and the parent in the spaces provided. (If the parents filed a joint return, enter the name and social security number of the parent who is listed first on the joint return.) Check the box for the parent's filing status. Then figure the child's tax on Form 8615 in these three steps:

**Step 1.** Figure the child's net investment income.

**Step 2.** Figure a tentative tax on the net investment income based on the parent's tax rate.

**Step 3.** Figure the child's tax.

## Parent's Return Information

See *Which Parent's Return to Use*, earlier, for information on which parent's return information must be used on Form 8615.

**Different tax years.** If the parent and the child do not have the same tax year, complete Form 8615 using the information on the parent's return for the tax year that ends in the child's tax year.

**Example.** Kimberly must use her mother's tax and taxable income to complete her Form

8615 for calendar year 1994 (January 1 – December 31). Kimberly's mother files her tax returns on a fiscal year basis (July 1 – June 30). Kimberly must use the information on her mother's return for the tax year ending June 30, 1994, to complete her 1994 Form 8615.

**Using estimates.** If the information needed from the parent's return is not known by the time the child's return is due (usually April 15), you can file the return using estimates.

Any reasonable estimate can be used. This includes using information from last year's return. If you use an estimated amount on Form 8615, write "Estimated" on the line next to the amount.

When you get the correct information, file an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return*.

**Extension of time to file.** Instead of using estimates, you may be able to get an automatic 4-month extension of time to file. To get the automatic extension, you must file **Form 4868, Application for Automatic Extension of Time To File U.S. Individual Income Tax Return**.

For calendar year taxpayers, you must file Form 4868 with the Internal Revenue Service Center for your area by April 17, 1995. If you file for an extension, you must file the child's return by August 15, 1995.

An extension of time to file is not an extension of time to pay. You must make an accurate estimate of the tax for 1994. If you find you cannot pay the full amount due with Form 4868, you can still get the extension. You will owe interest on the unpaid amount. See Form 4868 and its instructions.

**Parent's return information not available.** If a child cannot get the required information about his or her parent's tax return, the child (or the child's legal representative) can request the necessary information from the Internal Revenue Service.

**How to request.** A signed, written request for the information must be sent to the Internal Revenue Service Center where the parent's return will be filed. The request must contain **all** of the following:

- 1) A statement saying that the request is being submitted to comply with section 1(g) of the Internal Revenue Code and that an attempt has been made to get the information from the parent.
- 2) Proof that the child is under 14 years of age (for example, a copy of the child's birth certificate).
- 3) Evidence that the child has more than \$1,200 of unearned income (for example, a copy of the child's prior year tax return or copies of Forms 1099 for the current year).
- 4) The name, address, social security number (if known), and filing status (if known) of the parent whose information is to be shown on Form 8615.

If the request is made by the child's legal representative, a copy of the Power of Attorney, such as Form 2848, or proof of legal

guardianship must be included with the request.

The request should not be sent to the IRS before the end of the tax year. Because there may be a delay in getting the information, an extension of time to file the child's return should also be considered.

## Step 1. Figuring Net Investment Income

The first step in figuring a child's tax using Form 8615 is to figure the child's net investment income. To do that, first figure the child's gross (total) investment income.

**Investment income.** Investment income generally includes all income other than salaries, wages, and other amounts received as pay for work actually done. It includes taxable interest, dividends, capital gains, the taxable part of social security payments and pension payments, and certain distributions from trusts.

**Nontaxable income.** For this purpose, investment income includes only amounts that the child must include in total income. Nontaxable investment income, such as tax-exempt interest and the nontaxable part of social security and pension payments, is not included.

**Capital loss.** A child's capital losses are taken into account in figuring the child's investment income. Capital losses are first applied against capital gains. If the capital losses are more than the capital gains, the difference is a net capital loss. The net capital loss (up to \$3,000) is then subtracted from the child's interest, dividends, and other investment income to figure the child's investment income.

**Sources of income.** A child's investment income includes all income produced by property belonging to the child, regardless of whether the property was transferred to the child or purchased by the child, and regardless of when the property was transferred or purchased or who transferred it. Investment income includes amounts produced by assets the child obtained with earned income (such as interest on a savings account into which the child deposited wages).

A child's investment income includes income produced by property given as a gift to the child under the Uniform Gift to Minors Act.

**Example.** Amanda Black, 13, received the following income:

Dividends—\$600  
Wages—\$2,100  
Taxable interest—\$1,200  
Tax-exempt interest—\$100  
Capital gains—\$300  
Capital losses—(\$200)

The dividends were on stock given to her by her grandparents. Amanda's investment income is \$1,900. This is the total of the dividends (\$600), taxable interest (\$1,200), and capital gains reduced by capital losses (\$300 – \$200 = \$100). Her wages are earned (not investment) income because they are received for work actually done. Her tax-exempt interest is not included because it is nontaxable.

**Parents' Election To Report  
Child's Interest and Dividends**

▶ See instructions below and on back.  
▶ Attach to parents' Form 1040 or Form 1040NR.

Name(s) shown on your return

Linda Parks

Your social security number

123 00 1234

A Child's name (first, initial, and last)

Philip Parks

B Child's social security number

000 00 5678

C If more than one Form 8814 is attached, check here

**Step 1 Figure amount of child's interest and dividend income to report on your return**

1a	Enter your child's <b>taxable</b> interest income. If this amount is different from the amounts shown on the child's Forms 1099-INT and 1099-OID, see the instructions	1a	3,200
b	Enter your child's <b>tax-exempt</b> interest income. <b>DO NOT</b> include this amount on line 1a	1b	
2a	Enter your child's gross dividends, including any Alaska Permanent Fund dividends. If none, enter -0- on line 2c and go to line 3. If your child received any capital gain distributions or dividends as a nominee, see the instructions	2a	300
b	Enter your child's nontaxable distributions that are included on line 2a. These should be shown in box 1d of Form 1099-DIV	2b	
c	Subtract line 2b from line 2a	2c	300
3	Add lines 1a and 2c. If the total is \$1,000 or less, skip lines 4 and 5 and go to line 6. If the total is \$5,000 or more, do not file this form. Your child must file his or her own return to report the income	3	3,500
4	Base amount	4	1,000 00
5	Subtract line 4 from line 3. If you checked the box on line C above or if line 2a includes any capital gain distributions, see the instructions. Also, include this amount in the total on Form 1040, line 21, or Form 1040NR, line 21. In the space next to line 21, enter "Form 8814" and show the amount. Go to line 6 below	5	2,500

**Step 2 Figure your tax on the first \$1,000 of child's interest and dividend income**

6	Amount not taxed	6	500 00
7	Subtract line 6 from line 3. If the result is zero or less, enter -0-	7	3,000
8	<b>Tax.</b> Is the amount on line 7 less than \$500? NO. Enter \$75 here and see the Note below. YES. Multiply line 7 by 15% (.15). Enter the result here and see the Note below.	8	75

**Note:** If you checked the box on line C above, see the instructions. Otherwise, include the amount from line 8 in the tax you enter on Form 1040, line 38, or Form 1040NR, line 37. Also, enter the amount from line 8 in the space provided next to line 38 on Form 1040, or next to line 37 on Form 1040NR.

**General Instructions**

**Purpose of Form.**—Use this form if you elect to report your child's income on your return. If you do, your child will not have to file a return. You can make this election if your child meets all of the following conditions:

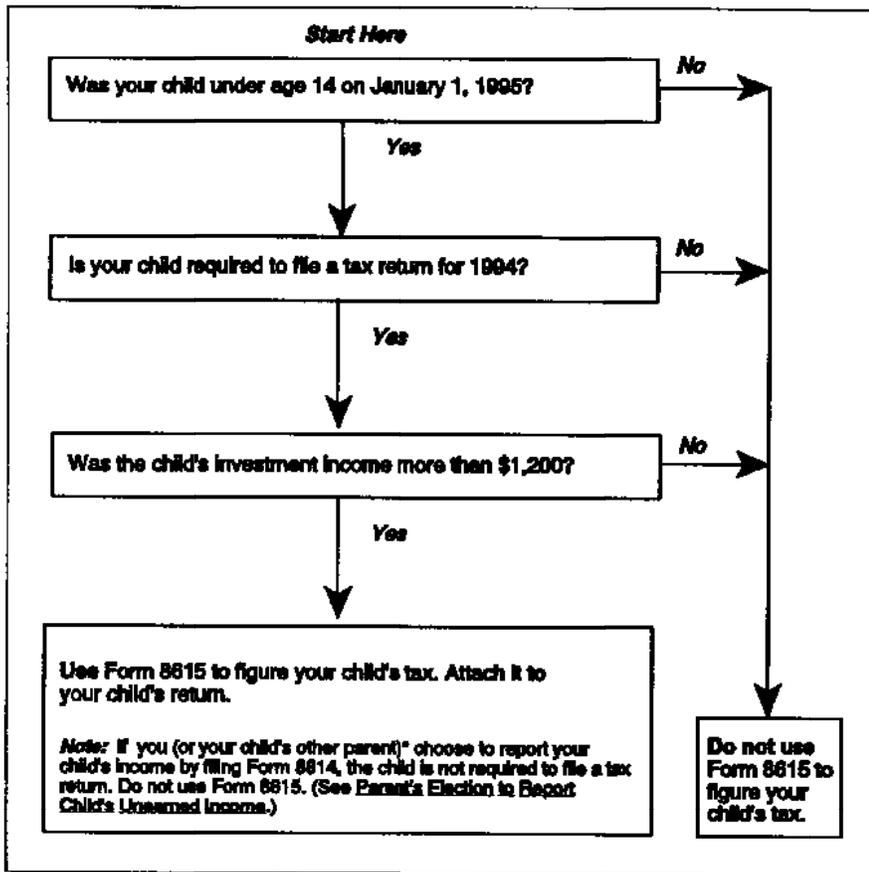
- Was under age 14 on January 1, 1995.
- Is required to file a 1994 return.
- Had income only from interest and dividends, including Alaska Permanent Fund dividends.
- Had gross income for 1994 that was less than \$5,000.

- Had no estimated tax payments for 1994.
  - Did not have any overpayment of tax shown on his or her 1993 return applied to the 1994 return.
  - Had no Federal income tax withheld from his or her income (backup withholding).
- You must also qualify as explained on page 2 of these instructions.
- Step 1 of the form is used to figure the amount of your child's income to report on your return. Step 2 is used to figure an additional tax that must be added to your tax.

**How To Make the Election.**—To make the election, complete and attach Form 8814 to your tax return and file your return by the due date (including extensions). A separate Form 8814 must be filed for each child whose income you choose to report.

**Caution:** The Federal income tax on your child's income may be less if you file a tax return for the child instead of making this election. This is because you cannot take certain deductions that your child would be entitled to on his or her own return. For details, see **Deductions You May Not Take** on page 2.

**Figure 5. Do You Have to Use Form 8615 to Figure Your Child's Tax?**



\* See Which Parent's Return to Use

**Trust income.** If a child is the beneficiary of a trust, distributions of taxable interest, dividends, capital gains, and other investment income from the trust are investment income to the child.

**Net investment income.** A child's net investment income is generally his or her gross (total) investment income reduced by the sum of the following three items:

- 1) Adjustments to income that are related to the investment income (such as the penalty on early withdrawal of savings), plus
- 2) \$600, plus
- 3) The greater of \$600 or the child's itemized deductions that are **directly connected** (defined later) with the production of his or her investment income.

**Example 1.** Eleanor, 8, has investment income of \$16,000 and an early withdrawal penalty of \$100. She has itemized deductions of \$1,100 that are directly connected with the production of her investment income. Her net investment income is \$14,200. This is her total investment income of \$16,000, reduced by \$1,800. The \$1,800 is the sum of the early withdrawal penalty (\$100), plus \$600, plus the directly connected itemized deductions (\$1,100).

**Example 2.** Roger, 12, has investment income of \$8,000, no adjustments to income, and itemized deductions of \$300 that are directly connected with his investment income. His net investment income is \$6,800. This is his total investment income of \$8,000, reduced by \$1,200 (\$600 + \$600).

His investment income is reduced by \$1,200 because he has no adjustments to income and his directly connected itemized deductions (\$300) are not more than \$600.

**Directly connected itemized deductions.** Itemized deductions are directly connected with the production of investment income if they are for expenses paid to produce or collect taxable income or to manage, conserve, or maintain property held for producing income. These expenses include custodian fees and service charges, service fees to collect taxable interest and dividends, and certain investment counsel fees. They are deducted on Schedule A (Form 1040) to the extent that they, plus certain other miscellaneous itemized deductions, are more than 2% of adjusted gross income. Publication 529, *Miscellaneous Deductions*, has more information about the 2% of adjusted gross income limit on miscellaneous itemized deductions.

**Net investment income cannot be more than taxable income.** A child's net investment income cannot be more than his or her taxable income. If the child's taxable income is

less than the net investment income, the child's net investment income is the same amount as the taxable income. See line 5 of Form 8615.

**Completing Step 1 of Form 8615.** A child's net investment income is figured on lines 1 through 5 of Form 8615. See the filled-in example for Carla Rose.

**Line 1 (investment income).** If the child had **investment income only**, enter the adjusted gross income shown on the child's return. Adjusted gross income is shown on line 32 of Form 1040; line 17 of Form 1040A; or line 32 of Form 1040NR. Form 1040EZ cannot be used if Form 8615 must be filed.

If the child had **earned income**, figure the amount to enter on line 1 of Form 8615 by using the worksheet in the instructions for the form.

However, if the child has excluded any **foreign earned income** or deducted either a **loss from self-employment** or a **net operating loss** from another year, use the following worksheet.

**Alternate Worksheet for Line 1 of Form 8615**

- A. Enter the amount from the child's Form 1040, line 22 or Form 1040NR, line 23 .....
- B. Enter the total of any net loss from self-employment, any net operating loss deduction, any foreign earned income exclusion, and any foreign housing exclusion from the child's Form 1040 or Form 1040NR .....
- C. Add the amount on line A and the amount on line B and enter the total. Treat the amount on line B as positive (that is, greater than zero) .....
- D. Enter the child's earned income plus any deduction the child claims on line 28 of either Form 1040 or Form 1040NR. Generally, the child's earned income is the total of the amounts reported on Form 1040, lines 7, 12, and 18 (but if line 12 or 18 is a loss, use zero), or Form 1040NR, lines 8, 13, and 19 (but if line 13 or 19 is a loss, use zero) .....
- E. Subtract the amount on line D from the amount on line C. Enter the result here and on Form 8615, line 1 .....

**Line 2 (deductions).** If the child does not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,200 on line 2.

If the child does itemize deductions, the amount to enter on line 2 is the total of:

- 1) \$600, plus
- 2) The **greater** of:
  - a) \$600, or
  - b) The part of the child's total itemized deductions on Schedule A (Form 1040), line 29, or Schedule A (Form 1040NR), line 18, that are directly connected with the production of his or her investment income.

**Example-Step 1.** A Form 8615 must be attached to Carla's Form 1040A. Her total income on Form 1040A, line 14, is \$5,000. This total includes wages (earned income) of \$600 reported on line 7. She has no itemized deductions. Carla's taxable income on Form 1040A, line 22, is \$4,400. Because Carla has earned income, the worksheet in the instructions is used to figure the amount on line 1 of Form 8615.

Carla's filled-in worksheet and Step 1 of her Form 8615, with lines 1 through 5 filled in, are shown here.

Carla's total income of \$5,000 (as shown on line 14 of her Form 1040A) is entered on

line 1 of the worksheet. Her earned income of \$600 (her wages as shown on line 7 of her Form 1040A) is entered on line 2 of the worksheet. Line 3 is the result of subtracting \$600 from \$5,000.

The amount from line 3 of the worksheet is entered on line 1 of Form 8615. Carla did not itemize deductions, so \$1,200 is entered on line 2. Line 3 of Form 8615 is the result of subtracting \$1,200 from \$4,400. Carla's taxable income of \$4,400 (as shown on line 22 of her Form 1040A) is entered on line 4 of Form 8615. The smaller of \$3,200 or \$4,400 is entered on line 5. This is her net investment income.

**Worksheet (keep for your records)**

1. Enter the amount from the child's Form 1040, line 22; Form 1040A, line 14; or Form 1040NR, line 23, whichever applies ..... **5,000**
2. Enter the child's earned income plus any deduction the child claims on Form 1040, line 28, or Form 1040NR, line 28, whichever applies ..... **600**
3. Subtract the amount on line 2 from the amount on line 1. Enter the result here and on Form 8615, line 1 ..... **4,400**

<b>Form 8615</b>	<b>Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,200</b>	OMB No. 1545-0098 <b>1994</b> Attachment Sequence No. 33
Department of the Treasury Internal Revenue Service	▶ See instructions below and on back. ▶ Attach ONLY to the child's Form 1040, Form 1040A, or Form 1040NR.	
Child's name shown on return <b>Carla C. Rose</b>		Child's social security number <b>321 00 7895</b>
A Parent's name (first, initial, and last). Caution: See instructions on back before completing. <b>George B. Rose</b>		B Parent's social security number <b>123 00 5987</b>
C Parent's filing status (check one): <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)		
<b>Step 1 Figure child's net investment income</b>		
1 Enter child's investment income, such as taxable interest and dividend income. See instructions. If this amount is \$1,200 or less, stop here; do not file this form.	1	4,400
2 If the child DID NOT itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,200. If the child ITEMIZED deductions, see instructions.	2	1,200
3 Subtract line 2 from line 1. If the result is zero or less, stop here; do not complete the rest of this form but ATTACH it to the child's return.	3	3,200
4 Enter child's taxable income from Form 1040, line 37; Form 1040A, line 22; or Form 1040NR, line 36.	4	4,400
5 Enter the smaller of line 3 or line 4.	5	3,200

If the child's directly-connected itemized deductions are not more than \$600, enter \$1,200 on line 2.

If the amount on line 2 equals or is more than the amount on line 1, do not complete the rest of the form. However, Form 8615 must still be attached to the child's tax return. Figure the tax on the child's taxable income in the normal manner.

**Line 4 (child's taxable income).** Enter on line 4 the child's taxable income from Form 1040, line 37; Form 1040A, line 22; or Form 1040NR, line 36.

**Line 5 (net investment income).** Enter on line 5 the smaller of the amount on line 3 or the amount on line 4 of Form 8615. This is the child's net investment income.

## Step 2. Figuring Tentative Tax At Parent's Tax Rate

The next step in completing Form 8615 is to figure a tentative tax at the parent's tax rate on the child's net investment income.

The tentative tax is the difference in the tax on the parent's taxable income figured with and without the child's net investment income. It is figured as follows.

- 1) Figure the tax on the total of the parent's taxable income plus the child's net investment income at the parent's tax rate.

- 2) Figure the tax on the parent's taxable income without including the child's net investment income.
- 3) Subtract the tax figured in (2) from the tax figured in (1). The result is the tentative tax.

**Caution.** When making these computations, do not take into account the child's net investment income in figuring any exclusion, deduction, or credit on the parent's return.

**Trusts.** Special rules may apply if the parent transferred property to a trust at less than the property's fair market value. If the trust sold the property in 1994 and the sale was within two years of the transfer, the trust will have to pay tax at the parent's tax rate on at least part of any gain. See the Form 8615, *Line Instructions* for lines 6 and 10.

**More than one child.** If the tax return information of the child's parent is used on Forms 8615 for other children (including adopted children and stepchildren), the net investment income of all these children is used in figuring the tentative tax. The tentative tax is then allocated to each child according to the child's share of the total net investment income.

If the net investment income of the other children is not available when the return is due, either file the return using estimates or use an extension of time to file. Using estimates and extensions were discussed earlier under *Parent's Return Information*.

**Allocation of tentative tax.** The tentative tax is allocated to each child by multiplying the total tentative tax by a fraction. The numerator (top number) of the fraction is the child's net investment income. The denominator (bottom number) is the total of the net investment income of all the children. The result of each multiplication is that child's share of the tentative tax.

**Example.** The Oaks' two children, Bill and Patty, ages 11 and 12, have \$2,000 and \$3,000 of net investment income. Tax on their incomes must be figured at their parents' rate. On Form 8615, Bill's and Patty's net investment incomes are combined and the total (\$5,000) is added to their parents' taxable income shown on their joint tax return. The difference between (1) the tax figured on the total of their parents' taxable income plus the children's net investment income and (2) the actual tax on their parents' return is \$1,750. This difference (the tentative tax) must be allocated between Bill and Patty.

The amount allocated to Bill is \$700.

$$\frac{\$2,000}{\$5,000} \times \$1,750 = \$700$$

The amount allocated to Patty is \$1,050.

$$\frac{\$3,000}{\$5,000} \times \$1,750 = \$1,050$$

**Example—Step 2.** Randy and his sister must each file Form 8615. Their parents' joint return information is used on the Forms 8615 of both children. The net investment income on line 5 of Randy's Form 8615 is \$2,280. His sister's net investment income is \$1,520. Randy's parents' taxable income is \$30,570. Their tax, from the Tax Table, is \$4,586.

Step 2 of Randy's Form 8615, with lines 6 through 13 filled in, is shown here.

Randy's parents' taxable income of \$30,570 (from line 37 of Form 1040) is entered on line 6 of Form 8615.

Randy's sister's net investment income of \$1,520 (from line 5 of her Form 8615) is entered on line 7 of Randy's Form 8615. The amounts on line 5 (\$2,280), line 6 (\$30,570), and line 7 (\$1,520) are added and the total of \$34,370 is entered on line 8.

The tax on \$34,370 is found in the Tax Table using the parents' joint filing status. The tax, \$5,156, is entered on line 9. Randy's parents' tax of \$4,586 (from line 38 of Form 1040) is entered on line 10 and is subtracted from the amount on line 9. The difference, \$570, is entered on line 11.

Randy's net investment income on line 5 (\$2,280) is added to his sister's net investment income on line 7 (\$1,520) and the total, \$3,800, is entered on line 12a.

The amount on line 5 (\$2,280) is divided by the amount on line 12a (\$3,800) and the result, .60, is entered on line 12b.

The amount on line 11 (\$570) is multiplied by the amount on line 12b (.60) and the result, \$342, is entered on line 13. This is Randy's tentative tax based on his parents' tax rate.

**Step 2 Figure tentative tax based on the tax rate of the parent listed on line A**

6	Enter parent's taxable income from Form 1040, line 37; Form 1040A, line 22; Form 1040EZ, line 5; or Form 1040NR, line 36. If the parent transferred property to a trust, see instructions	6	30,570
7	Enter the total net investment income, if any, from Forms 8615, line 5, of ALL OTHER children of the parent identified above. Do not include the amount from line 5 above	7	1,520
8	Add lines 5, 6, and 7	8	34,370
9	Tax on line 8 based on the parent's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	9	5,156
10	Enter parent's tax from Form 1040, line 38; Form 1040A, line 23; Form 1040EZ, line 9; or Form 1040NR, line 37. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	10	4,586
11	Subtract line 10 from line 9. If line 7 is blank, enter on line 13 the amount from line 11; skip lines 12a and 12b	11	570
12a	Add lines 5 and 7	12a	3,800
b	Divide line 5 by line 12a. Enter the result as a decimal rounded to two places	12b	.60
13	Multiply line 11 by line 12b	13	342

**Completing Step 2 of Form 8615.** The tentative tax based on the parent's tax rate is figured on lines 6 through 13 of Form 8615. See the filled-in example for Randy.

**Line 6 (parent's taxable income).** Enter on line 6 the amount from the parent's Form 1040, line 37; Form 1040A, line 22; Form 1040EZ, line 5; or Form 1040NR, line 36. If the parent's taxable income is less than zero, enter zero on line 6.

**Line 7 (net investment income of other children).** If the tax return information of the parent is also used on any other child's Form 8615, enter on line 7 the total of the amounts from line 5 of all the other children's Forms 8615. Do not include the amount from line 5 of the Form 8615 being completed.

**Example.** Paul and Jane Persimmon have three children, Sharon, Jerry, and Mike, who must attach Form 8615 to their tax returns. The children's net investment income amounts on line 5 of their Forms 8615 are:

- Sharon — \$800
- Jerry — \$600
- Mike — \$1,000

Line 7 of Sharon's Form 8615 would show \$1,600, the total of the amounts on line 5 of Jerry's and Mike's Forms 8615.

Line 7 of Jerry's Form 8615 would show \$1,800 (\$800 + \$1,000).

Line 7 of Mike's Form 8615 would show \$1,400 (\$800 + \$600).

**Line 9 (tax on parent's taxable income plus children's net investment income).**

How to figure the tax to enter on line 9 depends on whether there is any net capital gain included in the total on line 8.

Net capital gain is the excess of net long-term capital gain over any net short-term capital loss. For 1994, this is the smaller of the gain on line 17 or the gain on line 18 of Schedule D (Form 1040), *Capital Gains and Losses*.

The maximum tax rate on net capital gains is 28%.

**No net capital gain on line 8.** If net capital gain is not included in the amounts on lines 5, 6, or 7, use the Tax Table or Tax Rate Schedules to figure the tax to enter on line 9.

If the amount on line 8 is less than \$100,000, use the Tax Table to figure the tax to enter on line 9. If the amount on line 8 is \$100,000 or more, use the Tax Rate Schedules.

**Net capital gain on line 8.** If there is net capital gain included in the amounts on lines 5, 6, or 7, the tax on line 9 may be less if the Capital Gain Tax Worksheet in the Form 1040 instructions can be used. The Capital Gain Tax Worksheet can be used to figure the tax if:

The parent's filing status is:	AND	The amount on Form 8615, line 8, is over:
• Single		• \$55,100
• Married filing joint return or Qualifying widow(er) with dependent child		• \$91,850
• Married filing separate return		• \$45,925
• Head of household		• \$78,700

If the **Capital Gain Tax Worksheet cannot be used** to figure the tax, use the Tax Table or Tax Rate Schedules, whichever applies.

If the **Capital Gain Tax Worksheet can be used** to figure the tax, you must determine the net capital gain included on line 8 of Form 8615 before you can complete the Worksheet. Since line 8 is the sum of the amounts on lines 5, 6, and 7, you determine the net capital gain included on line 8 by finding:

- 1) The net capital gain, if any, from line 5 that is included on line 8,
- 2) The net capital gain, if any, from line 6 that is included on line 8, and
- 3) The net capital gain, if any, from line 7 that is included on line 8.

The sum of (1), (2), and (3) is the net capital gain included on line 8. Use the following discussions to find the net capital gain on lines 5, 6, and 7 that is included on line 8.

**If net capital gain is on line 5 of Form 8615,** the net capital gain from that line included on line 8 must be figured by using one of the "Line 5 Worksheets" later in this discussion.

**If net capital gain is included on line 6 of Form 8615,** the net capital gain from that line included on line 8 is the smaller of the gain on line 17 or line 18 of the Schedule D that the parent is filing with his or her return.

Do not attach the parent's Schedule D to the child's return. To complete a Capital Gain Tax Worksheet for the child's return, see *Completing Capital Gain Tax Worksheet for line 9*, later.

**If net capital gain is on line 7 of Form 8615,** the net capital gain from that line included on line 8 must be figured by using a "Line 5 Worksheet," as explained next. Since the amount on line 7 is the total of the net investment income of the parent's other children who must file Form 8615, you will have to fill out a Line 5 Worksheet for each of those children who has a net capital gain on line 5 of his or her own Form 8615.

**Line 5 worksheets.** The net capital gain included on line 5 of a child's Form 8615 can be figured using whichever of the following worksheets applies.

If the amount on line 5 of the child's Form 8615 is the same as the amount on line 3, and the amount on line 2 is \$1,200, figure the net capital gain included on line 5 using the following worksheet.

- 
- A. Enter the child's net capital gain ..... \_\_\_\_\_
- B. Enter the amount from line 1 of the child's Form 8615 ..... \_\_\_\_\_
- C. Divide the amount on line A by the amount on line B and enter the result here ..... \_\_\_\_\_
- D. Multiply \$1,200 by the result on line C and enter the answer here ..... \_\_\_\_\_
- E. Subtract the amount on line D from the amount on line A. This is the net capital gain included on line 5 ..... \_\_\_\_\_
- 

If the amount on line 5 of the child's Form 8615 is the same as the amount on line 3, and the amount on line 2 is **more** than \$1,200, figure the net capital gain included on line 5 using the following worksheet.

- 
- A. Enter the child's net capital gain ..... \_\_\_\_\_
- B. Enter the amount of the child's itemized deductions that are directly connected with the production of the child's net capital gain ..... \_\_\_\_\_
- C. Subtract the amount on line B from the amount on line A ..... \_\_\_\_\_
- D. Enter the amount from line 1 of the child's Form 8615 ..... \_\_\_\_\_
- E. Divide the amount on line A by the amount on line D and enter the result here ..... \_\_\_\_\_
- F. Multiply \$600 by the result on line E and enter the answer here ..... \_\_\_\_\_
- G. Subtract the amount on line F from the amount on line C. This is the net capital gain included on line 5 ..... \_\_\_\_\_
- 

If the amount on line 5 of the child's Form 8615 is less than the amount on line 3, figure the net capital gain included on line 5 using the following worksheet.

- 
- A. Enter the child's net capital gain ..... \_\_\_\_\_
- B. If the child itemized deductions, enter the amount of the child's itemized deductions that are directly connected with the production of the child's net capital gain ..... \_\_\_\_\_
- C. Subtract the amount on line B from the amount on line A ..... \_\_\_\_\_
- D. If the child can claim his or her own exemption, enter \$2,450\*. Otherwise, enter zero ..... \_\_\_\_\_
- E. If the child itemized deductions, enter the amount of the child's itemized deductions that are *not* directly connected with the production of the child's net capital gain. Otherwise, enter the amount of the child's standard deduction ..... \_\_\_\_\_
- F. Add the amounts on lines D and E ..... \_\_\_\_\_
- G. Enter the child's adjusted gross income (line 32 of the child's Form 1040) ..... \_\_\_\_\_
- H. Divide the amount on line A by the amount on line G and enter the result here ..... \_\_\_\_\_
- I. Multiply the amount on line F by the result on line H and enter the result here ..... \_\_\_\_\_
- J. Subtract the amount on line I from the amount on line C. This is the net capital gain included on line 5 ..... \_\_\_\_\_
- 

\* If you enter more than \$111,800 on line G, see *Deductions for Exemptions Worksheet—Line 36* in the Form 1040 instructions for the amount to enter on line D.

**The net capital gain included on line 8** is the total of:

- 1) The net capital gain included on line 5 of the child's Form 8615, **plus**
- 2) The smaller of the gain on line 17 or line 18 of Schedule D that the parent is filing with his or her return, **plus**

- 3) The total of the net capital gains included on line 5 of any other children's Forms 8615.

**Completing Capital Gain Tax Worksheet for line 9.** If the Capital Gain Tax Worksheet can be used to figure the tax to enter on line 9 of Form 8615:

- 1) Enter on line 1 of the Capital Gain Tax Worksheet, the amount from line 8 of Form 8615,
- 2) Enter on line 2 of the Capital Gain Tax Worksheet, the net capital gain included on line 8 of Form 8615,
- 3) Enter on line 3 of the Capital Gain Tax Worksheet the total of the amounts on line 4e of all Forms 4952, *Investment Interest Expense Deduction*, filed by the parent and all the parent's children for whom Form 8615 is filed,
- 4) Complete the rest of the Capital Gain Tax Worksheet (lines 4 through 13),
- 5) Enter on line 9 of Form 8615 the amount from line 13 of the Capital Gain Tax Worksheet, and enter in the space to the left of line 9 the amount from line 4 of the Worksheet.

Do not attach the parents' Schedule D to the child's return.

**Line 10 (parent's tax).** Enter on line 10 the amount from the parent's Form 1040, line 38; Form 1040A, line 23; Form 1040EZ, line 9; or Form 1040NR, line 37. If from the Capital Gain Tax Worksheet, enter in the space to the left of line 10 the amount from line 4 of that Worksheet.

**Lines 12a and 12b (allocation of tentative tax).** If no amount is entered on line 7, skip lines 12a and 12b and enter the amount from line 11 on line 13.

If an amount is entered on line 7, add it to the amount on line 5 and enter the total on line 12a. Divide the amount on line 5 by the amount on line 12a and enter the result, as a decimal, on line 12b.

**Example.** In the earlier example under *Line 7 (net investment income of other children)*, Sharon's Form 8615 shows \$1,600 on line 7. The amount entered on line 12a is \$2,400, the total of the amounts on lines 5 and 7 (\$800 + \$1,600). The decimal on line 12b is .33, figured as follows and rounded to two places.

$$\frac{\$800}{\$2,400} = .33$$

**Line 13 (child's share of tentative tax).** If an amount is entered on line 7, multiply the amount on line 11 by the decimal amount on line 12b and enter the result on line 13. If there is no amount on line 7, enter the amount from line 11 on line 13.

The amount on line 13 is the child's share of the tentative tax.

**Example—Step 3.** Nancy must file Form 8615. Her taxable income on line 4 of her Form 8615 is \$3,465. Her net investment income on line 5 is \$2,425. Her tentative tax on line 13 is \$410.

Step 3 of Nancy's Form 8615, with lines 14 through 18 filled in, is shown here.

She enters \$1,040 on line 14. This is found by subtracting Nancy's net investment income (line 5) from the taxable income on her return (line 4). The tax on this amount from the Tax Table is \$156. She enters \$156 on line 15.

Nancy then adds the tentative tax from line 13 (\$410) to the tax on line 15 (\$156) and

enters the total, \$566, on line 16. On line 17 she enters \$521, the tax from the Tax Table on her taxable income (line 4). On line 18 she enters \$566, the larger of lines 16 and 17. This is the tax she will show on her tax return.

Step 3 Figure child's tax—If lines 4 and 5 above are the same, enter -0- on line 15 and go to line 16.	
14 Subtract line 5 from line 4.	14 1,040
15 Tax on line 14 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	15 156
16 Add lines 13 and 15	16 566
17 Tax on line 4 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, check here <input type="checkbox"/>	17 521
18 Enter the larger of line 16 or line 17 here and on Form 1040, line 38; Form 1040A, line 23; or Form 1040NR, line 37. Be sure to check the box for "Form 8615" even if line 17 is more than line 16 ▶	18 566

### Step 3. Figuring the Child's Tax

The final step in figuring a child's tax using Form 8615 is to determine the **larger** of:

- 1) The total of:
  - a) The child's share of the tentative tax based on the parent's tax rate, plus
  - b) The tax on the child's taxable income in excess of net investment income, figured at the child's tax rate, or
- 2) The tax on the child's taxable income, figured at the child's rate.

**Completing Step 3 of Form 8615.** The child's tax is figured on lines 14 through 18 of Form 8615. See the filled-in example for Nancy.

**Line 14 (child's taxable income in excess of net investment income).** Subtract the amount on line 5 from the amount on line 4 and enter the difference on line 14. If the amounts on lines 4 and 5 are the same, enter zero on line 15 and enter the amount from line 13 on line 16.

**Line 15 (tax on excess of child's taxable income over child's net investment income).** Generally, the Tax Table (use the single column) or Tax Rate Schedule X must be used to figure the tax to enter on line 15. However, if the amount on line 14 is more than \$55,100 and includes any net capital gain, the tax may be less if the Capital Gain Tax Worksheet is used.

**Net capital gain on line 14.** If any net capital gain is included on line 1 (Form 8615) and the Capital Gain Tax Worksheet is used, the net capital gain included on line 14 must be figured before the Capital Gain Tax Worksheet can be completed.

Figure the net capital gain included on line 14 by referring to the worksheet that was used

to figure the net capital gain included on line 5. Subtract the net capital gain included on line 5 (the amount on the last line of the worksheet) from the child's net capital gain (the amount on line A of that worksheet). The result is the amount of net capital gain included on line 14 of the child's Form 8615.

**Completing Capital Gain Tax Worksheet for line 15.** If the Capital Gain Tax Worksheet can be used to figure the tax to enter on line 15 of Form 8615:

- 1) Enter on line 1 of the Capital Gain Tax Worksheet the amount from line 14 of Form 8615,
- 2) Enter on line 2 of the Capital Gain Tax Worksheet the net capital gain included on line 14 of Form 8615,
- 3) Complete the rest of the Capital Gain Tax Worksheet, and
- 4) Enter on line 15 of Form 8615 the amount from line 13 of the Capital Gain Tax Worksheet and enter in the space to the left of line 15 the amount from line 4 of that Worksheet.

**Line 16.** Add the amounts on lines 13 and 15 and enter the total on line 16. If the amounts on lines 4 and 5 are the same, enter zero on line 15. Then enter the amount from line 13 on line 16.

**Line 17 (tax at child's rate).** Figure the tax on the child's taxable income on line 4. Use the Tax Table for single status or Tax Rate Schedule X, or the Capital Gain Tax Worksheet, whichever applies. Enter the amount on line 17. If from the Capital Gain Tax Worksheet, check the box.

**Line 18 (tax).** Enter on line 18 the larger of the amount on line 16 or the amount on line 17. Also enter this amount on the child's Form 1040, line 38; Form 1040A, line 23; or Form 1040NR, line 37. This is the child's tax. Be sure

to check the "Form 8615" box on the appropriate line of the tax return.

### Alternative Minimum Tax

A child may be subject to alternative minimum tax (AMT) if he or she has certain items given preferential treatment under the tax laws or certain adjustments to taxable income that total more than an exemption amount. This tax may apply if the child, for example, claims accelerated depreciation, has tax-exempt interest income, has a passive activity, or receives distributions from estates or trusts.

For more information on who is liable for AMT and how to figure it, get **Form 6251, Alternative Minimum Tax—Individuals**, and its instructions.

**Limit on exemption amount.** Ordinarily, single people can subtract a \$33,750 exemption amount from their AMT taxable income. However, a child who files Form 8615 has a limited exemption amount. The child's exemption amount is limited to the child's earned income plus the greater of \$1,000 or the child's share of the unused parental AMT exemption. Figure the child's allowable exemption amount on the worksheet in the instructions for line 22 of Form 6251.

**Unused parental exemption.** The unused parental AMT exemption is the amount by which the parent's AMT exemption exceeds that parent's AMT taxable income.

**Limit on AMT.** Ordinarily, AMT (line 28 of Form 6251) is figured by subtracting the regular tax (line 27) from the tentative minimum tax (line 26). However, the AMT of a child who files Form 8615 may be reduced or eliminated if either the child's parent or another child whose Form 8615 uses that parent's tax return information does not owe AMT.

To figure a child's limited AMT, first complete his or her Form 6251 through line 27. If applicable, also complete separate Forms 6251 for the parent and each of the other children whose Form 8615 uses that parent's tax return information. Then complete line 28 following the form instructions for that line.

## Illustrated Example

This example shows how to fill out Forms 8615 and 1040A for Sara Brown.

John and Laura Brown have one child, Sara. She is 13 and has \$2,500 taxable interest and dividend income and \$1,500 earned income. She does not itemize deductions. John and Laura file a joint return with John's name and social security number listed first. They claim three exemptions, including an exemption for Sara, on their return.

Because Sara has both earned and unearned income and her gross income is more than \$600, she must file a tax return. Because she is under age 14 and has more than \$1,200 investment income, part of her income may be subject to tax at her parents' rate. A completed Form 8615 must be attached to her return.

Sara's father, John, fills out Sara's return for her.

John enters his name and social security number on Sara's Form 8615 because his name and number are listed first on the joint return he and Laura are filing. He checks the box for married filing jointly.

He enters Sara's investment income, \$2,500, on line 1. Sara does not itemize deductions, so John enters \$1,200 on line 2. He enters \$1,300 on line 3 (\$2,500 - \$1,200).

Sara's taxable income, as shown on line 22 of her Form 1040A, is \$2,500. This is her total income (\$4,000) minus her standard deduction (\$1,500). Her standard deduction is limited to the amount of her earned income. John enters \$2,500 on line 4.

John compares the amounts on lines 3 and 4 and enters the smaller amount, \$1,300, on line 5.

John enters \$48,000 on line 6. This is the taxable income from line 37 of John and Laura's joint Form 1040 return. Sara is an only child, so line 7 is blank. He adds the amounts on line 5 (\$1,300), line 6 (\$48,000), and line 7 and enters the \$49,300 total on line 8.

Using the column for married filing jointly in the Tax Table, John finds the tax on \$49,300.

He enters the tax, \$8,871, on line 9. He enters \$8,507 on line 10. This is the tax from line 38 of John and Laura's Form 1040. He enters \$364 on line 11 (\$8,871 - \$8,507).

John skips lines 12a and 12b and enters \$364 on line 13.

John subtracts the amount on line 5 (\$1,300) from the amount on line 4 (\$2,500) and enters the result, \$1,200, on line 14. Using the column for single filing status in the Tax Table, John finds the tax on \$1,200. He enters this tax, \$182, on line 15. He adds the amounts on lines 13 (\$364) and 15 (\$182) and enters the total, \$546, on line 16.

Using the column for single filing status in the Tax Table, John finds the tax on \$2,500 (the amount on line 4). He enters this tax, \$377, on line 17.

John compares the amounts on lines 16 and 17 and enters the larger amount, \$546, on line 18 of Sara's Form 8615. He also enters that amount on line 23 of Sara's Form 1040A and checks the box on that line for "Form 8615."

John also completes Schedule 1, Form 1040A (not shown here) for Sara.

Form **8615****Tax for Children Under Age 14  
Who Have Investment Income of More Than \$1,200**

OMB No. 1545-0998

**1994**Attachment  
Sequence No. **33**Department of the Treasury  
Internal Revenue Service▶ See instructions below and on back.  
▶ Attach **ONLY** to the child's Form 1040, Form 1040A, or Form 1040NR.

Child's name shown on return

**Sara L. Brown**

Child's social security number

**789 00 4351**

A Parent's name (first, initial, and last). Caution: See instructions on back before completing.

**John J. Brown**

B Parent's social security number

**459 00 9962**

C Parent's filing status (check one):

 Single  Married filing jointly  Married filing separately  Head of household  Qualifying widow(er)**Step 1 Figure child's net investment income**

1	Enter child's investment income, such as taxable interest and dividend income. See instructions. If this amount is \$1,200 or less, <b>stop here</b> ; do not file this form . . . . .	1	<b>2,500</b>
2	If the child DID NOT itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,200. If the child ITEMIZED deductions, see instructions . . . . .	2	<b>1,200</b>
3	Subtract line 2 from line 1. If the result is zero or less, <b>stop here</b> ; do not complete the rest of this form but ATTACH it to the child's return . . . . .	3	<b>1,300</b>
4	Enter child's taxable income from Form 1040, line 37; Form 1040A, line 22; or Form 1040NR, line 36 . . . . .	4	<b>2,500</b>
5	Enter the <b>smaller</b> of line 3 or line 4. ▶	5	<b>1,300</b>

**Step 2 Figure tentative tax based on the tax rate of the parent listed on line A**

6	Enter parent's taxable income from Form 1040, line 37; Form 1040A, line 22; Form 1040EZ, line 5; or Form 1040NR, line 36. If the parent transferred property to a trust, see instructions . . . . .	6	<b>48,000</b>
7	Enter the total net investment income, if any, from Forms 8615, line 5, of ALL OTHER children of the parent identified above. Do not include the amount from line 5 above . . . . .	7	
8	Add lines 5, 6, and 7 . . . . .	8	<b>49,300</b>
9	Tax on line 8 based on the parent's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶ . . . . .	9	<b>8,871</b>
10	Enter parent's tax from Form 1040, line 38; Form 1040A, line 23; Form 1040EZ, line 9; or Form 1040NR, line 37. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶ . . . . .	10	<b>8,507</b>
11	Subtract line 10 from line 9. If line 7 is blank, enter on line 13 the amount from line 11; skip lines 12a and 12b . . . . .	11	<b>364</b>
12a	Add lines 5 and 7 . . . . .	12a	
b	Divide line 5 by line 12a. Enter the result as a decimal (rounded to two places) . . . . .	12b	<b>x</b>
13	Multiply line 11 by line 12b . . . . . ▶	13	<b>364</b>

**Step 3 Figure child's tax—If lines 4 and 5 above are the same, enter -0- on line 15 and go to line 16.**

14	Subtract line 5 from line 4 . . . . .	14	<b>1,200</b>
15	Tax on line 14 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶ . . . . .	15	<b>182</b>
16	Add lines 13 and 15 . . . . .	16	<b>546</b>
17	Tax on line 4 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, check here . . . . . <input type="checkbox"/>	17	<b>377</b>
18	Enter the <b>larger</b> of line 16 or line 17 here and on Form 1040, line 38; Form 1040A, line 23; or Form 1040NR, line 37. Be sure to check the box for "Form 8615" even if line 17 is more than line 16 . . . . . ▶	18	<b>546</b>

**General Instructions**

**Purpose of Form.**—For children under age 14, investment income over \$1,200 is taxed at the parent's rate if the parent's rate is higher than the child's rate. If the child's investment income is more than \$1,200, use this form to figure the child's tax.

**Investment income.**—As used on this form, "investment income" includes all taxable income other than earned income as defined on page 2. It includes income such as taxable interest, dividends, capital gains, rents, royalties, etc. It also includes pension and annuity

income and income (other than earned income) received as the beneficiary of a trust.

**Who Must File.**—Generally, Form 8615 must be filed for any child who was under age 14 on January 1, 1995, had more than \$1,200 of investment income, and is required to file a tax return. If neither parent was alive on December 31, 1994, do not use Form 8615. Instead, figure the child's tax in the normal manner.

**Note:** The parent may be able to elect to report the child's interest and dividends on his or her return. If the parent makes this election, the child will not have to

file a return or Form 8615. For more details, see the instructions for Form 1040 or Form 1040A, or get Form 8814, Parents' Election To Report Child's Interest and Dividends.

**Additional information.**—For more details, get Pub. 929, Tax Rules for Children and Dependents.

**Incomplete information for Parent.**—If the parent's taxable income or filing status or the net investment income of the parent's other children is not known by the due date of the child's return, reasonable estimates may be used. Write "Estimated" on the appropriate line(s) of Form 8615. For more details, see Pub. 929.

For Paperwork Reduction Act Notice, see back of form.

Cat No 64113U

Form **8615**

Label

(See page 16.)

Use the IRS label. Otherwise, please print or type.

**LABEL HERE**

Your first name and initial: Sara L. Last name: Brown

If a joint return, spouse's first name and initial: \_\_\_\_\_ Last name: \_\_\_\_\_

Home address (number and street). If you have a P.O. box, see page 17. Apt. no. \_\_\_\_\_  
321 Main Street

City, town or post office, state, and ZIP code. If you have a foreign address, see page 17.  
Anytown, AZ 85240

Your social security number

789:00:4351

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see page 4.

Note: Checking "Yes" will not change your tax or reduce your refund.

Presidential Election Campaign Fund (See page 17.)

Do you want \$3 to go to this fund?

If a joint return, does your spouse want \$3 to go to this fund?

Yes	No
<input checked="" type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>

Check the box for your filing status

(See page 17.)

Check only one box.

- 1  Single
- 2  Married filing joint return (even if only one had income)
- 3  Married filing separate return. Enter spouse's social security number above and full name here. ▶ \_\_\_\_\_
- 4  Head of household (with qualifying person). (See page 18.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ \_\_\_\_\_
- 5  Qualifying widow(er) with dependent child (year spouse died ▶ 19 \_\_\_\_). (See page 19.)

Figure your exemptions

(See page 20.)

If more than seven dependents, see page 23.

6a  Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a. But be sure to check the box on line 18b on page 2.

b  Spouse

c Dependents:

(1) Name (first, initial, and last name)

(2) Check if under age 1

(3) If age 1 or older, dependent's social security number

(4) Dependent's relationship to you

(5) No. of months lived in your home in 1994

No. of boxes checked on 6a and 6b

No. of your children on 6c who:

a lived with you

b didn't live with you due to divorce or separation (see page 23)

Dependents on 6c not entered above

Add numbers entered on lines above

d If your child didn't live with you but is claimed as your dependent under a pre-1985 agreement, check here ▶

e Total number of exemptions claimed.

Figure your total income

Attach Copy B of your Forms W-2 and 1099-R here.

If you didn't get a W-2, see page 25.

Enclose, but do not attach, any payment with your return.

7 Wages, salaries, tips, etc. This should be shown in box 1 of your W-2 form(s). Attach Form(s) W-2.

7 1,500

8a Taxable interest income (see page 25). If over \$400, attach Schedule 1.

8a 1,400

b Tax-exempt interest. DO NOT include on line 8a.

8b

9 Dividends. If over \$400, attach Schedule 1.

9 1,100

10a Total IRA distributions. 10a

10b Taxable amount (see page 26). 10b

11a Total pensions and annuities. 11a

11b Taxable amount (see page 27). 11b

12 Unemployment compensation (see page 30).

12

13a Social security benefits. 13a

13b Taxable amount (see page 31). 13b

14 Add lines 7 through 13b (far right column). This is your total income. ▶ 14 4,000

Figure your adjusted gross income

15a Your IRA deduction (see page 34).

15a

b Spouse's IRA deduction (see page 34).

15b

c Add lines 15a and 15b. These are your total adjustments.

15c

16 Subtract line 15c from line 14. This is your adjusted gross income.

If less than \$25,296 and a child lived with you (less than \$9,000 if a child didn't live with you), see "Earned income credit" on page 44.

▶ 16 4,000

**Figure your standard deduction, exemption amount, and taxable income**

17	Enter the amount from line 16.	17	4,000
18a	Check <input type="checkbox"/> You were 65 or older <input type="checkbox"/> Blind <input type="checkbox"/> Spouse was 65 or older <input type="checkbox"/> Blind Enter number of boxes checked ▶ 18a <input type="checkbox"/>		
b	If your parent (or someone else) can claim you as a dependent, check here. ▶ 18b <input checked="" type="checkbox"/>		
c	If you are married filing separately and your spouse files Form 1040 and itemizes deductions, see page 38 and check here. ▶ 18c <input type="checkbox"/>		
19	Enter the <b>standard deduction</b> shown below for your filing status. <b>But if you checked any box on line 18a or b, go to page 38 to find your standard deduction. If you checked box 18c, enter -0-.</b> • Single—\$3,800 • Married filing jointly or Qualifying widow(er)—\$6,350 • Head of household—\$5,600 • Married filing separately—\$3,175	19	1,500
20	Subtract line 19 from line 17. If line 19 is more than line 17, enter -0-.	20	2,500
21	Multiply \$2,450 by the total number of exemptions claimed on line 6e.	21	
22	Subtract line 21 from line 20. If line 21 is more than line 20, enter -0-. This is your <b>taxable income</b> .	▶ 22	2,500

**Figure your tax, credits, and payments**

If you want the IRS to figure your tax, see the instructions for line 22 on page 39.

23	Find the tax on the amount on line 22. Check if from: <input type="checkbox"/> Tax Table (pages 62-67) or <input checked="" type="checkbox"/> Form 8615 (see page 40).	23	546
24a	Credit for child and dependent care expenses. Attach Schedule 2.	24a	
b	Credit for the elderly or the disabled. Attach Schedule 3.	24b	
c	Add lines 24a and 24b. These are your <b>total credits</b> .	24c	
25	Subtract line 24c from line 23. If line 24c is more than line 23, enter -0-.	25	546
26	Advance earned income credit payments from Form W-2.	26	
27	Add lines 25 and 26. This is your <b>total tax</b> .	▶ 27	546
28a	Total Federal income tax withheld. If any tax is from Form(s) 1099, check here. ▶ <input type="checkbox"/>	28a	135
b	1994 estimated tax payments and amount applied from 1993 return.	28b	
c	<b>Earned income credit</b> , if required, attach Schedule EIC (see page 44). Nontaxable earned income: amount ▶ and type ▶	28c	
d	Add lines 28a, 28b, and 28c (don't include nontaxable earned income). These are your <b>total payments</b> .	▶ 28d	135

**Figure your refund or amount you owe**

29	If line 28d is more than line 27, subtract line 27 from line 28d. This is the amount you <b>overpaid</b> .	29	
30	Amount of line 29 you want refunded to you.	30	
31	Amount of line 29 you want applied to your <b>1995 estimated tax</b> .	31	
32	If line 27 is more than line 28d, subtract line 28d from line 27. This is the amount you <b>owe</b> . For details on how to pay, including what to write on your payment, see page 52.	32	411
33	Estimated tax penalty (see page 52). Also, include on line 32.	33	

**Sign your return**

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Keep a copy of this return for your records.

Your signature <i>Sara L. Brown</i>	Date 2-15-95	Your occupation Student
Spouse's signature, if joint return, BOTH must sign.	Date	Spouse's occupation

**Paid preparer's use only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's social security no.
Firm's name (if self-employed) and address	E.I. No.	ZIP code	

## Glossary

The definitions in this glossary are the meanings of the terms as used in this publication. The same term used in another publication may have a slightly different meaning.

**Adjusted gross income**— Gross income (defined later) minus adjustments to income (defined next).

**Adjustments to income**— Deductions that are subtracted from gross income in figuring adjusted gross income. They include an IRA deduction, a penalty on early withdrawal of savings, and a deduction for alimony paid. Adjustments to income can be taken even if itemized deductions (defined later) are not claimed.

**Alternative minimum tax**— A tax designed to collect at least a minimum amount of tax from taxpayers who benefit from the tax laws that give special treatment to some kinds of income and allow special deductions and credits for some kinds of expenses.

**Capital gain distribution**— An allocated amount paid to, or treated as paid to, a shareholder by a mutual fund, regulated investment company, or real estate investment trust from its net realized long-term capital gains. This amount is in addition to any ordinary dividend paid to the shareholder. You will receive a statement from the payer if this applies to you.

**Dependent**— A person, other than the taxpayer or the taxpayer's spouse, for whom an exemption (defined later) can be claimed. You can generally claim an exemption for a dependent if the dependent:

- 1) Lives with or is related to you,
- 2) Is a U.S. citizen, U.S. resident, or a resident of Canada or Mexico,
- 3) Does not file a joint return,
- 4) Does not have \$2,450 or more of gross (total) income (does not apply to your

child if under 19 or a student under 24), and

- 5) Is supported (generally more than 50%) by you.

For more information, see *Exemptions for Dependents* in Publication 501.

**Earned income**— Salaries, wages, tips, professional fees, and other amounts received as pay for work actually done.

For purposes of determining a dependent's standard deduction, earned income also includes any part of a scholarship or fellowship grant that the dependent must include in his or her gross income.

**Exemption**— An amount (\$2,450 for 1994) that can be subtracted from income in figuring how much income will be taxed. Exemptions generally are allowed for the taxpayer, the taxpayer's spouse, and qualifying dependents.

**Filing status**— The category (single, married filing joint return, married filing separate return, head of household, or qualifying widow(er) with dependent child) you fit into that determines such things as your filing requirement, the amount of your standard deduction, and your correct tax. These are the same categories listed on Forms 1040 and 1040A and shown in the headings of the Tax Table columns and the Tax Rate Schedules.

For more information, see *Filing Status* in Publication 501.

**Gross income**— All income from all sources (other than tax-exempt income) that must be included on your tax return.

**Investment income**— See *Unearned income*.

**Itemized deductions**— Deductions allowed on Schedule A (Form 1040) for medical and dental expenses, taxes, interest, contributions,

casualty and theft losses, and miscellaneous deductions. They are subtracted from adjusted gross income in figuring taxable income. Itemized deductions cannot be claimed if the standard deduction is chosen.

**Net investment income**— The total of all investment income (other than tax-exempt income) reduced by the sum of the following: adjustments to income that are related to the investment income, plus \$600, plus the greater of \$600 or the amount of itemized deductions directly connected with producing the investment income.

**Standard deduction**— An amount (based on filing status, age, blindness, status as a dependent, and amount of earned income) that can be subtracted from adjusted gross income in figuring taxable income. The standard deduction is not used if itemized deductions are claimed.

**Tax year**— Time period covered by a tax return. Usually this is January 1 to December 31, a calendar year, but taxpayers sometimes elect a fiscal tax year with different beginning and ending dates.

**Taxable income**— Gross income minus adjustments to income, exemptions, and either itemized deductions or the standard deduction.

**Unearned income**— This is income other than earned income. It is investment-type income and includes interest, dividends, and capital gains. Distributions of interest, dividends, capital gains, and other unearned income from a trust are also unearned income to a beneficiary of the trust.



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Schedules A&B (1040)	Schedule SE (1040)	1040-ES (1995) & Instructions	4562 & Instructions	Pub. 1	Pub. 521	Pub. 590	
Schedule C (1040)	1040A	1040X & Instructions	4898 & Instructions	Pub. 17	Pub. 523	Pub. 598	
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