Anchin Alert

Anchin, Block & Anchin LLP
Accountants and Advisors

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Beware the "Kiddie" Tax

At one time years ago, parents could substantially reduce their families' overall tax burden by shifting income to children in lower tax brackets (usually by transferring investments or other income-producing assets). The kiddie tax was designed to discourage this strategy by taxing most of a dependent child's unearned income at the parents' marginal rate. The tax applies to children age 18 or younger plus full-time students age 19 to 23 (with certain exceptions).

Under the TCJA, the kiddie tax is now imposed according to the tax rates applied to trust income. The trust tax brackets are compressed, so that the highest marginal rate (currently 37%) kicks in when taxable income exceeds $12,500. In contrast, for a married couple filing jointly, the top bracket begins at $600,000 of taxable income. The impact of this change will depend on a family's particular circumstances. In general, it will reduce the cost of the kiddie tax for relatively small amounts of unearned income, but many families will find that the top kiddie tax rate is now higher than the parents' marginal rate.

There are still opportunities to "shift" income within a family. Feel free to contact your Anchin Relationship Partner with any questions.

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