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Tax Rules for Children and Dependents

For use in preparing
1997 Returns



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Important Changes for 1997

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

Standard deduction. The minimum standard deduction for dependents remains \$650. The maximum standard deduction for a dependent with earned income (wages, tips, etc.) has increased. See *Standard Deduction* in *Part 1* for more information.

Important Reminders

Investment income of child under age 14. If a child's investment income is more than \$1,300, part of it may be taxed at the parents' rate. See *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300* in *Part 2*.

Parent's election to report child's interest and dividends. You may be able to elect to include your child's interest and dividends 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 Interest and Dividends* in *Part 2*.

Social security number (SSN). Dependents who are required to file a tax return must have an SSN. To apply for an SSN, Form SS-5 must be filed with the Social Security Administration. It usually takes about 2 weeks to get an SSN.

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN to a non-resident or resident alien who does not have and is not eligible to get a social security number (SSN). To apply for an ITIN, Form W-7 must be filed with the IRS. It usually takes about 30 days to get an ITIN. The ITIN is entered wherever an SSN is requested on

a tax return. If you are required to include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

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

Introduction

Part 1 of this publication explains the filing requirements and other 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 \$1,300
- 8814** Parents' Election To Report Child's Interest and Dividends

See *How To Get More Information* near the end of this publication for information about getting these publications and forms.

Part 1. Rules for All Dependents

Terms you may need to know (see Glossary):

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

This part of the publication discusses the filing requirements for dependents, who is respon-

sible for a child's return, how to figure a dependent's standard deduction and exemption (if any), and whether a dependent can claim exemption from federal income tax withholding.

Filing Requirements

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



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.

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	\$4,150
Either 65 or older or blind	\$5,150
65 or older and blind	\$6,150
Married*	
Under 65 and not blind	\$3,450
Either 65 or older or blind	\$4,250
65 or older and blind	\$5,050

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

Example. 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 \$4,400 in wages. He did not have any unearned income.

He must file a tax return because he has earned income only and his total income is more than \$4,150. If he were blind, he would not have to file a return because his total income is not more than \$5,150.

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	\$650
Either 65 or older or blind	\$1,650
65 or older and blind	\$2,650
Married*	
Under 65 and not blind	\$650
Either 65 or older or blind	\$1,450
65 or older and blind	\$2,250

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

Example. 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 \$650. 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 \$1,650.

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 Interest and Dividends* in Part 2. If the parent makes this election, 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 \$650**. 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 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 **\$650**
- Compare lines 1 and 2. Enter the **larger** amount _____
- Enter the appropriate amount from the following table _____

Marital Status	Amount
Single	\$4,150
Married	\$3,450

- Compare lines 3 and 4. Enter the **smaller** amount _____
- Enter the amount from the following table that applies to the dependent _____

Marital Status	Amount
Single	
Either 65 or older or blind	\$1,000
65 or older and blind	\$2,000
Married	
Either 65 or older or blind	\$800
65 or older and blind	\$1,600

- Add lines 5 and 6.
Enter the total _____
- Enter the dependent's gross (total) income _____

If line 8 is more than 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.

Example 1. 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 \$650.

Example 2. Assume the same facts as in Example 1 except that Joe is also blind. He would not have to file a return because his total income of \$2,900 is not more than \$3,500 (figured by filling in the *Filing Re-*

Instructions for Figure 1, 2, and 3

Use these figures to determine whether a dependent must file a return. Use only the *Figure* that fits the dependent's circumstances.

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 tells you whether or not the dependent must file a return.

Do not use any of these figures for the dependents listed below. They are required to file a return or should file a return 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.

Caution: Do not use Figure 1, 2, and 3 to determine whether an individual is a dependent. See the definition of "dependent" in the Glossary at the end of the publication.

Figure 1. Dependents Under 65 and Not Blind

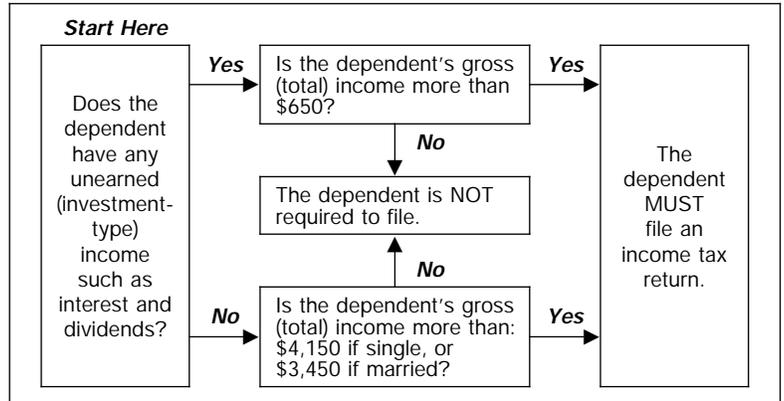


Figure 2. Single Dependents 65 or Older or Blind

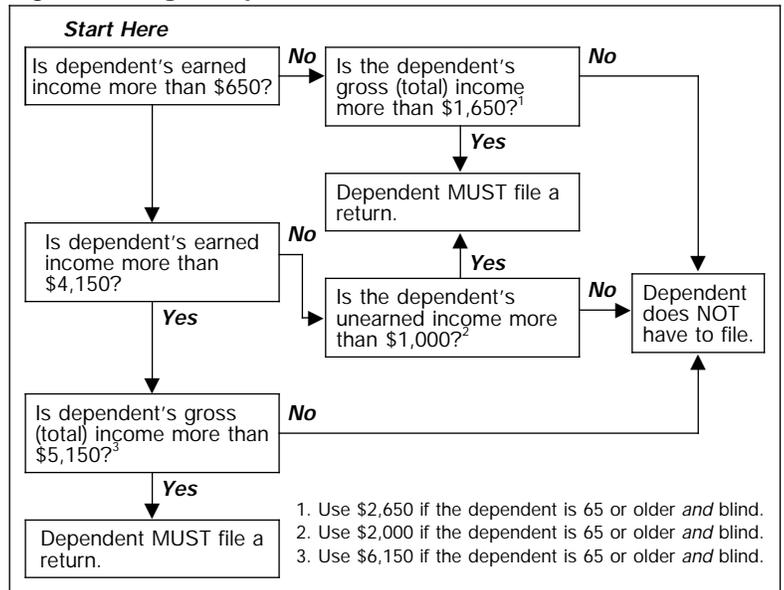
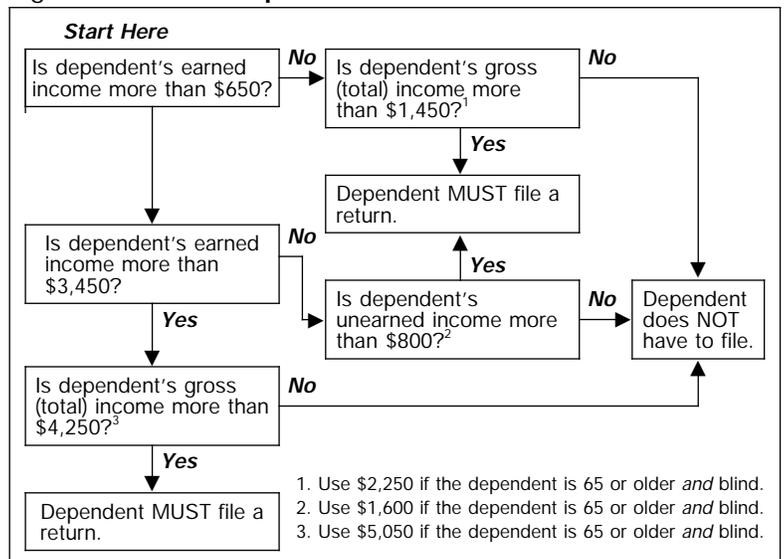


Figure 3. Married Dependents 65 or Older or Blind



quirement Worksheet for Dependents Who Are 65 or Older and/or Blind, as shown next).

Filled-in Example for Joe
Filing Requirement Worksheet
for Dependents
Who Are 65 or Older
and/or Blind

1. Enter dependent's earned income **\$2,500**
2. Minimum amount **\$650**
3. Compare lines 1 and 2. Enter the **larger** amount **\$2,500**
4. Enter the appropriate amount from the following table **\$4,150**

Marital Status	Amount
Single	\$4,150
Married	\$3,450

5. Compare lines 3 and 4. Enter the **smaller** amount **\$2,500**
6. Enter the amount from the following table that applies to the dependent **\$1,000**

Marital Status	Amount
Single	
Either 65 or older or blind	\$1,000
65 or older and blind	\$2,000
Married	
Either 65 or older or blind	\$800
65 or older and blind	\$1,600

7. Add lines 5 and 6.
Enter the total **\$3,500**
 8. Enter the dependent's gross (total) income **\$2,900**
- If line 8 is more than line 7, the dependent must file an income tax return.

Other Filing Requirements

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

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 or on group-term life insurance,
- 3) Alternative minimum tax,
- 4) Tax on a qualified retirement plan, including an individual retirement arrangement (IRA), or
- 5) Tax from a recapture of investment credit, low-income housing credit, federal mortgage subsidy, or qualified electric vehicle credit.

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 1997,
- 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.

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).

Who Should File

Even if a dependent does not meet any of the filing requirements discussed earlier, he or she **should** file a tax return if one of the following applies.

- 1) Income tax was withheld from his or her pay.
- 2) He or she qualifies for the earned income credit. See Publication 596 for more information.

Responsibility for Child's Return

Generally, the child is responsible for filing his or her own tax return and for paying any tax, penalties, or interest on that return. If a child cannot 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.

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

Authority of parent or guardian. A parent or guardian who signs a return on a child's behalf can deal with the IRS on all matters connected with the return.

A parent or guardian who does not sign the child's return can 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 for a tax liability arising from the return.

A parent or guardian who does not sign the child's return may be designated as the child's representative by the child or the person signing the return on the child's behalf. If designated, a parent or guardian can receive information about the child's return but cannot legally bind the child to a tax liability unless authorized to do so by the law of the state in which the child lives.

Form 2848, Power of Attorney and Declaration of Representative, is used to designate a child's representative. See Publication 947, *Practice Before the IRS and Power of Attorney*, for more information.

IRS notice. If you or the child receives 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 who to contact. The IRS will try to resolve the matter with the parent(s) or guardian(s) of the child consistent with their authority.

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

If the child does not pay the tax due on this income, the parent may be liable for the tax.

Child's expenses. Deductions for payments that are due 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 are deductible as a business expense and a charitable contribution. You made the payments out of your child's earnings. These items can be deducted only on the child's return.

Standard Deduction

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) \$650, or
- 2) The individual's earned income for the year, but not more than the regular standard deduction (generally \$4,150).

However, the standard deduction for a dependent who is 65 or older or blind may be higher.

Certain dependents cannot claim any standard deduction. See *Standard Deduction of Zero*, later.

Table 1. Table 1 is used to figure the 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 \$800 and wages of \$150. He enters his earned income, \$150, on line 1 of Table 1. On line 3, he enters \$650, the larger of his earned income (\$150) and \$650. Michael enters \$4,150 on line 4. On line 5a, he enters \$650, the smaller of \$650 and \$4,150. His standard deduction is \$650.

Example 2. Judy, a full-time student, is single, 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. 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 \$650. She enters \$4,150 on line 4. On line 5a, she enters \$2,500 (the smaller of \$2,500 and \$4,150) 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. She enters her earned income (\$2,000) on line 1 of Table 1. She enters \$2,000 (the larger of \$2,000 or \$650) on line 3, \$4,150 on line 4, and \$2,000 (the smaller of \$2,000 or \$4,150) on line 5a. Because Amy is blind, she checks the box for blindness and enters "1" in the box at the top of Table 1. She enters \$1,000 on line 5b (number in the box x \$1,000). Her standard deduction on line 5c is \$3,000 (\$2,000 + \$1,000).

Standard Deduction of Zero

The standard deduction for the following dependents is zero:

- 1) A married dependent filing a separate



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

Use this worksheet ONLY if someone can claim you (or your spouse, if filing jointly) as a dependent.	
If you were 65 or older and/or blind, check the correct number of boxes below. Put the total number of boxes checked on line c and go to line 1.	
a. You	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
b. Your spouse, if claiming spouse's exemption	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
c. Total boxes checked	<input type="checkbox"/>
1. Enter your earned income (defined below). If none, go on to line 3.	1. _____
2. Minimum amount.	2. \$650
3. Compare lines 1 and 2. Enter the larger of the two amounts here.	3. _____
4. Enter on line 4 the amount shown below for your filing status. <ul style="list-style-type: none"> • Single—\$4,150 • Married filing separate return—\$3,450 • Married filing jointly or qualifying widow(er) with dependent child—\$6,900 • Head of household—\$6,050 	4. _____
5. Standard deduction.	
a. Compare lines 3 and 4. Enter the smaller amount here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b.	5a. _____
b. If 65 or older or blind, multiply \$1,000 (\$800 if married or qualifying widow(er) with dependent child) by the number on line c above. Enter the result here.	5b. _____
c. Add lines 5a and 5b. This is your standard deduction for 1997.	5c. _____
Earned income 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 income.	

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
- 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 of her allowable deductions.

Note. If you are a nonresident or dual-status alien who is married to a U.S. citizen or resident at the end of 1997, you may be able to choose to be treated as a U.S. resident for 1997. 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

A person who can be claimed as a dependent on another taxpayer's return, cannot claim his or her own exemption. This is true even if the other taxpayer does not actually claim the exemption.

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

Exemption From Withholding

Employers generally withhold federal income tax, social security tax, and Medicare tax from an employee's wages. If the employee claims

exemption from withholding on **Form W-4, Employee's Withholding Allowance Certificate**, the employer will not withhold federal income tax. The exemption from withholding does not apply to social security or Medicare taxes.

Conditions for exemption from withholding. An employee can claim exemption from withholding for 1998 only if he or she meets both of the following conditions.

- 1) For 1997, the employee had a right to a refund of all federal income tax withheld because he or she had no tax liability.
- 2) For 1998, the employee expects a refund of all federal income tax withheld because he or she expects to have no tax liability.

Exceptions. An employee ordinarily cannot claim exemption from withholding if:

- 1) Someone will be able to claim the employee as a dependent for 1998,
- 2) The employee's total income will be more than \$650 (plus any cost-of-living increase; see 1998 Form W-4), and
- 3) The employee will have any unearned (investment-type) income.

Employees who are 65 or older or blind or will claim adjustments to income, itemized deductions, or tax credits on their 1998 tax return, may be able to claim exemption from withholding even if they are a dependent. See the discussions in chapter 1 of Publication 505 under *Exemption From Withholding* for 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 this year. 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 during the year 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 because his parents will be able to claim him as a dependent, his total income will be more than \$650 (plus any 1998 cost-of-living increase), and he will have unearned income.

Claiming exemption from withholding. An employee who meets both conditions described earlier under *Conditions for exemption from withholding*, must write "EX-EMPT" in the space provided on Form W-4. Complete the rest of the form and give it to your employer.

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

Part 2. Tax on Investment Income of Child Under 14

Terms 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 capital gain
Net investment income
Standard deduction
Tax year
Taxable income
Unearned income

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

- 1) If a child's interest, dividends, and other investment income total more than \$1,300, part of that income may be taxed at the parent's tax rate instead of the child's tax rate (see *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300*, later).
- 2) 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 Interest and Dividends*, later).

For these rules, 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:

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

Which Parent's Return To Use

If a child's parents are married to each other and file a joint return, use the joint return to figure the tax on the investment income of a child under 14. For parents who do not file a joint return, the following discussions explain which parent's tax return must be used to figure the tax. Only the parent whose tax return is used can make the election described under *Parent's Election To Report Child's Interest and Dividends*. The tax rate and other return information from that parent's return are used in the computations explained later under *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300*.

Parents are married. If the child's parents file separate returns, use the return of the parent with the greater taxable income.

Parents not living together. If a child's parents are married to each other 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.

Parents are 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, if the custodial parent and the stepparent file a joint return, use that joint return. Do not use the return of the noncustodial parent.

If the custodial parent and the stepparent are married, but file separate returns, use the return of the one with the greater taxable income. If the custodial parent and the stepparent are married but not living together, the earlier discussion under *Parents not living together* applies.

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 *Parents are divorced* apply.

Widows and widowers. If a widow or widower remarries, the new spouse is treated as the child's other parent. The rules explained earlier under *Custodial parent remarried* apply.

Parent's Election To Report Child's Interest and Dividends

You may be able to elect to include your child's interest and dividend income on your tax return. If you do, your child will not have to file a return.

You can make this election for 1997 only if **all** the following conditions are met.

- 1) Your child was under age 14 on January 1, 1998.
- 2) Your child is required to file a return for 1997 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 \$6,500.
- 5) No estimated tax payments were made for 1997 and no 1996 overpayment was applied to 1997 under your child's name and social security number.

- 6) No federal income tax was taken out of 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*, earlier.)

These conditions are also shown in *Figure 4*.

Making the Election

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.



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.

Deductions you cannot take. 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.

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

- 1) A higher standard deduction 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 is considered your investment income. To figure the limit on your deductible investment interest, add the investment income to yours. However, if your child received capital gain distributions or Alaska Permanent Fund dividends, see chapter 3 of Publication 550, *Investment Income and Expenses*, for information about how to figure the limit.

Alternative minimum tax. If your child received tax-exempt interest from a private activity bond, you must determine if that interest is a tax preference item for alternative minimum tax (AMT) purposes. If it is, you must include it with your own tax preference items when figuring your AMT. For more information, get the instructions for **Form 6251, Alternative Minimum Tax—Individuals**.

Increased adjusted gross income. If you use Form 8814, 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.

Penalty for underpayment of estimated tax. If you make this election for 1997 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 1998, 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 Child's Income

Use **Step 1** of Form 8814 to figure your child's interest and dividend income to report on your return. Only the amount over \$1,300 is added to your income. This amount is shown on line 5 of Form 8814. If you file more than one Form 8814, include the total amounts from line 5 of all your Forms 8814 on line 21, Form 1040 or Form 1040NR. In the space next to line 21, write "Form 8814."

Capital gain distributions. Include on line 2a of Form 8814 any capital gain distributions your child received. These distributions will be taxed separately on the parent's Schedule D (Form 1040).



Use the following worksheet to figure the amount to report as capital gain distribution on Schedule D and the amount to report on Form 8814, line 5.

Worksheet (Keep for your records)

1. Enter the capital gain distribution included on Form 8814, line 2a
2. Enter amount from Form 8814, line 3
3. Divide line 1 by line 2
4. Base amount 1,300
5. Subtract line 4 from line 2
6. Multiply line 5 by the decimal on line 3. Enter the result here and on Schedule D, line 13, column (f)
7. Subtract line 6 from 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 13, Schedule D, write "Form 8814" and the amount from line 6 of this worksheet.

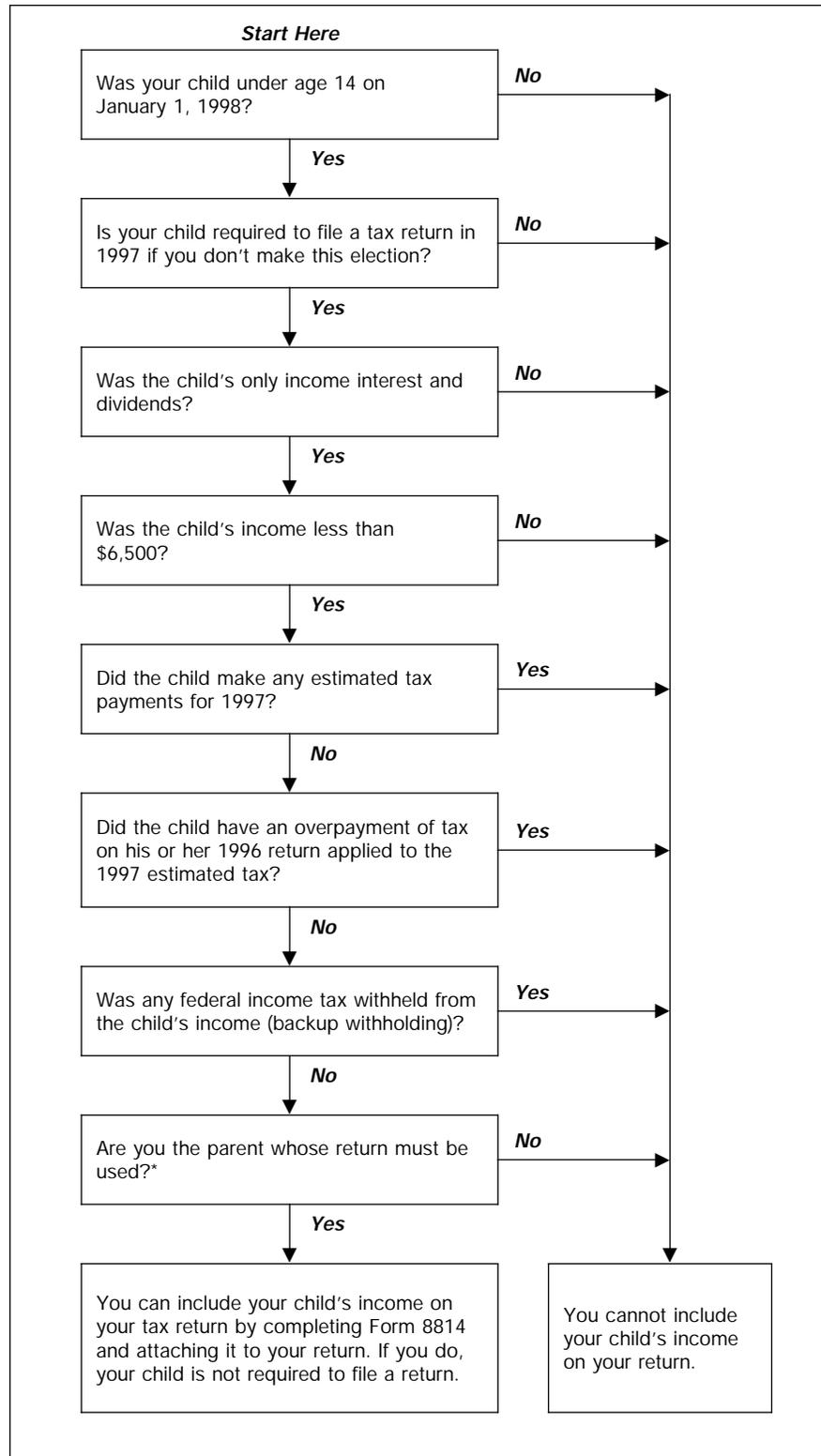
If any of the child's capital gain distributions are reported as 28% rate gain, you must determine how much to also include on line 13, column (g). Multiply the child's capital gain distribution included on line 13, column (f) by a fraction, the numerator of which is the child's capital gain distribution that is 28% rate gain and the denominator of which is the child's total capital gain distribution.

If any of the child's capital gain distributions are reported as unrecaptured section 1250 gain, you must determine how much to use to figure the amount to include on Schedule D, line 25. Multiply the child's capital gain distribution included on line 13, column (f) by a fraction, the numerator of which is the child's capital gain distribution that is unrecaptured section 1250 gain and the denominator of which is the child's total capital gain distribution.

Example. Fred is 6 years old. In 1997, 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,

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



*See Which Parent's Return to Use

Form 8814. Fred had no nontaxable dividends or other income, so they also enter \$1,500 on lines 2c and 3.

\$200 of Fred's income must be included as income on his parents' tax return (\$1,500 gross income minus \$1,300). They figure the amount to report on line 13, Schedule D and the amount to report on line 5, Form 8814, as follows:

Filled-in Worksheet for Fred

1. Enter the capital gain distribution included on Form 8814, line 2a \$300
2. Enter amount from Form 8814, line 3 .. \$1,500
3. Divide line 1 by line 2
4. Base amount 1,300

5. Subtract line 4 from line 2 \$200
6. Multiply line 5 by the decimal on line 3.
Enter the result here and on Schedule
D, line 13, column (f) \$40
7. Subtract line 6 from line 5. Enter the
result here and on Form 8814, line 5 ... \$160

Fred's parents enter \$160 on line 5 of Form 8814 and write "CGD-\$40" on the dotted line next to line 5. They include the \$160 on line 21 of their Form 1040 and write "Form 8814-\$160" on the dotted line next to the total. On Schedule D they include \$40 on line 13, column (f) and write "Form 8814-\$40" on the dotted line next to this line. They do not include any part of the \$40 in column (g) because none of the distribution was reported as 28% rate gain.

Figuring Additional Tax

Use **Step 2** of Form 8814 to figure the tax on your child's interest and dividends you do not include in your income. This tax is added to the tax figured on your income.

This additional tax is the **smaller** of:

- 1) $15\% \times$ (your child's gross income — \$650), or
- 2) \$97.50.

Include the amount from line 8 of all your Forms 8814 in the total on line 39, Form 1040, or line 38, Form 1040NR. Check box a on Form 1040, line 39, or Form 1040NR, line 38.

Illustrated Example

David and Linda Parks are married and will file separate tax returns for 1997. Their only child, Philip, is 8. Philip received a Form 1099-INT for 1997 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 they will not have to file a return for Philip.

First, David and Linda each figure their taxable income (Form 1040, line 38) 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 lines 1a and 2c and enters the result, \$3,500, on line 3. From that amount she subtracts the \$1,300 base amount shown on line 4 and enters the result, \$2,200, on line 5. This is the part of Philip's income that Linda must add to her income.

Linda includes the \$2,200 in the total on line 21 of her Form 1040 and in the space next to that line writes "Form 8814-\$2,200." Adding that amount to her income increases each of the amounts on lines 22, 32, 33, 36, and 38 of her Form 1040 by \$2,200. 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 \$61,500 (\$59,300 + \$2,200).

On Form 8814, Linda subtracts the \$650 shown on line 6 from the \$3,500 on line 3 and enters the result, \$2,850, on line 7. Because that amount is \$650 or more, she enters \$97.50 on line 8. This is the tax on the \$1,300 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.

The tax on her \$61,500 revised taxable income is \$14,901. She adds \$97.50, enters the \$14,998.50 total on line 39 of Form 1040, and checks box a.

Linda attaches Form 8814 to her Form 1040.

Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300

Part of a child's 1997 investment income may be subject to tax at the parent's tax rate if:

- 1) The child was under age 14 on January 1, 1998,
- 2) The child's investment income was more than \$1,300, and
- 3) The child is required to file a tax return for 1997.

Figure 5 illustrates these requirements.

If you do not or cannot choose to include the child's income on your 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 your name and social security number and your child's name and social security number in the spaces provided. (If you filed a joint return, enter the name and social security number listed first on the joint return.) Check the box for your filing status. Then figure the child's tax on Form 8615 in these steps:

1. Figure the child's net investment income.
2. Figure a tentative tax on the net investment income based on the parent's tax rate.
3. Figure the child's tax.

Parent's Return

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

Different tax years. If you and the child do not have the same tax year, complete Form 8615 using the information on your 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 1997 (January 1 – December 31). Kimberly's mother files her tax return 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, 1997, to complete her 1997 Form 8615.

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

You can use any reasonable estimate. 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 extension, you must file **Form 4868**, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.

Calendar year taxpayers must file Form 4868 by April 15, 1998. If you file for an extension, you must file the child's return by August 15, 1998.

An extension of time to file is not an extension of time to pay. You must make an accurate estimate of the tax for 1997. If 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 that you are making the request to comply with section 1(g) of the Internal Revenue Code and that you have tried to get the information from the parent,
- 2) Proof the child is under 14 years of age (for example, a copy of the child's birth certificate),
- 3) Evidence the child has more than \$1,300 of unearned income (for example, a copy of the child's prior year tax return or copies of Forms 1099 for the current year), and
- 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.

A child's legal representative making the request should include a copy of his or her Power of Attorney, such as Form 2848, or proof of legal guardianship.

The IRS cannot process the request before the end of the tax year. In fact, you should also consider getting an extension of time to file the child's return, because there may be a delay in getting the information.

Part I. 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, use Part I of Form 8615. For an example, see the *Illustrated Part I of Form 8615*.

**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 <p style="text-align: center;">Linda Parks</p>	Your social security number 111 : 00 : 1111
A Child's name (first, initial, and last) <p style="text-align: center;">Philip Parks</p>	B Child's social security number 000 : 00 : 0000

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 taxable 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 tax-exempt interest income. DO NOT 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 \$1,300 or less, skip lines 4 and 5 and go to line 6. If the total is \$6,500 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	1,300	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	2,200	

Step 2 Figure your tax on the first \$1,300 of child's interest and dividend income

6 Amount not taxed	6	650	00
7 Subtract line 6 from line 3. If the result is zero or less, enter -0-	7	2,850	
8 Tax. Is the amount on line 7 less than \$650? No. Enter \$97.50 (\$98 if you round) here and see the Note below. Yes. Multiply line 7 by 15% (.15). Enter the result here and see the Note below. }	8	97	50

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 39, or Form 1040NR, line 38. Be sure to check box a on Form 1040, line 39, or Form 1040NR, line 38.

General Instructions

A Change To Note

If your child received any capital gain distributions, the Federal income tax on his or her income may be less if you file a return for the child instead of making this election. This is because of the new lower capital gains tax rates. If you make this election, part or all of any capital gain distributions included on line 5 of Form 8814 must be reported on your **Schedule D** (Form 1040) even if you are not otherwise required to file the schedule. See **Pub. 929**, Tax Rules for Children and Dependents, for details.

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, 1998.
- Is required to file a 1997 return.
- Had income only from interest and dividends, including Alaska Permanent Fund dividends.
- Had gross income for 1997 that was less than \$6,500.
- Had no estimated tax payments for 1997 (including any overpayment of tax from his or her 1996 return applied to 1997 estimated tax).

- Had no Federal income tax withheld from his or her income.

You must also qualify as explained on page 2 of these instructions.

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.

TIP: 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.

Line 1 (investment income). If the child had **no earned income**, enter the adjusted gross income shown on the child's return. Adjusted gross income is shown on line 32 of Form 1040; line 16 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, use the following worksheet if the child has excluded any foreign earned income or deducted a loss from self-employment or a net operating loss from another year.

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 line A and line B and enter the total. Treat the amount on line B as positive (greater than zero)
- D. Enter the child's earned income plus any deduction the child claims on line 29 of 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 (if line 12 or 18 is a loss, use zero) or Form 1040NR, lines 8, 13, and 19 (if line 13 or 19 is a loss, use zero)

E. Subtract line D from line C. Enter the result here and on Form 8615, line 1 ..

Investment income defined. Investment income is generally 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 and pension payments, and certain distributions from trusts. 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).

Nontaxable income. For this purpose, investment income includes only amounts 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. Losses are first applied against gains. If the losses are more than the 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.

Income from gifts. A child's investment income includes all income produced by property belonging to the child. This is true even if the property was transferred to the child, regardless of when the property was transferred or purchased or who transferred it.

A child's investment income includes income produced by property given as a gift to the child. This includes gifts to the child from

grandparents or any other person and gifts made 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.

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.

Adjustment to income. In figuring the amount to enter on line 1, the child's investment income is reduced by any penalty on the early withdrawal of savings.

Line 2 (deductions). If the child does not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,300 on line 2.

If the child does itemize deductions, enter on line 2 the larger of:

- 1) \$650 plus the child's itemized deductions on Schedule A (Form 1040 or Form 1040NR) that are directly connected with the production of the investment income, or
- 2) \$1,300.

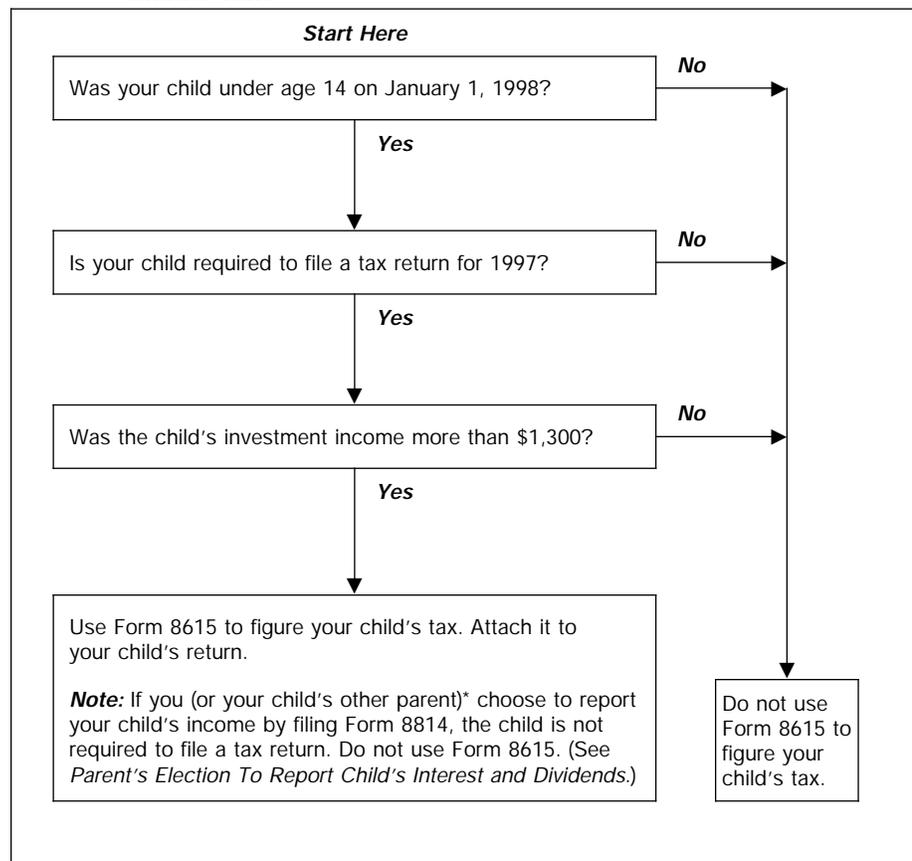
Directly connected. Itemized deductions are directly connected with the production of investment income if they are for expenses paid to produce or collect taxable income or to manage, conserve, or maintain property held for producing income. These expenses include custodian fees and service charges, service fees to collect taxable interest and dividends, and certain investment counsel fees.

These expenses are added to certain other miscellaneous deductions on Schedule A (Form 1040). Only the amount greater than 2% of the child's adjusted gross income can be deducted. See Publication 529, *Miscellaneous Deductions*, for more information.

Example 1. Roger, 12, has investment income of \$8,000, no other income, no adjustments to income, and itemized deductions of \$300 that are directly connected with his investment income. His adjusted gross income is \$8,000, which is entered on line 1. Line 2 is \$1,300 because \$1,300 is more than the sum of \$650 plus his directly-connected itemized deductions of \$300.

Example 2. Eleanor, 8, has investment income of \$16,000 and an early withdrawal penalty of \$100. She has no other income. She has itemized deductions of \$1,100 that are directly connected with the production of

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



*See *Which Parent's Return To Use*

Illustrated Part I of Form 8615

Carla's 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 \$4,350. 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 Part I 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 \$1,300 is entered on line 2. Line 3 of Form 8615 is the result of subtracting \$1,300 from \$4,400. Carla's taxable income of \$4,350 (as shown on line 22 of her Form 1040A) is entered on line 4 of Form 8615. The smaller of \$3,100 or \$4,350 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 29, or Form 1040NR, line 29, 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

Form 8615	Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300	OMB No. 1545-0998 1997 Attachment Sequence No. 33
Department of the Treasury Internal Revenue Service		
▶ Attach ONLY to the child's Form 1040, Form 1040A, or Form 1040NR.		
Child's name shown on return Carla C. Rose		Child's social security number 111 ;0 0; 1111
A Parent's name (first, initial, and last). Caution: See instructions on back before completing. George B. Rose		B Parent's social security number 1 2 3 ;0 0; 4 5 6 7
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)		

Part I Child's Net Investment Income		
1 Enter the child's investment income, such as taxable interest and dividends. See instructions. If this amount is \$1,300 or less, stop ; 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 \$1,300. If the child did itemize deductions, see instructions	2	1,300
3 Subtract line 2 from line 1. If the result is zero or less, stop ; do not complete the rest of this form but do attach it to the child's return	3	3,100
4 Enter the child's taxable income from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 ▶	4	4,350
5 Enter the smaller of line 3 or line 4 ▶	5	3,100

her investment income. Her adjusted gross income, entered on line 1, is \$15,900 (\$16,000 – \$100). Line 2 is \$1,750. This is the larger of:

- 1) \$650 plus the \$1,100 of directly connected itemized deductions, or
- 2) \$1,300.

Eleanor's net investment income is \$14,150 (\$15,900 – \$1,750).

Line 3. If line 2 equals or is more than line 1, do not complete the rest of the form. However, you must still attach Form 8615 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 38; Form 1040A, line 22; or Form 1040NR, line 37.

Line 5 (net investment income). A child's net investment income cannot be more than his or her taxable income. Enter on line 5 the smaller of line 3 or line 4 of Form 8615. This is the child's **net investment income**.

Part II. Figuring Tentative Tax At Parent's Tax Rate

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

the child's net investment income and the tax figured without it.

Figure the tentative tax on lines 6 through 13. For an example, see *Illustrated Step 2 of Form 8615*.

When figuring the tentative tax, do not refigure any of the exclusions, deductions, or credits on the parent's return because the child's net investment income is included on the parent's return. For example, do not refigure the medical expense deduction.

Line 6 (parent's taxable income). Enter on line 6 the amount from the parent's Form 1040, line 38; Form 1040A, line 22; Form 1040EZ, line 6; TeleFile Tax Record, line J; Form 1040NR, line 37; or Form 1040NR-EZ, line 13. If the parent's taxable income is less than zero, enter zero on line 6.

Trusts. Special rules may apply if the parent transferred property to a trust at less than fair market value. If the trust sold the property before August 6, 1997, 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 the gain. See the Form 8615 instructions for lines 6 and 10.

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 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 re-

turns. 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 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).

Other children's information not available. If the net investment income of the other children is not available when the return is due, either file the return using estimates or get an extension of time to file. Estimates and extensions are discussed earlier under *Parent's Return*.

Line 9 (tax on parent's taxable income plus children's net investment income). Figure the tax on line 9 in one of the following ways, depending on whether there is any net capital gain included in the total on line 8. (If there is net capital gain on line 5, 6, or 7, then there is also net capital gain on line 8.)

- 1) If net capital gain is **not** included in the total on line 8, and line 8 is less than \$100,000, use the Tax Table to figure the tax on line 9. If line 8 is \$100,000 or more, use the Tax Rate Schedules.
- 2) If net capital gain is **is** included in the total on line 8, you must determine the net capital gain included on line 8 of Form 8615 to figure the tax on line 9.

Illustrated Part II of Form 8615

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.

Part II 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 38 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 39 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.

Part II Tentative Tax Based on the Tax Rate of the Parent Listed on Line A			
6	Enter the parent's taxable income from Form 1040, line 38; Form 1040A, line 22; Form 1040EZ, line 6; TeleFile Tax Record, line J; Form 1040NR, line 37; or Form 1040NR-EZ, line 13. 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	Enter the tax on line 8 based on the parent's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here <input type="checkbox"/>	9	5,156
10	Enter the parent's tax from Form 1040, line 39; Form 1040A, line 23; Form 1040EZ, line 10; TeleFile Tax Record, line J; Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If Schedule D (Form 1040) was used to figure the tax, check here. <input type="checkbox"/>	10	4,586
11	Subtract line 10 from line 9 and enter the result. If line 7 is blank, enter on line 13 the amount from line 11 and go to Part III	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 three places)	12b	x .60
13	Multiply line 11 by line 12b	13	342

Net capital gain is the excess of net long-term capital gain over net short-term capital loss. For 1997, this is the smaller of the gain on line 16 or the gain on line 17 of **Schedule D** (Form 1040).

Use the following discussions to find the amounts of net capital gain on lines 5, 6, and 7 included on line 8.

Net capital gain on line 5. Use one of the *Line 5 Worksheets* below to figure the net capital gain from line 5 included on line 8.

 Use the following worksheet to figure the net capital gain included on line 5 of the child's Form 8615 if that line is the same as line 3 and line 2 is \$1,300.

Line 5 Worksheet #1

- A. Enter the child's net capital gain _____
- B. Enter the amount from line 1 of the child's Form 8615 _____
- C. Divide line A by line B (but do not enter more than 1) _____
- D. Multiply \$1,300 by the result on line C _____
- E. Subtract line D from line A. This is the net capital gain included on line 5 (but do not enter more than the amount on line 5 of Form 8615). _____



Use the following worksheet if line 5 of the child's Form 8615 is the same as line 3 and line 2 is **more** than \$1,300.

Line 5 Worksheet #2

- A. Enter the child's net capital gain _____
- B. Enter the child's itemized deductions directly connected with the production of the child's net capital gain _____
- C. Subtract line B from line A _____
- D. Enter the amount from line 1 of the child's Form 8615 _____
- E. Divide line A by line D (but do not enter more than 1) _____
- F. Multiply \$650 by line E _____
- G. Subtract line F from line C. This is the net capital gain included on line 5 (but do not enter more than the amount on line 5 of Form 8615). _____



Use the following worksheet if line 5 of the child's Form 8615 is less than line 3.

Line 5 Worksheet #3

- A. Enter the child's net capital gain _____
- B. If the child itemized deductions, enter the child's itemized deductions directly connected with the production of the child's net capital gain _____
- C. Subtract line B from line A _____
- D. If the child can claim his or her own exemption, enter \$2,650*. Otherwise, enter zero _____
- E. If the child itemized deductions, enter the child's itemized deductions *not* directly connected with the production of the child's net capital gain. Otherwise, enter the child's standard deduction _____
- F. Add lines D and E _____
- G. Enter the child's adjusted gross income (line 32 of the child's Form 1040) _____
- H. Divide line A by line G (but do not enter more than 1) _____
- I. Multiply line F by line H _____
- J. Subtract line I from line C. This is the net capital gain included on line 5 (but do not enter more than the amount on line 5 of Form 8615). _____

* If you enter more than \$121,200 on line G, see *Deduction for Exemptions Worksheet—Line 37* in the Form 1040 instructions for the amount to enter on line D.

Net capital gain on line 6. 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 16 or line 17 of the parent's Schedule D.

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

Net capital gain on line 7. If net capital gain is included 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*, explained earlier. 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.

Do not attach a copy of any of the other children's Form 8615 to this child's return.

Net capital gain on line 8. The net capital gain included on line 8 is the sum of the net capital gains figured on lines 5, 6, and 7.

Completing Line 9 Schedule D Worksheet. Once you have determined the amount of net capital gain included on line 8, use Part IV of *another* Schedule D as a worksheet to figure the tax to enter on line 9 of Form 8615. For purposes of this worksheet, use information from the parent and all the parent's children for whom Form 8615 is filed, but only for those showing net capital gain (excess of net long-term capital gain over net short-term capital loss). All Schedules D, Part IV, must be filled out before using this worksheet.

Complete this worksheet as follows:

- 1) On line 19 of Schedule D (worksheet), enter the amount from line 8 of Form 8615.
- 2) On line 20 of Schedule D (worksheet), enter the net capital gain included on line 8 of Form 8615.
- 3) Add the amounts from lines 21 of each Schedule D (actual). Enter the total on line 21 of Schedule D (worksheet).
- 4) On line 22 of Schedule D (worksheet), subtract line 21 from line 20.
- 5) Leave line 23 of Schedule D (worksheet) blank.
- 6) On line 24 of Schedule D (worksheet), add the following amounts:
 - a) (The child's net capital gain from bottom line of line 5 worksheet + The child's total net capital gain from line A of line 5 worksheet) × The child's line 24, Schedule D (actual).
 - b) (Each other child's net capital gain from bottom line of line 5 worksheet + That child's total net capital gain from line A of line 5 worksheet) × That child's line 24, Schedule D.
 - c) The parent's line 24, Schedule D.
- 7) On line 25 of Schedule D (worksheet), add the following amounts:
 - a) (The child's net capital gain from bottom line of line 5 worksheet + The child's total net capital gain from line A of line 5 worksheet) × The child's line 25, Schedule D (actual).
 - b) (Each other child's net capital gain from bottom line of line 5 worksheet + That child's total net capital gain from line A of line 5 worksheet) × That child's line 25, Schedule D.

c) The parent's line 25.

- 8) Complete lines 26 through 54 of Schedule D (worksheet). Enter the amount from line 54 of Schedule D (worksheet) on line 9 of Form 8615 and check the box.

Do not attach this worksheet to the child's return.

Line 10 (parent's tax). Enter on line 10 the amount from the parent's Form 1040, line 39; Form 1040A, line 23; Form 1040EZ, line 10; TeleFile Tax Record, line J; Form 1040NR, line 38; or Form 1040NR-EZ, line 14.

Lines 12a and 12b (dividing the tentative tax). If line 7 is blank, skip lines 12a and 12b and enter the amount from line 11 on line 13.

If an amount is entered on line 7, divide the tentative tax shown on line 11 among the children according to each child's share of the total net investment income. This is done on lines 12a, 12b, and 13. Add the amount on line 7 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 .333, figured as follows and rounded to three places.

$$\frac{\$800}{\$2,400} = .333$$

Line 13 (child's share of tentative tax). If an amount is entered on line 7, multiply line 11 by the decimal on line 12b and enter the result on line 13. If line 7 is blank, enter the amount from line 11 on line 13.

Line 13 is the child's share of the tentative tax.

Part III. 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.

This is the child's tax. It is figured on lines 14 through 18 of Form 8615. For an example, see *Illustrated Part III of Form 8615*.

Line 14 (child's taxable income in excess of net investment income). Subtract line 5 from line 4 and enter the difference on line 14. If 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). If line 14 does not include any net capital gain, use the Tax Table (use the *Single* column) or Tax Rate Schedule X to figure the tax on line 15.

If any net capital gain is included on line 14 (Form 8615), figure the amount by using the *Line 5 Worksheet* used to figure 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. Use Part IV of Schedule D to figure the tax on line 15.

Completing Schedule D Worksheet for Line 15. Once you have determined the amount of net capital gain on line 14, use Part IV of *another* Schedule D as a worksheet to figure the tax to enter on line 15 of Form 8615.

Complete this worksheet as follows:

- 1) On line 19 of Schedule D (worksheet), enter the amount from line 14 of Form 8615.
- 2) Leave line 20 of Schedule D (worksheet) blank.
- 3) Leave line 21 of Schedule D (worksheet) blank.
- 4) On line 22 of Schedule D (worksheet), enter the net capital gain included on line 14 of Form 8615.
- 5) Leave line 23 of Schedule D (worksheet) blank.
- 6) On line 24 of Schedule D (worksheet), subtract the amount figured in step 6a) under *Completing Line 9 Schedule D Worksheet* from the child's line 24, Schedule D (actual).
- 7) On line 25 of Schedule D (worksheet), subtract the amount figured in step 7a) under *Completing Line 9 Schedule D Worksheet* from the child's line 25, Schedule D (actual).
- 8) Complete lines 26 through 54 of Schedule D (worksheet). Enter the amount from line 54 of Schedule D (worksheet) on line 15 of Form 8615 and check the box.

Do not attach this worksheet to the child's return.

Line 16. Add lines 13 and 15 and enter the total on line 16. If 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 entered on line 4. Use the Tax Table for single status, Tax Rate Schedule X, or the child's Schedule D (actual), whichever applies to figure the tax on line 17. Enter the amount on line 17. If it is from Schedule D, check the box.

Attach this Schedule D to the child's return.

Line 18 (tax). Enter on line 18 the larger of line 16 or line 17. Also enter this amount on the child's Form 1040, line 39; Form 1040A, line 23; or Form 1040NR, line 38. This is the child's tax.

Illustrated Part III of Form 8615

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.

Part III 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.

Part III 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	Enter the tax on line 14 based on the child's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here <input type="checkbox"/>	15	156
16	Add lines 13 and 15	16	566
17	Enter the tax on line 4 based on the child's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here <input type="checkbox"/>	17	521
18	Enter the larger of line 16 or line 17 here and on Form 1040, line 39; Form 1040A, line 23; or Form 1040NR, line 38 <input type="checkbox"/>	18	566

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. These items include accelerated depreciation, tax-exempt interest income, passive activity losses, and certain 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 \$1,300 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 \$650, she must file a tax return. Because she is under age 14 and has more than \$1,300 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 \$1,300 on line 2. He enters \$1,200 on line 3 (\$2,500 – \$1,300).

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 lines 3 and 4 and enters the smaller amount, \$1,200, on line 5.

John enters \$48,000 on line 6. This is the taxable income from line 38 of their joint Form 1040 return. Sara is an only child, so line 7 is blank. He adds line 5 (\$1,200), line 6 (\$48,000), and line 7 and enters \$49,200 on line 8.

Using the column for married filing jointly in the Tax Table, John finds the tax on \$49,200. He enters the tax, \$8,427, on line 9. He enters \$8,091 on line 10. This is the tax from line 39 of John and Laura's Form 1040. He enters \$336 on line 11 (\$8,427 – \$8,091).

Because line 7 is blank, John skips lines 12a and 12b and enters \$336 on line 13.

John subtracts line 5 (\$1,200) from line 4 (\$2,500) and enters the result, \$1,300, on line 14. Using the column for single filing status in the Tax Table, John finds the tax on \$1,300. He enters this tax, \$197, on line 15. He adds lines 13 (\$336) and 15 (\$197) and enters \$533, on line 16.

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

John compares lines 16 and 17 and enters the larger amount, \$533, on line 18 of Sara's Form 8615. He also enters that amount on line 23 of Sara's Form 1040A.

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

Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300

▶ **Attach ONLY to the child's Form 1040, Form 1040A, or Form 1040NR.**

Child's name shown on return <p style="text-align: center; font-size: 1.2em;">Sara L. Brown</p>	Child's social security number 111 : 00 : 1111
A Parent's name (first, initial, and last). Caution: See instructions on back before completing. <p style="text-align: center; font-size: 1.2em;">John J. Brown</p>	B Parent's social security number 000 : 00 : 0001
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)	

Part I Child's Net Investment Income

1 Enter the child's investment income, such as taxable interest and dividends. See instructions. If this amount is \$1,300 or less, stop ; do not file this form	1	2,500	
2 If the child did not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,300. If the child did itemize deductions, see instructions	2	1,300	
3 Subtract line 2 from line 1. If the result is zero or less, stop ; do not complete the rest of this form but do attach it to the child's return	3	1,200	
4 Enter the child's taxable income from Form 1040, line 38; Form 1040A, line 22; or Form 1040NR, line 37 ▶	4	2,500	
5 Enter the smaller of line 3 or line 4 ▶	5	1,200	

Part II Tentative Tax Based on the Tax Rate of the Parent Listed on Line A

6 Enter the parent's taxable income from Form 1040, line 38; Form 1040A, line 22; Form 1040EZ, line 6; TeleFile Tax Record, line J; Form 1040NR, line 37; or Form 1040NR-EZ, line 13. If the parent transferred property to a trust, see instructions	6	48,000	
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	49,200	
9 Enter the tax on line 8 based on the parent's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here ▶ <input type="checkbox"/>	9	8,427	
10 Enter the parent's tax from Form 1040, line 39; Form 1040A, line 23; Form 1040EZ, line 10; TeleFile Tax Record, line J; Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If Schedule D (Form 1040) was used to figure the tax, check here ▶ <input type="checkbox"/>	10	8,091	
11 Subtract line 10 from line 9 and enter the result. If line 7 is blank, enter on line 13 the amount from line 11 and go to Part III	11	336	
12a Add lines 5 and 7 12a			
b Divide line 5 by line 12a. Enter the result as a decimal (rounded to three places)	12b	x .	
13 Multiply line 11 by line 12b ▶	13	336	

Part III 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	14	1,300	
15 Enter the tax on line 14 based on the child's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here ▶ <input type="checkbox"/>	15	197	
16 Add lines 13 and 15	16	533	
17 Enter the tax on line 4 based on the child's filing status. See instructions. If Schedule D (Form 1040) is used to figure the tax, check here ▶ <input type="checkbox"/>	17	377	
18 Enter the larger of line 16 or line 17 here and on Form 1040, line 39; Form 1040A, line 23; or Form 1040NR, line 38 ▶	18	533	

General Instructions

Section references are to the Internal Revenue Code.

Purpose of form. For children under age 14, investment income over \$1,300 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 \$1,300, 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 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, 1998, had more than \$1,300 of investment income, and is required to file a tax return. But if neither parent was alive on December 31, 1997, 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 **Form 8814, Parents' Election To Report Child's Interest and Dividends.**

Additional information. For more details, see **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

Label (See page 14.) Use the IRS label. Otherwise, please print in ALL CAPITAL LETTERS.

OMB No. 1545-0085

Label form with fields for name (Sara Brown), address (1040A MAIN STREET, HOMETOWN), and ZIP code (AZ 85240).

Social security number fields for taxpayer and spouse.

For Privacy Act and Paperwork Reduction Act Notice, see page 42.

Presidential Election Campaign Fund (See page 14.)

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 checkboxes for the campaign fund question.

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

- 1 Single
2 Married filing joint return
3 Married filing separate return
4 Head of household
5 Qualifying widow(er) with dependent child

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.

b Spouse

c Dependents. If more than six dependents, see page 16.

Table with columns for dependent name, social security number, relationship, and months lived in home.

Summary boxes for dependents: No. of boxes checked on 6a and 6b, No. of your children on 6c who lived with you, Dependents on 6c not entered above, Add numbers entered in boxes above.

d Total number of exemptions claimed.

7 Wages, salaries, tips, etc. Attach Form(s) W-2.

Dollars and cents boxes for line 7 (1500) and line 8a (1400).

8a Taxable interest income. Attach Schedule 1 if required.

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

8b Tax-exempt interest amount box.

9 Dividends. Attach Schedule 1 if required.

Dollars and cents box for line 9 (1100).

10a Total IRA distributions.

10a Amount box.

10b Taxable amount (see page 19).

10b Amount box.

11a Total pensions and annuities.

11a Amount box.

11b Taxable amount (see page 19).

11b Amount box.

12 Unemployment compensation.

12 Amount box.

13a Social security benefits.

13a Amount box.

13b Taxable amount (see page 21).

13b Amount box.

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

14 Total income box (4000).

15 IRA deduction (see page 21).

15 Amount box.

16 Subtract line 15 from line 14. This is your adjusted gross income. If under \$29,290 (under \$9,770 if a child did not live with you), see the EIC instructions on page 27.

16 Adjusted gross income box (4000).

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

Glossary

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 deductions for moving expenses, alimony paid, a penalty on early withdrawal of savings, and contributions to an individual retirement arrangement (IRA). 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 certain kinds of income and allow deductions and credits for certain 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 \$2,650 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 (\$2,650 for 1997) 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, 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, charitable 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 capital gain— The excess of net long-term capital gain over any net short-term capital loss. For 1997, this is the smaller of the gain on line 16 or the gain on line 17 of Schedule D (Form 1040), *Capital Gains and Losses*.

Net investment income— The total of all investment income (other than tax-exempt income) reduced by the sum of the following: adjustments to income related to the investment income, plus the larger of:

- 1) \$650 plus itemized deductions directly connected with producing the investment income, or
- 2) \$1,300.

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 can elect a fiscal tax year with different beginning and ending dates.

Taxable income— Gross income minus any adjustments to income, any allowable 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, divi-

dends, capital gains, and other unearned income from a trust are also unearned income to a beneficiary of the trust.

How To Get More Information



You can get help from the IRS in several ways.

Free publications and forms. To order free publications and forms, call 1-800-TAX-FORM (1-800-829-3676). You can also write to the IRS Forms Distribution Center nearest you. Check your income tax package for the address. Your local library or post office also may have the items you need.

For a list of free tax publications, order Publication 910, *Guide to Free Tax Services*. It also contains an index of tax topics and related publications and describes other free tax information services available from the IRS, including tax education and assistance programs.

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details.

Tax questions. You can call the IRS with your tax questions. Check your income tax package or telephone book for the local number, or you can call 1-800-829-1040.

TTY/TDD equipment. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 to ask tax questions or to order forms and publications. See your income tax package for the hours of operation.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accurate, courteous, and professional answers, we evaluate the quality of our "800 number" telephone services in several ways.

• A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistor and does not keep a record of any taxpayer's name or tax identification number.

• We sometimes record telephone calls to evaluate IRS assistors objectively. We hold these recordings no longer than one week and use them to measure the quality of assistance.

• We value our customers' opinions. Throughout the year, we will be surveying our customers for their opinions on our service.

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