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# Tax Rules for Children and Dependents

For use in preparing

**2001** Returns



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## Important Changes

**Filing requirements.** The amount of gross income that many dependents with earned income (wages, tips, etc.) can have during the year without having to file a return has increased. See *Filing Requirements* in *Part 1*.

**Standard deduction.** The standard deduction for many dependents with earned income (wages, tips, etc.) has increased. See *Standard Deduction* in *Part 1*.

**Tax computation for certain dependents.** Generally, the tax computed for a dependent using the 2001 Tax Table or Tax Rate Schedules can be reduced to take into account the new 10% tax rate. To figure the reduced tax, use the *Tax Computation Worksheet for Certain Dependents* in the instructions for Form 1040 (line 40), Form 1040A (line 26), or Form 1040EZ (line 11).

This computation **does not apply** to the following.

- Dependents who received (before any offsets) an advance payment of their 2001 taxes.
- Dependents who file Form 1040NR, *U.S. Nonresident Alien Income Tax Return*.

**Alternative minimum tax.** The limit on the exemption amount for figuring the alternative minimum tax of a child filing Form 8615 has increased to the child's earned income plus \$5,350. See *Alternative Minimum Tax* in *Part 2*.

**Third party designee.** Beginning with the 2001 tax return, a child's parent or guardian who does not sign the child's return may be author-

ized by the person who does sign the return to answer, as a third party designee, any questions that may arise during the processing of the return. This authorization also allows the parent to perform certain actions. See your income tax package for details. Also, see *Responsibility for Child's Return*, in *Part 1*.

## Important Reminders

**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, file Form SS-5 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 nonresident or resident alien who does not have and is not eligible to get an SSN. To apply for an ITIN, file Form W-7 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.

**Names and numbers on tax returns must match.** You should compare the names and numbers used on tax returns with the information on the identification cards issued by the Social Security Administration or the IRS to make sure they match. People who change their surnames for any reason—such as marriage—should get updated identification cards, unless they intend to use the former name for legal purposes.

**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.

**Photographs of missing children.** The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

## 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.

**Comments and suggestions.** We welcome your comments about this publication and your suggestions for future editions.

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## Useful Items

You may want to see:

### Publication

- 501** Exemptions, Standard Deduction, and Filing Information
- 520** Scholarships and Fellowships

### Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- 8615** Tax for Children Under Age 14 With Investment Income of More Than \$1,500
- 8814** Parents' Election To Report Child's Interest and Dividends

See *How To Get Tax Help* 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 responsi-

ble 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.*

The following sections apply to dependents with:

- Earned income only,
- Unearned income only, and
- Both earned and unearned income.

To find out whether a dependent must file, read the section that applies, or use *Table 1* on the next page.

## 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 . . . . .	\$4,550
Either 65 or older or blind . . . . .	\$5,650
65 or older and blind . . . . .	\$6,750
Married*	
Under 65 and not blind . . . . .	\$3,800
Either 65 or older or blind . . . . .	\$4,700
65 or older and blind . . . . .	\$5,600

\*If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has \$5 or more 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 \$5,600 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 \$4,550. If he were blind, he would not have to file a return because his total income is not more than \$5,650.

## 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 . . . . .	\$ 750
Either 65 or older or blind . . . . .	\$1,850
65 or older and blind . . . . .	\$2,950
Married*	
Under 65 and not blind . . . . .	\$ 750

**Table 1. 2001 Filing Requirements for Dependents**

If your parent (or someone else) can claim you as a dependent, use this table to see if you must file a return.

See the definitions of "dependent", "earned income", and "unearned income" in the *Glossary*.

**Single dependents—Were you either age 65 or older or blind?**

**No.** You must file a return if any of the following apply.

- Your unearned income was over \$750.
- Your earned income was over \$4,550.
- Your gross income was more than the **larger** of:
  - \$750, or
  - Your earned income (up to \$4,300) plus \$250.

**Yes.** You must file a return if any of the following apply.

- Your unearned income was over \$1,850 (\$2,950 if 65 or over **and** blind),
- Your earned income was over \$5,650 (\$6,750 if 65 or older **and** blind),
- Your gross income was more than—

The larger of:	PLUS	This amount:
<ul style="list-style-type: none"> <li>\$750, or</li> <li>Your earned income (up to \$4,300) plus \$250</li> </ul>		\$1,100 (\$2,200 if 65 or older <b>and</b> blind)

**Married dependents—Were you either age 65 or older or blind?**

**No.** You must file a return if any of the following apply.

- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over \$750.
- Your earned income was over \$3,800.
- Your gross income was more than the **larger** of:
  - \$750, or
  - Your earned income (up to \$3,550) plus \$250.

**Yes.** You must file a return if any of the following apply.

- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over \$1,650 (\$2,550 if 65 or over **and** blind),
- Your earned income was over \$4,700 (\$5,600 if 65 or older **and** blind),
- Your gross income was more than—

The larger of:	PLUS	This amount:
<ul style="list-style-type: none"> <li>\$750, or</li> <li>Your earned income (up to \$3,550) plus \$250</li> </ul>		\$900 (\$1,800 if 65 or older <b>and</b> blind)



**Age 65 or older or blind.** A dependent who is age 65 or older 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 Age 65 or Older or Blind**

- Enter dependent's earned income plus \$250 . . . . .
- Minimum amount . . . . . \$750
- Compare lines 1 and 2. Enter the **larger** amount . . . . .
- Enter the appropriate amount from the following table . . . . .

Marital Status	Amount
Single	\$4,550
Married	\$3,800

- 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	\$1,100
65 or older and blind	\$2,200
Married	
Either 65 or older or blind	\$900
65 or older and blind	\$1,800

- 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 \$200 taxable interest income and earned \$2,750 from a part-time job.

He does not have to file a tax return because his total income of \$2,950 (\$200 interest plus \$2,750 in wages) is not more than \$3,000, the amount on line 5 of his filled-in *Filing Requirement Worksheet for Most Dependents* (shown next).

**Filing Requirement Worksheet for Most Dependents**

- Enter dependent's earned income plus \$250. . . . . \$3,000
- Minimum amount . . . . . 750
- Compare lines 1 and 2. Enter the **larger** amount . . . . . 3,000
- Enter the appropriate amount from the following table . . . . . 4,550

Marital Status	Amount
Single	\$4,550
Married	\$3,800

- Compare lines 3 and 4. Enter the **smaller** amount . . . . . 3,000
- Enter the dependent's gross (total) income . . . . . \$2,950

If line 6 is more than line 5, 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.

Either 65 or older or blind . . . . .	\$1,650
65 or older and blind . . . . .	\$2,550

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

**Example.** Sarah is 18 and single. Her parents can claim an exemption for her on their income tax return. She received \$850 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 is more than \$750. 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 \$1,850.

**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 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 the total income is more than line 5 of the following worksheet.

**Filing Requirement Worksheet for Most Dependents**

- Enter dependent's earned income plus \$250. . . . .
- Minimum amount . . . . . \$750
- Compare lines 1 and 2. Enter the **larger** amount . . . . .
- Enter the appropriate amount from the following table . . . . .

Marital Status	Amount
Single	\$4,550
Married	\$3,800

- Compare lines 3 and 4. Enter the **smaller** amount . . . . .
- Enter the dependent's gross (total) income . . . . .

If line 6 is more than line 5, 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 2.** The facts are the same as in Example 1 except that Joe had \$600 taxable interest income.

He must file a tax return because his total income of \$3,350 (\$600 interest plus \$2,750 wages) is more than \$3,000, the amount on line 5 of his filled-in worksheet (shown next).

**Filing Requirement Worksheet for Most Dependents**

- 1. Enter dependent's earned income plus \$250 . . . . . \$3,000
- 2. Minimum amount . . . . . 750
- 3. Compare lines 1 and 2. Enter the **larger** amount . . . . . 3,000
- 4. Enter the appropriate amount from the following table . . . . . 4,550

Marital Status	Amount
Single	\$4,550
Married	\$3,800

- 5. Compare lines 3 and 4. Enter the **smaller** amount . . . . . 3,000
- 6. Enter the dependent's gross (total) income . . . . . \$3,350

If line 6 is more than line 5, 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 3.** The facts are the same as in Example 2 except that Joe is also blind. He does not have to file a return because his total income of \$3,350 is not more than \$4,100, the amount on line 7 of his filled-in *Filing Requirement Worksheet for Dependents Who Are Age 65 or Older or Blind*, (shown next).

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

- 1. Enter dependent's earned income plus \$250 . . . . . \$3,000
- 2. Minimum amount . . . . . 750
- 3. Compare lines 1 and 2. Enter the **larger** amount . . . . . 3,000
- 4. Enter the appropriate amount from the following table . . . . . 4,550

Marital Status	Amount
Single	\$4,550
Married	\$3,800

- 5. Compare lines 3 and 4. Enter the **smaller** amount . . . . . 3,000
- 6. Enter the amount from the following table that applies to the dependent . . . . . 1,100

Marital Status	Amount
Single	
Either 65 or older or blind	\$1,100
65 or older and blind	\$2,200
Married	
Either 65 or older or blind	\$900
65 or older and blind	\$1,800

- 7. Add lines 5 and 6. Enter the total . . . . . 4,100
- 8. Enter the dependent's gross (total) income \$3,350

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.

**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 taxes on tips not reported to his or her employer,
- 2) Uncollected social security and Medicare or railroad retirement taxes 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 on a medical savings account (MSA), or
- 5) Recapture taxes, such as the tax from recapture of an education 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 2001,
- 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 \$5 or more 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 either of the following applies.

- 1) Income tax was withheld from his or her pay.
- 2) He or she qualifies for the earned income credit or the additional child tax credit. See the tax return instructions to find out who qualifies for these credits.

By filing a return, the dependent can get a refund.

**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.

In general, 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 to a tax liability arising from the return.

**Third party designee.** Beginning with the 2001 return, a child's parent or guardian who does not sign the child's return may be authorized, as a third party designee, to discuss the processing of the return with the IRS as well as provide information concerning the return. The child or the person signing the return on the child's behalf must check the "Yes" box in the "Third Party Designee" area of the return and name the parent or guardian as the designee.

If designated, a parent or guardian can respond to certain IRS notices and receive information about the processing of the return and the status of a refund or payment. This designation does not authorize the parent or guardian to receive any refund check, bind the child to any tax liability, or otherwise represent the child before the IRS. See the return instructions for more information.

**Designated as representative.** 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. **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.

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.

**IRS notice.** If you or the child receives a notice from the IRS 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.** For federal income tax purposes, 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.



**Table 2. 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 <b>earned income</b> (defined below) plus \$250. If none, go on to line 3.	1. _____
2. Minimum amount.	2. <u>\$750</u>
3. Compare lines 1 and 2. Enter the <b>larger</b> 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"> <li>• Single—\$4,550</li> <li>• Married filing separate return—\$3,800</li> <li>• Married filing jointly or qualifying widow(er) with dependent child—\$7,600</li> <li>• Head of household—\$6,650</li> </ul>	4. _____
5. <b>Standard deduction.</b>	
a. Compare lines 3 and 4. Enter the <b>smaller</b> 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 \$1,100 (\$900 if married or qualifying widow(er) with dependent child) by the number in box c above. Enter the result here.	5b. _____
c. Add lines 5a and 5b. This is your standard deduction for 2001.	5c. _____
<b>Earned income</b> includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in income.	

- 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.
- 3) A nonresident or dual-status alien dependent, unless the dependent is married to a U.S. citizen or resident at the end of the year and chooses to be treated as a U.S. resident for the year. See Publication 519, *U.S. Tax Guide for Aliens*, for information on making this choice.

**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.

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

## Withholding From Wages

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 and Medicare taxes.

**Conditions for exemption from withholding.** An employee can claim exemption from withholding for 2002 only if he or she meets both of the following conditions.

- 1) For 2001, the employee had a right to a refund of all federal income tax withheld because he or she had no tax liability.
- 2) For 2002, the employee expects a refund of all federal income tax withheld because he or she expects to have no tax liability.

**Dependents.** An employee who is a dependent ordinarily cannot claim exemption from withholding if both of the following are true.

- 1) The employee's total income will be more than the minimum standard deduction amount. This amount was \$750 for 2001, but may be higher for 2002. Check the

## 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) \$750, or
- 2) The individual's earned income plus \$250, but not more than the regular standard deduction (generally \$4,550).

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

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

**Table 2.** Use *Table 2* above to figure the dependent's standard deduction.

**Example 1.** Michael is single, age 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 \$400 (his earned income plus \$250) on line 1 of *Table 2*. On line 3, he enters \$750, the larger of \$400 or \$750. Michael enters \$4,550 on line 4. On line 5a, he enters \$750, the smaller of \$750 or \$4,550. His standard deduction is \$750.

**Example 2.** Judy, a full-time student, is single, age 22, and not blind. Her parents can claim her as a dependent on their tax return. She has dividend income of \$275 and wages of \$2,500. She enters \$2,750 (her earned income plus \$250) on line 1 of *Table 2*. On line 3, she enters \$2,750, the larger of \$2,750 or \$750. She enters \$4,550 on line 4. On line 5a, she enters \$2,750 (the smaller of \$2,750 or \$4,550) 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 \$2,250 (her earned income plus \$250) on line 1 of *Table 2*. She enters \$2,250 (the larger of \$2,250 or \$750) on line 3, \$4,550 on line 4, and \$2,250 (the smaller of \$2,250 or \$4,550) on line 5a. Because Amy is blind, she checks the box for blindness and enters "1" in box c at the top of *Table 2*. She enters \$1,100 (the number in box c times \$1,100) on line 5b. Her standard deduction on line 5c is \$3,350 (\$2,250 + \$1,100).

## Standard Deduction of Zero

The standard deduction for the following dependents is zero.

- 1) A married dependent filing a separate return whose spouse itemizes deductions.

instructions for the 2002 Form W-4 for the correct amount.

- 2) The employee's unearned income will be more than \$250.

**Exceptions.** An employee who is age 65 or older or blind, or who will claim adjustments to income, itemized deductions, or tax credits on his or her 2002 tax return, may be able to claim exemption from withholding even if the employee is a dependent. For more information, see the discussions under *Exemption From Withholding* in chapter 1 of Publication 505, *Tax Withholding and Estimated Tax*.

**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 \$275 interest on a savings account. He expects that his parents will be able to claim him as a dependent on their tax return. He is not blind and will not claim adjustments to income, itemized deductions, or tax credits on his return.

Guy 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 the minimum standard deduction amount, and his unearned income will be more than \$250.

**Claiming exemption from withholding.** To claim exemption from withholding, an employee must write "EXEMPT" in the space provided on Form W-4. The employee must complete the rest of the form and give it to his or her 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.

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

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**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 the child's interest, dividends, and other investment income total more than \$1,500, 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 \$1,500*, later.)
- 2) The child's parent may be able to choose to include the child's interest and dividend income (including capital gain distributions) 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 to compute the child's tax as explained later under *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,500*.

**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 the 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 the 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.

**Widowed parent remarried.** 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.

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## 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 (including capital gain distributions) on your tax return. If you do, your child will not have to file a return.

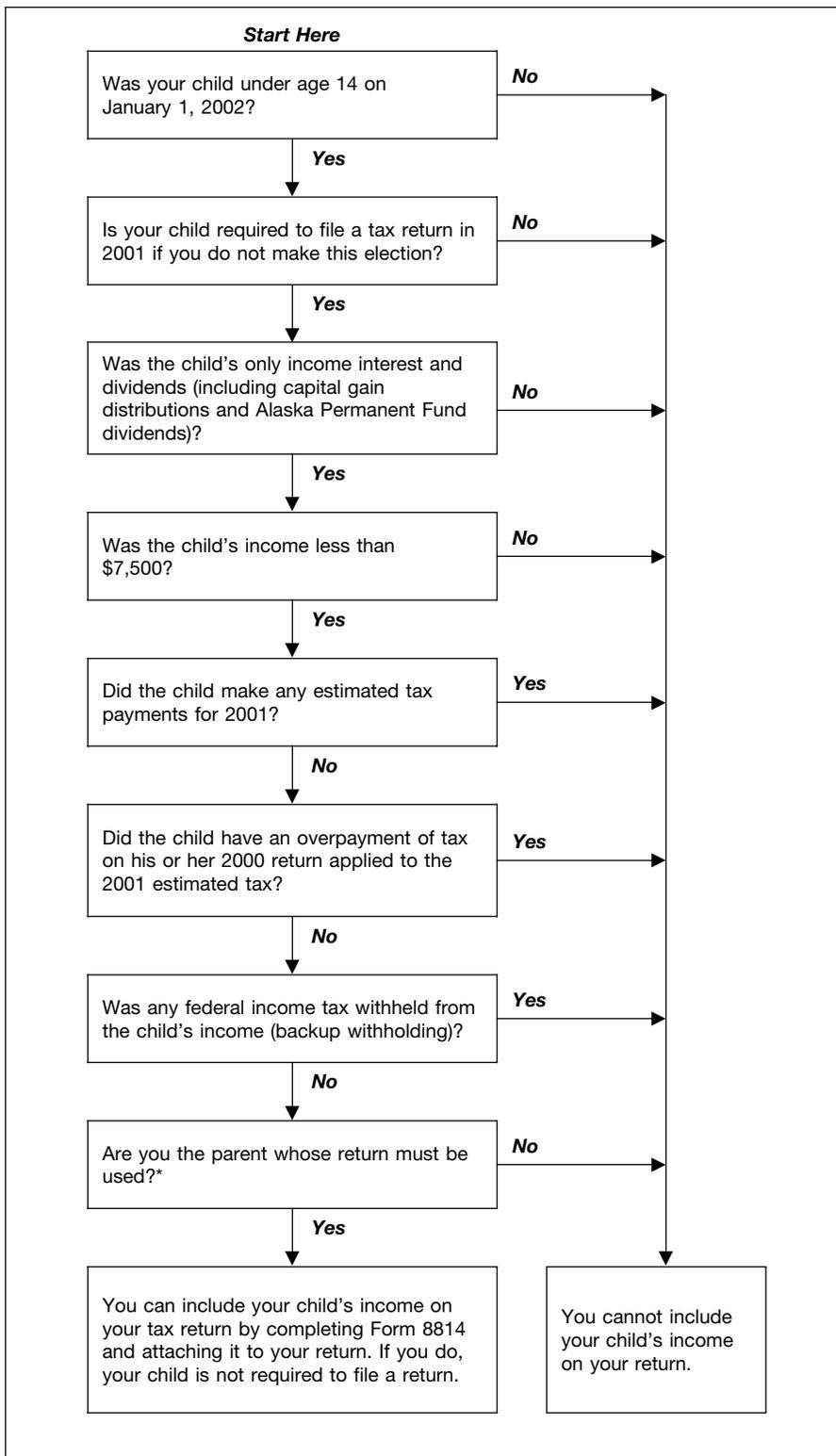
You can make this election for 2001 only if **all** the following conditions are met.

- 1) Your child was under age 14 on January 1, 2002.
- 2) Your child is required to file a return for 2001 unless you make this election.
- 3) Your child had income only from interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends).
- 4) The dividend and interest income was less than \$7,500.
- 5) No estimated tax payments were made for 2001 and no 2000 overpayment was applied to 2001 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 1* on the next page.

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

**Figure 1. Can You Include Your Child's Income On Your Tax Return?**



\*See Which Parent's Return To Use

election for one or more children and not for others.

**Effect of Making the Election**

The federal income tax on your child's income may be more if you make the Form 8814 election rather than file a return for the child.

**Rates may be higher.** If you use Form 8814, the child's income may be taxed at a higher rate

on your return than it would be on the child's own return.

**Deductions you cannot take.** By making the Form 8814 election, you cannot take any of the following deductions that the child would be entitled to on his or her return.

- 1) The higher standard deduction for a blind child.
- 2) The deduction for a penalty on an early withdrawal of your child's savings.
- 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 child's 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**.

**Reduced deductions or credits.** If you use Form 8814, your increased adjusted gross income may reduce certain deductions or credits on your return, including the following.

- 1) Deduction for contributions to a traditional individual retirement arrangement (IRA).
- 2) Deduction for student loan interest.
- 3) Itemized deductions for medical expenses, casualty and theft losses, and certain miscellaneous expenses.
- 4) Total itemized deductions.
- 5) Personal exemptions.
- 6) Credit for child and dependent care expenses.
- 7) Child tax credit.
- 8) Education tax credits.
- 9) Earned income credit.

**Penalty for underpayment of estimated tax.** If you make this election for 2001 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 2002, 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 **Part I** of Form 8814 to figure your child's interest and dividend income to report on your return. Only the amount over \$1,500 is added to your income. This amount is shown on line 6 of

Form 8814. Include this amount on line 21 of Form 1040 or Form 1040NR. In the space next to line 21, write "Form 8814." If you file more than one Form 8814, include the total amounts from line 6 of all your Forms 8814 on line 21.

**Capital gain distributions.** Enter on line 3 of Form 8814 any capital gain distributions your child received. The amount of these distributions that is added to your income must be reported on line 13 of Schedule D (Form 1040) or, if you are not required to file Schedule D, on line 13 of Form 1040. You do not include it on line 6 of Form 8814 or on line 21 of Form 1040. The amount of the distributions that is added to your income is the amount over the allocable part of \$1,500.



Use the following worksheet to figure the amount to report as capital gain distributions on Schedule D or directly on Form 1040 and the amount to report on Form 8814, line 6.

**Worksheet for Child's  
Capital Gain Distributions  
(Keep for your records)**

1. Enter amount from Form 8814, line 3 . . . \_\_\_\_\_
2. Enter amount from Form 8814, line 4 . . . \_\_\_\_\_
3. Divide line 1 by line 2 . . . . . \_\_\_\_\_
4. Base amount . . . . . \$1,500
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), or on line 13 of Form  
1040 . . . . . \_\_\_\_\_
7. Subtract line 6 from line 5. Enter the result  
here and on Form 8814, line 6 . . . . . \_\_\_\_\_

On the dotted line next to line 6, Form 8814, write "CGD" and the amount from line 6 of this worksheet. On the dotted line next to line 13, Schedule D, or line 13, Form 1040, write "Form 8814" and the amount from line 6 of this worksheet.

**28% rate gain.** If any of the child's capital gain distributions are reported on Form 1099-DIV as 28% rate gain, you must determine how much to also include on Schedule D, line 13, column (g). Multiply the child's capital gain distribution included on line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is 28% rate gain. The denominator is the child's total capital gain distribution.

**Qualified 5-year gain.** If any of the child's capital gain distributions are reported on Form 1099-DIV as qualified 5-year gain, you must determine how much to also include on line 2 of the *Qualified 5-Year Gain Worksheet* in the instructions for line 29 of Schedule D. Multiply the child's capital gain distribution included on line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is qualified 5-year gain. The denominator is the child's total capital gain distribution.

**Unrecaptured section 1250 gain.** If any of the child's capital gain distributions are reported on Form 1099-DIV as unrecaptured section 1250 gain, you must determine how much to

include on line 11 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for line 19 of Schedule D. Multiply the child's capital gain distribution included on line 13, column (f) by a fraction. The numerator is the part of the child's total capital gain distribution that is unrecaptured section 1250 gain. The denominator is the child's total capital gain distribution.

**Section 1202 gain.** If any of the child's capital gain distributions are reported as section 1202 gain (gain on qualified small business stock) on Form 1099-DIV, part or all of that gain may be eligible for the section 1202 exclusion. (For information about the exclusion, see chapter 4 of Publication 550.) To figure that part, multiply the child's capital gain distribution included on line 13, column (f) by a fraction. The numerator is the part of the child's total capital gain distribution that is section 1202 gain. The denominator is the child's total capital gain distribution. Your section 1202 exclusion is generally 50% of the result, but may be subject to a limit. See the instructions for Schedule D for information on how to report the exclusion amount.

**Example.** Fred is 6 years old. In 2001, he received dividend income of \$1,600, which included \$1,280 of ordinary dividends and a \$320 capital gain distribution from a mutual fund. (None of the distributions were reported on Form 1099-DIV as 28% gain, qualified 5-year gain, unrecaptured section 1250 gain, or section 1202 gain.) 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 \$1,280 on line 2 and \$320 on line 3, Form 8814.

\$100 of Fred's income must be included as income on his parents' tax return (\$1,600 gross income minus \$1,500). They figure the amount to report on line 13 of their Schedule D and the amount to report on line 6, Form 8814, as follows.

**Worksheet for Child's  
Capital Gain Distributions  
(Keep for your records)**

1. Enter amount from Form 8814, line 3 . . . \$ 320
2. Enter amount from Form 8814, line 4 . . . 1,600
3. Divide line 1 by line 2 . . . . . .20
4. Base amount . . . . . 1,500
5. Subtract line 4 from line 2 . . . . . 100
6. Multiply line 5 by the decimal on line 3.  
Enter the result here and on Schedule D,  
line 13, column (f), or on line 13 of Form  
1040 . . . . . 20
7. Subtract line 6 from line 5. Enter the result  
here and on Form 8814, line 6 . . . . . \$ 80

On Form 8814, Fred's parents enter \$80 on line 6 and write "CGD-\$20" on the dotted line next to line 6. They include the \$80 on line 21 of their Form 1040 and write "Form 8814-\$80" on the dotted line next to the total.

On Schedule D, they include \$20 on line 13, column (f), and write "Form 8814-\$20" on the dotted line next to this line.

## Figuring Additional Tax

Use **Part II** of Form 8814 to figure the tax on the \$1,500 of your child's interest and dividends that 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)  $10\% \times (\text{your child's gross income} - \$750)$ ,  
or
- 2) \$75.

Include the amount from line 9 of all your Forms 8814 in the total on line 40, Form 1040, or line 39, Form 1040NR. Check box a on Form 1040, line 40, or Form 1040NR, line 39.

## Illustrated Example

David and Linda Parks are married and will file separate tax returns for 2001. Their only child, Philip, is 8. Philip received a Form 1099-INT showing \$3,200 taxable interest income and a Form 1099-DIV showing \$300 ordinary dividends. His parents decide to include that income on one of their returns so they will not have to file a return for Philip.

First, David and Linda each figure their taxable income (Form 1040, line 39) 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 (illustrated on the next page), 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 2. Philip did not have any capital gain distributions, so she leaves line 3 blank.

Linda adds lines 1a and 2 and enters the result, \$3,500, on line 4. From that amount she subtracts the \$1,500 base amount shown on line 5 and enters the result, \$2,000, on line 6. This is the part of Philip's income that Linda must add to her income.

Linda includes the \$2,000 in the total on line 21 of her Form 1040 (not illustrated) and in the space next to that line writes "Form 8814-\$2,000." Adding that amount to her income increases each of the amounts on lines 22, 33, 34, 37, and 39 of her Form 1040 by \$2,000. Linda is not claiming any deductions or credits that are affected by the increase to her income. Therefore, her revised taxable income on line 39 is \$61,300 (\$59,300 + \$2,000).

On Form 8814, Linda subtracts the \$750 shown on line 7 from the \$3,500 on line 4 and enters the result, \$2,750, on line 8. Because that amount is not less than \$750, she enters \$75 on line 9. This is the tax on the first \$1,500 of Philip's income, which Linda did not have to add to her income. She must add this additional tax to the tax figured on her revised taxable income.

The tax on her \$61,300 revised taxable income is \$14,240. She adds \$75, enters the \$14,315 total on line 40 of Form 1040, and checks box a.

Linda attaches Form 8814 to her Form 1040.

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

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

Name(s) shown on your return Linda Parks Your social security number 111 00 1111

**Caution:** The Federal income tax on your child's income, including capital gain distributions, may be less if you file a separate tax return for the child instead of making this election. This is because you cannot take certain tax benefits that your child could take on his or her own return. For details, see **Tax Benefits You May Not Take** on the back.

A Child's name (first, initial, and last) Philip Parks B Child's social security number 000 00 0000

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

**Part I Child's Interest and Dividends To Report on Your Return**

1a	Enter your child's <b>taxable</b> interest. If this amount is different from the amounts shown on the child's Forms 1099-INT and 1099-OID, see the instructions . . . . .	1a	3,200	
b	Enter your child's <b>tax-exempt</b> interest. <b>Do not</b> include this amount on line 1a . . . . .	1b		
2	Enter your child's ordinary dividends, including any Alaska Permanent Fund dividends. If your child received any ordinary dividends as a nominee, see the instructions. . . . .	2	300	
3	Enter your child's capital gain distributions. If your child received any capital gain distributions as a nominee, see the instructions . . . . .	3		
4	Add lines 1a, 2, and 3. If the total is \$1,500 or less, skip lines 5 and 6 and go to line 7. If the total is \$7,500 or more, <b>do not</b> file this form. Your child <b>must</b> file his or her own return to report the income . . . . .	4	3,500	
5	Base amount . . . . .	5	1,500	00
6	Subtract line 5 from line 4. If you checked the box on line C above or if you entered an amount on line 3, 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 7 below . . . . .	6	2,000	

**Part II Tax on the First \$1,500 of Child's Interest and Dividends**

7	Amount not taxed . . . . .	7	750	00
8	Subtract line 7 from line 4. If the result is zero or less, enter -0- . . . . .	8	2,750	
9	<b>Tax.</b> Is the amount on line 8 less than \$750? <input checked="" type="checkbox"/> <b>No.</b> Enter \$75 here and see the <b>Note</b> below. <input type="checkbox"/> <b>Yes.</b> Multiply line 8 by 10% (.10). Enter the result here and see the <b>Note</b> below. } . . . . .	9	75	

**Note:** If you checked the box on line C above, see the instructions. Otherwise, include the amount from line 9 in the tax you enter on Form 1040, line 40, or Form 1040NR, line 39. Be sure to check box a on Form 1040, line 40, or Form 1040NR, line 39.

**General Instructions**

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

- Was under age 14 on January 1, 2002.
- Is required to file a 2001 return.
- Had income only from interest and dividends, including Alaska Permanent Fund dividends.
- Had gross income for 2001 that was less than \$7,500.
- Had no estimated tax payments for 2001 (including any overpayment of tax from his or her 2000 return applied to 2001 estimated tax).

- Had no Federal income tax withheld from his or her income.
- You must also qualify. See **Parents Who Qualify To Make the Election** below.
- How To Make the Election.** To make the election, complete and attach Form(s) 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.
- Parents Who Qualify To Make the Election.** You qualify to make this election if you file Form 1040 or Form 1040NR and **any** of the following apply.
  - You are filing a joint return for 2001 with the child's other parent.
  - You and the child's other parent were married to each other but file separate

- returns for 2001 **and** you had the **higher** taxable income. If you do not know if you had the higher taxable income, see **Pub. 929, Tax Rules for Children and Dependents.**
- You were unmarried, treated as unmarried for Federal income tax purposes, or separated from the child's other parent by a divorce or separate maintenance decree. You must have had custody of your child for most of the year (you were the custodial parent). If you were the custodial parent and you remarried, you may make the election on a joint return with your new spouse. But if you and your new spouse do not file a joint return, you qualify to make the election only if you had **higher** taxable income than your new spouse.

(continued)

# Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,500

Part of a child's 2001 investment income may be subject to tax at the parent's tax rate if:

- 1) The child was under age 14 on January 1, 2002,
- 2) The child's investment income was more than \$1,500, and
- 3) The child is required to file a tax return for 2001.

These conditions are also shown in *Figure 2* below.

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

The following discussions explain the parental information needed for Form 8615 and the steps to follow in figuring the child's tax.

## Providing Parental Information (Form 8615, Lines A–C)

On lines A and B of Form 8615, enter the parent's name and social security number. (If the parents filed a joint return, enter the name and social security number listed first on the joint return.) On line C, check the box for the parent's filing status.

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

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

**Example.** Kimberly must use her mother's tax and taxable income to complete her Form 8615 for calendar year 2001 (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, 2001, to complete her 2001 Form 8615.

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

You can use any reasonable estimate. This includes using information from last year's re-

turn. 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 can get an automatic 4-month extension of time to file if, by April 15, 2002, you either:

- File **Form 4868**, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*, or
- File an extension by phone, using tax software, or through a tax professional.

See the instructions for Form 4868 for details.

If you have an extension, you must file the child's return by August 15, 2002.

 **CAUTION** An extension of time to file is not an extension of time to pay. You must make an accurate estimate of the tax for 2001. If you do not pay the full amount due by the regular due date, the child will owe interest and may also be charged penalties. 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 (IRS).

**How to request.** After the end of the tax year, send a signed, written request for the information to the Internal Revenue Service Center where the parent's return will be filed. (The IRS cannot process a request received before the end of the tax year.)

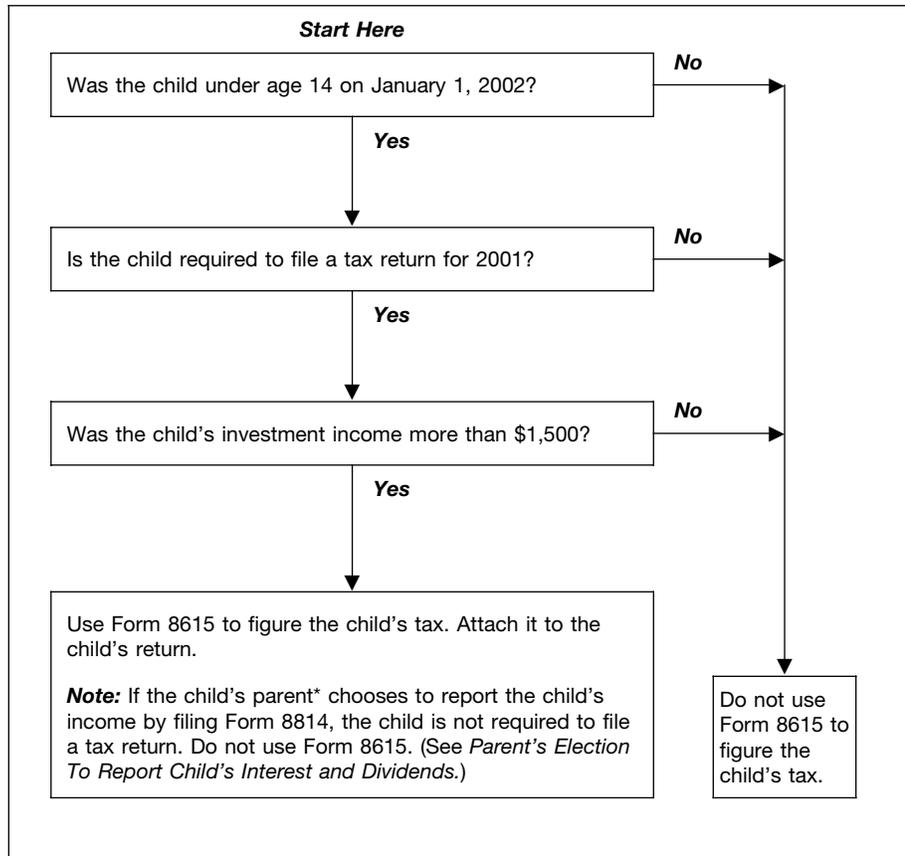
 **TIP** You should also consider getting an extension of time to file the child's return, because there may be a delay in getting the requested information.

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 \$1,500 of unearned income (for example, a copy of the child's prior year tax return or copies of Forms 1099 for the current year).
- 4) The name, address, social security number (if known), and filing status (if known) of the parent whose information is to be shown on Form 8615.

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.

Figure 2. Do You Have To Use Form 8615 To Figure Your Child's Tax?



\*See *Which Parent's Return To Use*

# Step 1. Figuring the Child's Net Investment Income (Form 8615, Part I)

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*.

## Line 1 (Investment Income)

If the child had **no earned income**, enter on this line the adjusted gross income shown on the child's return. Adjusted gross income is shown on line 34 of Form 1040; line 20 of Form 1040A; or line 34 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 30 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. Capital losses are first applied against capital gains. If the capital losses are more than the capital gains, the difference (up to \$3,000) is subtracted from the child's interest, dividends, and other investment income. Any difference over \$3,000 is carried to the next year.

**Income from property received as a gift.** 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, age 13, received the following income.

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

## Illustrated Part I of Form 8615

Carla's total income on Form 1040A, line 15, 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 25, is \$4,150. 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 15 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 \$1,500 is entered on line 2. Line 3 of Form 8615 is the result of subtracting \$1,500 from \$4,400. Carla's taxable income of \$4,150 (as shown on line 25 of her Form 1040A) is entered on line 4 of Form 8615. The smaller of \$2,900 or \$4,150 is entered on line 5. This is her net investment income.

### Worksheet—Line 1

1. Enter the amount from the child's Form 1040, line 22; Form 1040A, line 15; 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 30, or Form 1040NR, line 30, whichever applies . . . . . 600
3. Subtract line 2 from line 1. Enter the result here and on Form 8615, line 1 . . . . . 4,400

<b>Form 8615</b> <small>Department of the Treasury Internal Revenue Service</small>	<b>Tax for Children Under Age 14 With Investment Income of More Than \$1,500</b> <small>▶ Attach only to the child's Form 1040, Form 1040A, or Form 1040NR. ▶ See separate instructions.</small>	<small>OMB No. 1545-0998</small> <b>2001</b> <small>Attachment Sequence No. 33</small>
<small>Child's name shown on return</small> Carla C. Rose		<small>Child's social security number</small> 111:00:1111

**Before you begin:** If the child, the parent, or any of the parent's other children under age 14 received capital gains (including capital gain distributions) or farm income, see **Pub. 929**, Tax Rules for Children and Dependents. It explains how to figure the tax for lines 9 and 15 using the **Capital Gain Tax Worksheet** in the Form 1040 or Form 1040A instructions, or **Schedule D** or **J** (Form 1040).

<b>A</b> Parent's name (first, initial, and last). <small>Caution: See instructions before completing.</small> George B. Rose	<b>B</b> Parent's social security number 12 3: 00: 4 5 6 7
<b>C</b> Parent's filing status (check one): <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)	

<b>Part I Child's Net Investment Income</b>	
1 Enter the child's investment income (see instructions) . . . . .	1 4,400
2 If the child <b>did not</b> itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,500. If the child <b>did</b> itemize deductions, see instructions . . . . .	2 1,500
3 Subtract line 2 from line 1. If zero or less, <b>do not</b> complete the rest of this form but <b>do</b> attach it to the child's return . . . . .	3 2,900
4 Enter the child's taxable income from Form 1040, line 39; Form 1040A, line 25; or Form 1040NR, line 38 . . . . .	4 4,150
5 Enter the <b>smaller</b> of line 3 or line 4. If zero or less, <b>do not</b> complete the rest of this form but <b>do</b> attach it to the child's return . . . . .	5 2,900

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 non-taxable.

**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 \$1,500 on line 2.

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

- 1) \$750 plus the child's itemized deductions that are directly connected with the production of the investment income entered on line 1, or
- 2) \$1,500.

**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 itemized 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, age 12, has investment income of \$8,000, no other income, no adjustments to income, and itemized deductions of \$300 (net of the 2%-of-adjusted-gross-income limit) that are directly connected with his investment income. His adjusted gross income is \$8,000, which is entered on line 1. Line 2 is \$1,500 because that is more than the sum of \$750 and his directly-connected itemized deductions of \$300.

**Example 2.** Eleanor, age 8, has investment income of \$16,000 and an early withdrawal penalty of \$100. She has no other income. She has itemized deductions of \$1,050 (net of the 2%-of-adjusted-gross-income limit) that are directly connected with the production of her investment income. Her adjusted gross income, entered on line 1, is \$15,900 (\$16,000 - \$100). Line 2 is \$1,800. This is the larger of:

- 1) \$750 plus the \$1,050 of directly connected itemized deductions, or

- 2) \$1,500.

### Line 3

Subtract line 2 from line 1 and enter the result on this line. If zero or less, 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 39; Form 1040A, line 25; or Form 1040NR, line 38.

### 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**. If zero or less, 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.

## Step 2. Figuring a Tentative Tax at the Parent's Tax Rate (Form 8615, Part II)

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 (plus the net investment income of any other child whose Form 8615 includes the tax return information of that parent) and the tax figured without it.

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

Figure the tentative tax on lines 6 through 13. For an example, see *Illustrated Part II of Form 8615* on the next page.

### Line 6 (Parent's Taxable Income)

Enter on line 6 the amount from the parent's Form 1040, line 39; Form 1040A, line 25; Form 1040EZ, line 6; TeleFile Tax Record, line K; Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If the parent's taxable income is zero or less, enter zero on line 6.

### Line 7 (Net Investment Income of Other Children)

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

**Example.** Paul and Jane Persimmon have three children, Sharon, Jerry, and Mike, who

must attach Form 8615 to their tax returns. The children's net investment income amounts on line 5 of their Forms 8615 are:

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

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

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

Line 7 of Mike's Form 8615 will 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 *Providing Parental Information (Form 8615, Lines A-C)*.

### Line 8 (Parent's Taxable Income Plus Children's Net Investment Income)

Enter on this line the total of lines 5, 6, and 7. You must determine the amount of **net capital gain** included on this line before completing line 9 of Form 8615.

**Net capital gain on line 8.** If neither the child nor the parent nor any other child has net capital gain, the net capital gain on line 8 is zero. Net capital gain is the smaller of the gain, if any, on line 16 of Schedule D or the gain, if any, on line 17 of Schedule D. If Schedule D is not required, it is the amount on line 13 of Form 1040 or line 10 of Form 1040A.

If the child, parent, or any other child has net capital gain, figure the amount of net capital gain included on line 8 by adding together the net capital gain amounts included on lines 5, 6, and 7 of Form 8615. Use the following discussions to find these amounts.

**Net capital gain on line 5.** If the child has a net capital gain, use the appropriate worksheet below to find the amount of net capital gain included on line 5.



Use the following worksheet only if line 2 of the child's Form 8615 is \$1,500 and lines 3 and 5 are the same amount.

#### 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 \$1,500 by line C . . . . . \_\_\_\_\_
- E. **Net capital gain on line 5.** Subtract line D from line A (but do not enter less than zero or more than the amount on line 5 of Form 8615) . . . . . \_\_\_\_\_



Use the following worksheet only if line 2 of the child's Form 8615 is **more** than \$1,500 and lines 3 and 5 are the same amount.

**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 \$750 by line E . . . . . \_\_\_\_\_
- G. **Net capital gain on line 5.** Subtract line F from line C (but do not enter less than zero or more than the amount on line 5 of Form 8615) . . . . . \_\_\_\_\_
- G. Enter the child's adjusted gross income (line 34 of Form 1040, line 20 of Form 1040A, or line 34 of Form 1040NR) . . . . . \_\_\_\_\_
- H. Divide line A by line G (but do not enter more than 1) . . . . . \_\_\_\_\_
- I. Multiply line F by line H . . . . . \_\_\_\_\_
- J. **Net capital gain on line 5.** Subtract line I from line C. Enter the result here (but do not enter less than zero or more than the amount on line 5 of Form 8615) . . . . . \_\_\_\_\_

\* If you enter more than \$132,950 on line G, see *Deduction for Exemptions Worksheet—Line 38* in the Form 1040 instructions for the amount to enter on line D.

**Net capital gain on line 6.** If the parent has a net capital gain, its full amount is the net capital gain included on line 6.

**Net capital gain on line 7.** The net capital gain included on line 7 is the total of the amounts of net capital gain included on line 5 of the other children's Forms 8615. Find the amount for each other child as explained earlier under *Net capital gain on line 5*. (Do not attach the other children's Forms 8615 to the child's return.)

- If line 8 **does not** include any net capital gain, use the Tax Table or Tax Rate Schedules to figure this tax. But if Schedule J, *Farm Income Averaging*, is used to figure the tax on the parent's return, use it to figure this tax.
- If line 8 **does** include any net capital gain, use the *Capital Gain Tax Worksheet* to figure this tax unless the child, parent, or any other child has unrecaptured section 1250 gain, 28% rate gain, qualified 5-year gain, or an amount on Form 4952, line 4e. In that case, use Schedule D to figure this tax, or if there is unrecaptured section 1250 gain or 28% rate gain, use the *Schedule D Tax Worksheet*. But if Schedule J is used to figure the tax on the parent's return, use it to figure this tax.



Use the following worksheet only 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 \$2,900\*. 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 . . . . . \_\_\_\_\_

**Line 9 (Tax on Parent's Taxable Income Plus Children's Net Investment Income)**

Figure the tax on the amount on line 8 using the Tax Table, the Tax Rate Schedules, the *Capital Gain Tax Worksheet* (in the Form 1040, 1040A, or 1040NR instructions), the *Schedule D Tax Worksheet* (in the Schedule D instructions) or Schedule D or J (Form 1040), as follows.

**Using the Capital Gain Tax Worksheet for line 9 tax.** If you use the *Capital Gain Tax Worksheet* to figure the line 9 tax on Form 8615, complete that worksheet as follows.

- 1) On line 1, enter the amount from line 8 of Form 8615.
- 2) On line 2, enter the amount of the net capital gain on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 3) Complete lines 3 through 15 following the worksheet instructions. (Use the parent's filing status to complete lines 4, 5, and 14.)

Enter the amount from line 15 of the *Capital Gain Tax Worksheet* on line 9 of Form 8615 and

**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 \$50,570. Their tax, from the Tax Table, is \$8,258.

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

Randy's parents' taxable income of \$50,570 (from line 39 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 (\$50,570), and line 7 (\$1,520) are added and the total of \$54,370 is entered on line 8.

The tax on \$54,370 is found in the Tax Table using the parents' joint filing status. The tax, \$9,303, is entered on line 9. Randy's parents' tax of \$8,258 (from line 40 of Form 1040) is entered on line 10 and is subtracted from the amount on line 9. The difference, \$1,045, 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, .600, is entered on line 12b.

The amount on line 11 (\$1,045) is multiplied by the amount on line 12b (.600) and the result, \$627, 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**

<b>6</b>	Enter the parent's taxable income from Form 1040, line 39; Form 1040A, line 25; Form 1040EZ, line 6; TeleFile Tax Record, line K; Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If zero or less, enter -0-	6	50,570
<b>7</b>	Enter the total, if any, from Forms 8615, line 5, of all other children of the parent named above. Do not include the amount from line 5 above	7	1,520
<b>8</b>	Add lines 5, 6, and 7.	8	54,370
<b>9</b>	Enter the tax on the amount on line 8 based on the parent's filing status above (see instructions). If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used, check here <input type="checkbox"/>	9	9,303
<b>10</b>	Enter the parent's tax from Form 1040, line 40; Form 1040A, line 26, minus any alternative minimum tax; Form 1040EZ, line 11; TeleFile Tax Record, line K; Form 1040NR, line 39; or Form 1040NR-EZ, line 15. Do not include any tax from Form 4972 or 8814. If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) was used to figure the tax, check here <input type="checkbox"/>	10	8,258
<b>11</b>	Subtract line 10 from line 9 and enter the result. If line 7 is blank, also enter this amount on line 13 and go to Part III	11	1,045
<b>12a</b>	Add lines 5 and 7	12a	3,800
<b>b</b>	Divide line 5 by line 12a. Enter the result as a decimal rounded to at least three places	12b	× .600
<b>13</b>	Multiply line 11 by line 12b	13	627

check the box on that line. Do not attach this worksheet to the child's return.

**Using Schedule D for line 9 tax.** Use Schedule D to figure the line 9 tax on Form 8615 if the child, parent, or any other child has qualified 5-year gain or an amount on Form 4952, line 4e, and none of them has unrecaptured section 1250 gain or 28% rate gain.

If you must use Schedule D, first complete any Schedule D required for the child, parent, or any other child. Then figure the tax using Part IV of **another** Schedule D as a worksheet. (Do not attach this worksheet Schedule D to the child's return.)

Complete this worksheet Schedule D as follows.

- 1) On line 19, enter zero.
- 2) On line 20, enter the amount from line 8 of Form 8615.
- 3) On line 21, enter the net capital gain included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 4) On line 22, enter the total of the amounts on line 22 of each completed Schedule D.
- 5) Complete lines 23 through 40, following the Schedule D instructions. (Use the parent's filing status to complete lines 25, 26, and 39.) If you need to complete line 29, enter zero if neither the child, nor the parent, nor any other child has qualified 5-year gain. Otherwise, enter the amount of qualified 5-year gain included in the net capital gain on line 21 of this worksheet. Figure this amount as explained next under *Figuring qualified 5-year gain (line 29)*.

Enter the amount from line 40 of this worksheet Schedule D on line 9 of Form 8615 and check the box on that line.

**Figuring qualified 5-year gain (line 29).** If the child, parent, or any other child has qualified 5-year gain, figure the amount of qualified 5-year gain included in the net capital gain on line 21 of the worksheet Schedule D using the following worksheet.

**Worksheet for Line 29 of Schedule D (Line 9 Tax)**

1. Enter the amount, if any, from line 7 of the child's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions . . . . . \_\_\_\_\_  
**If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) . . . . . \_\_\_\_\_
3. Enter the amount from line A of the child's completed *Line 5 Worksheet* . . . . . \_\_\_\_\_
4. Divide line 2 by line 3. Enter the result as a decimal . . . . . \_\_\_\_\_
5. Multiply line 1 by line 4 . . . . . \_\_\_\_\_
6. If no other child has qualified 5-year gain, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has qualified 5-year gain and enter the total of the line 5 amounts for those other children . . . . . \_\_\_\_\_
7. Enter the amount, if any, from line 7 of the parent's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions . . . . . \_\_\_\_\_

8. Add lines 5, 6, and 7. Also enter this amount on line 29 of the worksheet  
Schedule D . . . . . \_\_\_\_\_

**Using the Schedule D Tax Worksheet for line 9 tax.** Use the *Schedule D Tax Worksheet* in the Schedule D instructions to figure the line 9 tax on Form 8615 if the child, parent, or any other child has unrecaptured section 1250 gain or 28% rate gain. If you must use the *Schedule D Tax Worksheet*, first complete any Schedule D and any actual *Schedule D Tax Worksheet* required for the child, parent, or any other child. Then figure the line 9 tax using **another** *Schedule D Tax Worksheet*. (Do not attach this *Schedule D Tax Worksheet* to the child's return.)

Complete this *Schedule D Tax Worksheet* as follows.

- 1) On line 1, enter the amount from line 8 of Form 8615.
- 2) On line 2, enter the net capital gain included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 3) On line 3, enter the total of the amounts, if any, on line 22 of each actual Schedule D.
- 4) On line 4, follow the worksheet instructions.
- 5) Leave line 5 blank.
- 6) On line 6, enter zero if neither the child, parent, nor any other child has 28% rate gain (line 15 of Schedule D). Otherwise, enter the amount of 28% rate gain included in the net capital gain on line 2. Figure this amount as explained later under *Figuring 28% rate gain (line 6)*.
- 7) On line 7, enter zero if neither the child, parent, nor any other child has unrecaptured section 1250 gain (line 19 of Schedule D). Otherwise, enter the amount of unrecaptured section 1250 gain included in the net capital gain on line 2. Figure this amount as explained later under *Figuring unrecaptured section 1250 gain (line 7)*.

- 8) Complete lines 8 through 37, following the worksheet instructions. (Use the parent's filing status to complete lines 11, 15, and 36.) If you need to complete line 17, enter zero if neither the child, parent, nor any other child has qualified 5-year gain (line 7 of the *Qualified 5-Year Gain Worksheet* in the Schedule D instructions). Otherwise, enter the amount of qualified 5-year gain included in the net capital gain on line 2. Figure this amount as explained later under *Figuring qualified 5-year gain (line 17)*.

Enter the amount from line 37 of this *Schedule D Tax Worksheet* on line 9 of Form 8615 and check the box on that line.

**Figuring 28% rate gain (line 6).** If the child, parent, or any other child has 28% rate gain, figure the amount of 28% rate gain included in the net capital gain on line 2 using the following worksheet.

**Worksheet for Line 6 of the Schedule D Tax Worksheet (Line 9 Tax)**

1. If the child does not have 28% rate gain, skip this line and lines 2 through 5, enter zero on line 6, and go to line 7. Otherwise, if an actual *Schedule D Tax Worksheet* was required for the child, skip this line, enter the amount from line 6 of that worksheet on line 2 below, and go to line 3. If that worksheet was not required, enter the total of lines 7 and 15 of the child's Schedule D, but not less than zero . . . . . \_\_\_\_\_
  2. Enter the smaller of line 1 above or line 15 of the child's Schedule D, but not less than zero . . . . . \_\_\_\_\_
- If line 2 is zero, skip lines 3 through 5, enter zero on line 6, and go to line 7.**
3. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) . . . . . \_\_\_\_\_
  4. Enter the amount from line A of the child's completed *Line 5 Worksheet* . . . . . \_\_\_\_\_
  5. Divide line 3 by line 4. Enter the result as a decimal . . . . . \_\_\_\_\_
  6. Multiply line 2 by line 5 . . . . . \_\_\_\_\_
  7. If no other child has 28% rate gain, enter zero. Otherwise, repeat lines 1 through 6 above for each other child who has 28% rate gain and enter the total of the line 6 amounts for those other children . . . . . \_\_\_\_\_
  8. If the parent does not have 28% rate gain, skip this line, enter zero on line 9, and go to line 10. Otherwise, if an actual *Schedule D Tax Worksheet* was required for the parent, skip this line, enter the amount from line 6 of that worksheet on line 9 below, and go to line 10. If that worksheet was not required, enter the total of lines 7 and 15 of the parent's Schedule D, but not less than zero . . . . . \_\_\_\_\_
  9. Enter the smaller of line 8 above or line 15 of the parent's Schedule D, but not less than zero . . . . . \_\_\_\_\_
  10. Add lines 6, 7, and 9. Also enter this amount on line 6 of the *Schedule D Tax Worksheet* . . . . . \_\_\_\_\_

**Figuring unrecaptured section 1250 gain (line 7).** If the child, parent, or any other child has unrecaptured section 1250 gain, figure the amount of unrecaptured section 1250 gain included in the net capital gain on line 2 using the following worksheet.

**Worksheet for Line 7 of the Schedule D Tax Worksheet (Line 9 Tax)**

1. Enter the amount, if any, from line 19 of the child's Schedule D . . . . . \_\_\_\_\_  
**If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount, if any, from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) . . . . . \_\_\_\_\_
3. Enter the amount from line A of the child's completed *Line 5 Worksheet* . . . . . \_\_\_\_\_
4. Divide line 2 by line 3. Enter the result as a decimal . . . . . \_\_\_\_\_
5. Multiply line 1 by line 4 . . . . . \_\_\_\_\_

6. If no other child has unrecaptured section 1250 gain, enter zero. Otherwise, repeat lines 1 through 5 for each other child who has unrecaptured section 1250 gain and enter the total of the line 5 amounts for those children . . . . . \_\_\_\_\_
7. If the parent does not have unrecaptured section 1250 gain, enter zero. Otherwise, enter the amount from line 19 of the parent's Schedule D . . . . . \_\_\_\_\_
8. Add lines 5, 6, and 7. Also enter this amount on line 7 of the *Schedule D Tax Worksheet* . . . . . \_\_\_\_\_

**Figuring qualified 5-year gain (line 17).** If the child, parent, or any other child has qualified 5-year gain, figure the amount of qualified 5-year gain included in the net capital gain on line 2 using the following worksheet.

**Worksheet for Line 17 of the Schedule D Tax Worksheet (Line 9 Tax)**

1. Enter the amount, if any, from line 7 of the child's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions . . . . . \_\_\_\_\_  
**If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) . . . . . \_\_\_\_\_
3. Enter the amount from line A of the child's completed *Line 5 Worksheet* . . . . . \_\_\_\_\_
4. Divide line 2 by line 3. Enter the result as a decimal . . . . . \_\_\_\_\_
5. Multiply line 1 by line 4 . . . . . \_\_\_\_\_
6. If no other child has qualified 5-year gain, enter zero. Otherwise, repeat lines 1 through 5 above for each child who has qualified 5-year gain and enter the total of the line 5 amounts for those other children \_\_\_\_\_
7. If the parent has no qualified 5-year gain, enter zero. Otherwise, enter the amount from line 7 of the parent's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions . . . . . \_\_\_\_\_
8. Add lines 5, 6 and 7. Also enter this amount on line 17 of the *Schedule D Tax Worksheet* . . . . . \_\_\_\_\_

**Using Schedule J for line 9 tax.** Use Schedule J, *Farm Income Averaging*, to figure the line 9 tax on Form 8615 if Schedule J is used to figure the tax on the parent's return. First complete the actual Schedule J for the parent, then use **another** Schedule J as a worksheet to figure the tax to enter on line 9 of Form 8615. (Do not attach this worksheet to the child's return.)

Complete this worksheet Schedule J as follows.

- 1) On line 1, enter the amount from line 8 of Form 8615.
- 2) On line 2, enter the amount from the parent's Schedule J, line 2.
- 3) Complete line 3 following the Schedule J instructions.
- 4) Complete line 4. If line 8 of Form 8615 includes any net capital gain, use the *Capital Gain Tax Worksheet* to figure the tax

amount on this line **unless** the child, parent, or any other child has unrecaptured section 1250 gain, 28% rate gain, qualified 5-year gain, or an amount on Form 4952, line 4e. In that case, use Schedule D to figure this tax or, if there is unrecaptured section 1250 gain or 28% rate gain, use the *Schedule D Tax Worksheet*. Follow the earlier instructions under *Using the Capital Gain Tax Worksheet for line 9 tax, Using Schedule D for line 9 tax, or Using the Schedule D Tax Worksheet for the line 9 tax*, except use the amount on line 3 of **this** worksheet (instead of the amount on line 8 of Form 8615) in item (1) of those instructions.

- 5) On lines 5 through 16, enter the amounts from the parent's Schedule J, lines 5 through 16.
- 6) Complete line 17 following the Schedule J instructions.
- 7) On lines 18 through 21, enter the amounts from the parent's Schedule J, lines 18 through 21.
- 8) Complete line 22 following the Schedule J instructions.

Enter the amount from line 22 of this worksheet Schedule J on line 9 of Form 8615 and check the box on that line.

**Line 10 (Parent's Tax)**

Enter on line 10 the amount from the parent's Form 1040, line 40; Form 1040A, line 26 (minus any alternative minimum tax); Form 1040EZ, line 10; TeleFile Tax Record, line K; Form 1040NR, line 39; or Form 1040NR-EZ, line 15. **Do not** include the tax, if any, from Form 4972 or Form 8814.

**Line 11 (Tentative Tax)**

Subtract line 10 from line 9 and enter the result on this line. This is the tentative tax.

If line 7 is blank, skip lines 12a and 12b and enter the amount from line 11 on line 13.

**Lines 12a and 12b (Dividing the Tentative Tax)**

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. This is the child's share of the tentative tax.

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

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

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

This is the child's tax. It is figured on lines 14 through 18 of Form 8615.

**Line 14 (Child's Taxable Income in Excess of Net Investment Income)**

If lines 4 and 5 of Form 8615 are the same, the child's taxable income does not exceed the child's net investment income. Skip line 14, enter zero on line 15, and go to line 16. Also skip the rest of this discussion and the discussion for line 15 that follows.

If lines 4 and 5 are not the same, subtract line 5 from line 4 and enter the result on line 14. Then, before completing line 15, you must determine the amount of net capital gain, if any, included on line 14.

**Net capital gain on line 14.** If the child does not have any net capital gain, the net capital gain included on line 14 is zero. For an explanation of net capital gain, see *Net capital gain on line 8* in the earlier discussion for line 8 of Form 8615.

If the child has net capital gain, the amount included on line 14 is the amount from line A of the child's completed *Line 5 Worksheet* minus the amount from the last line of that worksheet. (See the earlier discussion for line 8 of Form 8615.)

**Line 15 (Tax on Child's Taxable Income in Excess of Net Investment Income).**

Figure the tax on the amount on line 14 using the Tax Table, the Tax Rate Schedules, the *Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, or Schedule D or J (Form 1040), as follows.

- If line 14 **does not** include any net capital gain, use the Tax Table or Tax Rate Schedules (or Schedule J, if applicable) to figure this tax.

- If line 14 **does** include any net capital gain, use the *Capital Gain Tax Worksheet* to figure this tax unless the child has unrecaptured section 1250 gain, 28% rate gain, qualified 5-year gain, or an amount on Form 4952, line 4e. In that case, use Schedule D to figure this tax or, if the child has unrecaptured section 1250 gain or 28% rate gain, use the *Schedule D Tax Worksheet*. (But use Schedule J instead, if it applies.)



**Tax computation for certain dependents.** Generally, if the child can be claimed as a dependent on someone else's tax return, you can reduce any tax amount figured using the 2001 Tax Table or Tax Rate Schedules (including any line 15 tax figured on any worksheet or schedule described in the following paragraphs) by one-third of the tax amount or \$300, whichever is smaller.

This reduction **does not apply** to the following dependents.

- A child who received (before any offsets) an advance payment of his or her 2001 taxes.
- A child who files Form 1040NR.

**Using the Capital Gain Tax Worksheet for line 15 tax.** If you use the *Capital Gain Tax Worksheet* to figure the line 15 tax on Form 8615, complete that worksheet as follows.

- 1) On line 1, enter the amount from line 14 of Form 8615.
- 2) On line 2, enter the amount of the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 3) Complete lines 3 through 15 following the worksheet instructions. Use the child's filing status to complete lines 4, 5, and 14. (Before completing lines 4 and 14, see the caution, *Tax computation for certain dependents*, earlier.)

Enter the amount from line 15 of this *Capital Gain Tax Worksheet* on line 15 of Form 8615 and check the box on that line. Do not attach this worksheet to the child's return.

**Using Schedule D for line 15 tax.** Use Part IV of Schedule D to figure the line 15 tax on Form 8615 if the child has qualified 5-year gain or an amount on Form 4952, line 4e, and no unrecaptured section 1250 gain or 28% rate gain. If you must use Schedule D, first complete any actual Schedule D required for the child. Then figure the line 15 tax using Part IV of **another** Schedule D as a worksheet. (Do not attach this worksheet Schedule D to the child's return.)

Complete this worksheet Schedule D as follows.

- 1) On line 19, enter zero.
- 2) On line 20, enter the amount from line 14 of Form 8615.
- 3) On line 21, enter the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)

- 4) On line 22, enter the amount from line 22 of the child's actual Schedule D.
- 5) Complete lines 23 through 40, following the Schedule D instructions. Use the child's filing status to complete lines 25, 26, and 39. (Before completing lines 25 and 39, see the caution, *Tax computation for certain dependents*, earlier.) If you need to complete line 29, enter zero if the child has no qualified 5-year gain (line 7 of the *Qualified 5-Year Gain Worksheet* in the Schedule D instructions). Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Line 29 of Schedule D (Line 9 Tax)* or the *Worksheet for Line 17 of the Schedule D Tax Worksheet (Line 9 Tax)*, whichever was used. Subtract line 5 of that worksheet from line 1 of that worksheet and enter the result on line 29 of this worksheet Schedule D.

Enter the amount from line 40 of this worksheet Schedule D on line 15 of Form 8615.

**Using the Schedule D Tax Worksheet for line 15 tax.** Use the *Schedule D Tax Worksheet* in the Schedule D instructions to figure the line 15 tax on Form 8615 if the child has unrecaptured section 1250 gain or 28% rate gain. If you must use the *Schedule D Tax Worksheet*, first complete any Schedule D and any actual *Schedule D Tax Worksheet* required for the child. Then figure the line 15 tax using **another** *Schedule D Tax Worksheet*. (Do not attach this *Schedule D Tax Worksheet* to the child's return.)

Complete this *Schedule D Tax Worksheet* as follows.

- 1) On line 1, enter the amount from line 14 of Form 8615.
- 2) Leave lines 2 and 3 blank.
- 3) On line 4, enter the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 4) Leave line 5 blank.
- 5) On line 6, enter zero if the child has no 28% rate gain (line 15 of Schedule D). Otherwise, see the *Worksheet for Line 6 of the Schedule D Tax Worksheet (Line 9 Tax)* under *Using the Schedule D Tax Worksheet for line 9 tax*, earlier. Subtract line 6 of that worksheet from line 2 of that worksheet, and enter the result on line 6 of this worksheet.
- 6) On line 7, enter zero if the child has no unrecaptured section 1250 gain (line 19 of Schedule D). Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Line 7 of the Schedule D Tax Worksheet (Line 9 Tax)*. Subtract line 5 of that worksheet from line 1 of that worksheet and enter the result on line 7 of this worksheet.
- 7) Complete lines 8 through 37, following the worksheet instructions. Use the child's filing status to complete lines 11, 15, and 36. (Before completing lines 15 and 36, see the caution, *Tax computation for certain dependents*, earlier.) If you need to complete line 17, enter zero if the child has no qualified 5-year gain (line 7 of the *Qualified 5-Year Gain Worksheet* in the Schedule D

instructions). Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Line 17 of the Schedule D Tax Worksheet (Line 9 Tax)*. Subtract line 5 of that worksheet from line 1 of that worksheet and enter the result on line 17 of this worksheet.

Enter the amount from line 37 of this *Schedule D Tax Worksheet* on line 15 of Form 8615 and check the box on that line.

**Using Schedule J for line 15 tax.** If Schedule J applies, use it as a worksheet to figure the tax to enter on line 15 of Form 8615. On line 1 of this worksheet, enter the amount from line 14 of Form 8615. Complete lines 2 through 22 following the worksheet instructions. Use the child's filing status to complete lines 4, 8, 12, and 16. (Before completing line 4, see the caution, *Tax computation for certain dependents*, earlier.)

Enter the amount from line 22 of this worksheet Schedule J on line 15 of Form 8615 and check the box on that line. Do not attach this worksheet to the child's return.

## Line 16 Combined Tax

Add lines 13 and 15 and enter the total on line 16. This is the child's tax figured at the parent's rate on net investment income and the child's rate on other income.

## Line 17 (Tax at Child's Rate)

Figure the tax on line 4 (the child's taxable income). Use the Tax Table, the Tax Rate Schedules, the *Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, or the child's actual Schedule D or J, whichever applies. (Before completing line 17, see the caution, *Tax computation for certain dependents*, earlier.) Enter the tax amount on line 17. If it is from the *Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, Schedule D, or Schedule J, check the box on that line.

## 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 40; Form 1040A, line 26; or Form 1040NR, line 39. This is the child's tax.

## 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 law. These items include accelerated depreciation and certain tax-exempt interest income. The AMT may also apply if the child has passive activity losses or certain distributions from estates or trusts.

For more information on who is liable for AMT and how to figure it, get **Form 6251**.

**Limit on exemption amount.** Ordinarily, single people can subtract a \$35,750 exemption amount from their AMT taxable income. However, a child who files Form 8615 has a limited exemption amount. The child's exemption amount for 2001 is limited to the child's earned income plus \$5,350. Figure the child's allowable

exemption amount on the worksheet in the instructions for line 22 of Form 6251.

## Illustrated Example

This example shows how to fill out Forms 8615 and 1040A for Sara Brown. It also shows how to use the *Capital Gain Tax Worksheet* in the Form 1040A instructions to figure Sara's tax.

John and Laura Brown have one child, Sara. She is 13 and has \$2,100 taxable interest and dividend income, \$700 capital gain distributions, and \$1,550 earned income. She does not itemize deductions and did not receive an advance payment of her 2001 taxes during 2001. 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 she is under age 14 and has more than \$1,500 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. He completes her Form 1040A through line 25, then begins completing her Form 8615.

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, \$2,800, on line 1. Sara does not itemize deductions, so John enters \$1,500 on line 2. He enters \$1,300 (\$2,800 - \$1,500) on line 3.

Sara's taxable income, as shown on line 25 of her Form 1040A, is \$2,550. This is her total

income (\$4,350) minus her standard deduction (\$1,800). Her standard deduction is limited to the amount of her earned income plus \$250. John enters \$2,550 on line 4.

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

John enters \$48,000 on line 6. This is the taxable income from line 39 of their joint Form 1040 return. Sara is an only child, so line 7 is blank. He adds line 5 (\$1,300), line 6 (\$48,000), and line 7 (blank) and enters \$49,300 on line 8.

Because Sara's capital gain distributions are included on line 5, John uses *Line 5 Worksheet #1* (in the discussion for line 8, earlier) to figure out that \$325 net capital gain is included on line 5. He completes that worksheet as follows.

### Line 5 Worksheet #1

A. Enter the child's net capital gain . . . . .	700
B. Enter the amount from line 1 of the child's Form 8615 . . . . .	2,800
C. Divide line A by line B (but do not enter more than 1) . . . . .	.25
D. Multiply \$1,500 by line C . . . . .	375
E. <b>Net capital gain on line 5.</b> Subtract line D from line A (but do not enter less than zero or more than the amount on line 5 of Form 8615) . . . . .	325

Therefore, line 8 of Sara's Form 8615 also includes net capital gain of \$325. John uses the *Capital Gain Tax Worksheet* (in the Form 1040A instructions) and follows the instructions under *Using the Capital Gain Tax Worksheet for line 9 tax*, earlier, to figure the \$7,883 tax to enter on

line 9 of Sara's Form 8615. He completes that worksheet as shown on *Filled-in Capital Gain Tax Worksheet #1*.

He enters the tax from his and Laura's Form 1040 (\$7,557) on line 10 of Sara's Form 8615, subtracts that amount from the \$7,883 on line 9, and enters the \$326 remainder on line 11. Because line 7 is blank, John skips lines 12a and 12b and enters \$326 on line 13.

John subtracts line 5 (\$1,300) from line 4 (\$2,550) and enters the result, \$1,250 on line 14. Using the instructions for line 14 earlier, John subtracts the net capital gain included on line 5 (\$325) from Sara's net capital gain (\$700) to figure the \$375 net capital gain included on line 14. He uses another *Capital Gain Tax Worksheet* and follows the instructions under *Using the Capital Gain Tax Worksheet for line 15 tax*, earlier, to figure the \$126 tax to enter on Form 8615, line 15. He completes that worksheet as shown on *Filled-in Capital Gain Tax Worksheet #2*.

John adds lines 13 and 15 of Form 8615 and enters the sum, \$452, on line 16. Then he uses another *Capital Gain Tax Worksheet* to figure the \$256 tax on Sara's \$2,550 taxable income to enter on Form 8615, line 17. He completes that worksheet as shown on *Filled-in Capital Gain Tax Worksheet #3*.

Finally, John compares lines 16 and 17 and enters the larger amount, \$452, on line 18 of Sara's Form 8615. He also enters that amount on line 26 of Sara's Form 1040A.

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

**Label**  
(See page 19.)

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

LABEL HERE	Your first name and initial <b>Sara L</b>	Last name <b>Brown</b>
	If a joint return, spouse's first name and initial	Last name
	Home address (number and street). If you have a P.O. box, see page 20. <b>1040A MAIN STREET</b>	
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. <b>HOMETOWN AZ 85240</b>	

OMB No. 1545-0085

**Your social security number**  
111 00 1111

**Spouse's social security number**

**▲ Important! ▲**  
You must enter your SSN(s) above.

**Presidential Election Campaign**  
(See page 20.)

**Note.** Checking "Yes" will not change your tax or reduce your refund.  
Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . .

**You**      **Spouse**

**Yes**    **No**     **Yes**    **No**

**Filing status**

- 1  Single
- 2  Married filing joint return (even if only one had income)
- 3  Married filing separate return. Enter spouse's social security number above and full name here. ▶ \_\_\_\_\_
- 4  Head of household (with qualifying person). (See page 21.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ \_\_\_\_\_
- 5  Qualifying widow(er) with dependent child (year spouse died ▶ \_\_\_\_\_). (See page 22.)

Check only one box.

**Exemptions**

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:**

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>

If more than seven dependents, see page 22.

No. of boxes checked on 6a and 6b \_\_\_\_\_

No. of your children on 6c who:

- lived with you \_\_\_\_\_
- did not live with you due to divorce or separation (see page 24) \_\_\_\_\_

Dependents on 6c not entered above \_\_\_\_\_

Add numbers entered on lines above 0

d Total number of exemptions claimed.

**Income**

**Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.**

If you did not get a W-2, see page 25.

Enclose, but do not attach, any payment.

<b>7</b> Wages, salaries, tips, etc. Attach Form(s) W-2.	7	1,550
<b>8a</b> Taxable interest. Attach Schedule 1 if required.	8a	1,050
<b>b</b> Tax-exempt interest. Do not include on line 8a.	8b	
<b>9</b> Ordinary dividends. Attach Schedule 1 if required.	9	1,050
<b>10</b> Capital gain distributions (see page 25).	10	700
<b>11a</b> Total IRA distributions. 11a	<b>11b</b> Taxable amount (see page 25). 11b	
<b>12a</b> Total pensions and annuities. 12a	<b>12b</b> Taxable amount (see page 26). 12b	
<b>13</b> Unemployment compensation, qualified state tuition program earnings, and Alaska Permanent Fund dividends.	13	
<b>14a</b> Social security benefits. 14a	<b>14b</b> Taxable amount (see page 28). 14b	
<b>15</b> Add lines 7 through 14b (far right column). This is your <b>total income</b> .	15	4,350
<b>16</b> IRA deduction (see page 28).	16	
<b>17</b> Student loan interest deduction (see page 31).	17	
<b>18</b> Add lines 16 and 17. These are your <b>total adjustments</b> .	18	
<b>19</b> Subtract line 18 from line 15. This is your <b>adjusted gross income</b> .	19	4,350

**Adjusted gross income**

<b>Tax, credits, and payments</b>	<b>20</b>	Enter the amount from line 19 (adjusted gross income).	20	4,350	
	<b>21a</b>	Check <input type="checkbox"/> You were 65 or older <input type="checkbox"/> Blind } Enter number of boxes checked ▶ 21a <input type="checkbox"/>			
		<input type="checkbox"/> Spouse was 65 or older <input type="checkbox"/> Blind }			
	<b>21b</b>	If you are married filing separately and your spouse itemizes deductions, see page 32 and check here . . . . . ▶ 21b <input type="checkbox"/>			
		<b>22</b> Enter your <b>standard deduction</b> (see left margin).	22	1,800	
	<b>23</b> Subtract line 22 from line 20. If line 22 is more than line 20, enter -0-.	23	2,550		
	<b>24</b> Multiply \$2,900 by the total number of exemptions claimed on line 6d.	24			
	<b>25</b> Subtract line 24 from line 23. If line 24 is more than line 23, enter -0-. This is your <b>taxable income</b> .	▶ 25	2,550		
	<b>26</b> Tax, including any alternative minimum tax (see page 33).	26	452		
	<b>Standard Deduction for—</b> • People who checked any box on line 21a or 21b or who can be claimed as a dependent, see page 33. • All others: Single, \$4,550 Head of household, \$6,650 Married filing jointly or Qualifying widow(er), \$7,600 Married filing separately, \$3,800	<b>27</b> Credit for child and dependent care expenses. Attach Schedule 2.	27		
<b>28</b> Credit for the elderly or the disabled. Attach Schedule 3.		28			
<b>29</b> Education credits. Attach Form 8863.		29			
<b>30</b> Rate reduction credit. See the worksheet on page 36.		30			
<b>31</b> Child tax credit (see page 36).		31			
<b>32</b> Adoption credit. Attach Form 8839.		32			
<b>33</b> Add lines 27 through 32. These are your <b>total credits</b> .		33			
<b>34</b> Subtract line 33 from line 26. If line 33 is more than line 26, enter -0-.		34	452		
<b>35</b> Advance earned income credit payments from Form(s) W-2.		35			
<b>36</b> Add lines 34 and 35. This is your <b>total tax</b> .		▶ 36	452		
If you have a qualifying child, attach Schedule EIC.	<b>37</b> Federal income tax withheld from Forms W-2 and 1099.	37	135		
	<b>38</b> 2001 estimated tax payments and amount applied from 2000 return.	38	300		
	<b>39a</b> <b>Earned income credit (EIC).</b>	39a			
	<b>b</b> Nontaxable earned income. 39b				
	<b>40</b> Additional child tax credit. Attach Form 8812.	40			
	<b>41</b> Add lines 37, 38, 39a, and 40. These are your <b>total payments</b> .	▶ 41	435		
	<b>42</b> If line 41 is more than line 36, subtract line 36 from line 41. This is the amount you <b>overpaid</b> .	42			
	<b>43a</b> Amount of line 42 you want <b>refunded to you</b> .	▶ 43a			
	<b>b</b> Routing number <input type="text"/> ▶ <b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings				
	<b>d</b> Account number <input type="text"/>				
<b>44</b> Amount of line 42 you want <b>applied to your 2002 estimated tax</b> .	44				
<b>Amount you owe</b>	<b>45</b> <b>Amount you owe.</b> Subtract line 41 from line 36. For details on how to pay, see page 48.	▶ 45	17		
	<b>46</b> Estimated tax penalty (see page 48).	46			

**Third party designee** Do you want to allow another person to discuss this return with the IRS (see page 49)?  **Yes.** Complete the following.  **No**

Designee's name ▶	Phone no. ▶ ( )	Personal identification number (PIN) ▶ <input type="text"/>
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**Sign here** Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature Sara L. Brown	Date 2-15-02	Your occupation Student	Daytime phone number (800) 829-1040
Spouse's signature. If a joint return, <b>both</b> must sign.	Date	Spouse's occupation	

**Paid preparer's use only**

Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Phone no. ( )	

**Tax for Children Under Age 14**  
**With Investment Income of More Than \$1,500**  
▶ Attach only to the child's Form 1040, Form 1040A, or Form 1040NR.  
▶ See separate instructions.

Child's name shown on return Sara L. Brown Child's social security number 111 00 1111

**Before you begin:** If the child, the parent, or any of the parent's other children under age 14 received capital gains (including capital gain distributions) or farm income, see **Pub. 929**, Tax Rules for Children and Dependents. It explains how to figure the tax for lines 9 and 15 using the **Capital Gain Tax Worksheet** in the Form 1040 or Form 1040A instructions, or **Schedule D or J** (Form 1040).

**A** Parent's name (first, initial, and last). **Caution:** See instructions before completing. John J. Brown **B** Parent's social security number 000 00 0001

**C** Parent's filing status (check one):  
 Single  Married filing jointly  Married filing separately  Head of household  Qualifying widow(er)

**Part I Child's Net Investment Income**

1	Enter the child's investment income (see instructions) . . . . .	1	2,800
2	If the child <b>did not</b> itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,500. If the child <b>did</b> itemize deductions, see instructions . . . . .	2	1,500
3	Subtract line 2 from line 1. If zero or less, <b>do not</b> complete the rest of this form but <b>do</b> attach it to the child's return . . . . .	3	1,300
4	Enter the child's taxable income from Form 1040, line 39; Form 1040A, line 25; or Form 1040NR, line 38 . . . . .	4	2,550
5	Enter the <b>smaller</b> of line 3 or line 4. If zero, <b>do not</b> complete the rest of this form but <b>do</b> attach it to the child's return . . . . .	5	1,300

**Part II Tentative Tax Based on the Tax Rate of the Parent**

6	Enter the parent's taxable income from Form 1040, line 39; Form 1040A, line 25; Form 1040EZ, line 6; TeleFile Tax Record, line K; Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If zero or less, enter -0- . . . . .	6	48,000
7	Enter the total, if any, from Forms 8615, line 5, of <b>all other</b> children of the parent named above. <b>Do not</b> include the amount from line 5 above . . . . .	7	
8	Add lines 5, 6, and 7. . . . .	8	49,300
9	Enter the tax on the amount on line 8 based on the <b>parent's</b> filing status above (see instructions). If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used, check here ▶ <input checked="" type="checkbox"/>	9	7,883
10	Enter the parent's tax from Form 1040, line 40; Form 1040A, line 26, minus any alternative minimum tax; Form 1040EZ, line 11; TeleFile Tax Record, line K; Form 1040NR, line 39; or Form 1040NR-EZ, line 15. <b>Do not</b> include any tax from Form 4972 or 8814. If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) was used to figure the tax, check here . . ▶ <input type="checkbox"/>	10	7,557
11	Subtract line 10 from line 9 and enter the result. If line 7 is blank, also enter this amount on line 13 and go to Part III . . . . .	11	326
12a	Add lines 5 and 7 . . . . . <b>12a</b> <u>1,300</u>		
b	Divide line 5 by line 12a. Enter the result as a decimal rounded to at least three places . . . . .	12b	×
13	Multiply line 11 by line 12b. . . . .	13	326

**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 . . . . . <b>14</b> <u>1,250</u>		
15	Enter the tax on the amount on line 14 based on the child's filing status (see instructions). If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used, check here . ▶ <input checked="" type="checkbox"/>	15	126
16	Add lines 13 and 15 . . . . .	16	452
17	Enter the tax on the amount on line 4 based on the child's filing status (see instructions). If the Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used to figure the tax, check here . . . . . ▶ <input type="checkbox"/>	17	256
18	Enter the <b>larger</b> of line 16 or line 17 here and on the child's Form 1040, line 40; Form 1040A, line 26; or Form 1040NR, line 39 . . . . .	18	452



**Before you begin:** ✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, line 10, on page 25).

1.	Enter the amount from Form 1040A, line 25 . . . . .	1.	<u>49,300*</u>	
2.	Enter the amount from Form 1040A, line 10 . . . . .	2.	<u>325*</u>	
3.	Subtract line 2 from line 1. If zero or less, enter -0- . . . . .	3.	<u>48,975</u>	
4.	Look up the amount on line 3 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	4.	<u>7,818*</u>	
5.	Enter the <b>smaller</b> of:			
	• The amount on line 1, or			
	• \$27,050 if single; \$45,200 if married filing jointly or } . . . . .	5.	<u>45,200*</u>	
	qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.			
6.	Is the amount on line 3 equal to or more than the amount on line 5?			
	<input checked="" type="checkbox"/> <b>Yes.</b> Leave lines 6 through 8 blank; go to line 9 and check the “No” box.			
	<input type="checkbox"/> <b>No.</b> Enter the amount from line 3 . . . . .	6.	<u>                    </u>	
7.	Subtract line 6 from line 5 . . . . .	7.	<u>                    </u>	
8.	Multiply line 7 by 10% (.10) . . . . .	8.	<u>                    </u>	
9.	Are the amounts on lines 2 and 7 the same?			
	<input type="checkbox"/> <b>Yes.</b> Leave lines 9 through 12 blank; go to line 13.			
	<input checked="" type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 2 . . . . .	9.	<u>325</u>	
10.	Enter the amount, if any, from line 7 . . . . .	10.	<u>                    </u>	
11.	Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11.	<u>325</u>	
12.	Multiply line 11 by 20% (.20). . . . .	12.	<u>65</u>	
13.	Add lines 4, 8, and 12 . . . . .	13.	<u>7,883</u>	
14.	Look up the amount on line 1 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	14.	<u>7,914*</u>	
15.	<b>Tax on all taxable income (including capital gain distributions).</b> Enter the <b>smaller</b> of line 13 or line 14 here and on Form 1040A, line 26 . . . . .	15.	<u>7,883</u>	

\* See the instructions under *Using the Capital Gain Tax Worksheet for line 9 tax.*



**Before you begin:** ✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, line 10, on page 25).

1.	Enter the amount from Form 1040A, line 25 . . . . .	1.	<u>1,250*</u>	
2.	Enter the amount from Form 1040A, line 10 . . . . .	2.	<u>375*</u>	
3.	Subtract line 2 from line 1. If zero or less, enter -0- . . . . .	3.	<u>875</u>	
4.	Look up the amount on line 3 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	4.	<u>89*</u>	
5.	Enter the <b>smaller</b> of:			
	• The amount on line 1, or	}	5.	<u>1,250*</u>
	• \$27,050 if single; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.			
6.	Is the amount on line 3 equal to or more than the amount on line 5?			
	<input type="checkbox"/> <b>Yes.</b> Leave lines 6 through 8 blank; go to line 9 and check the “No” box.			
	<input checked="" type="checkbox"/> <b>No.</b> Enter the amount from line 3 . . . . .	6.	<u>875</u>	
7.	Subtract line 6 from line 5 . . . . .	7.	<u>375</u>	
8.	Multiply line 7 by 10% (.10) . . . . .	8.	<u>38</u>	
9.	Are the amounts on lines 2 and 7 the same?			
	<input checked="" type="checkbox"/> <b>Yes.</b> Leave lines 9 through 12 blank; go to line 13.			
	<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 2 . . . . .	9.	<u>          </u>	
10.	Enter the amount, if any, from line 7 . . . . .	10.	<u>          </u>	
11.	Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11.	<u>          </u>	
12.	Multiply line 11 by 20% (.20). . . . .	12.	<u>          </u>	
13.	Add lines 4, 8, and 12 . . . . .	13.	<u>127</u>	
14.	Look up the amount on line 1 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	14.	<u>126*</u>	
15.	<b>Tax on all taxable income (including capital gain distributions).</b> Enter the <b>smaller</b> of line 13 or line 14 here and on Form 1040A, line 26 . . . . .	15.	<u>126</u>	

\* See the instructions under *Using the Capital Gain Tax Worksheet for line 15 tax.*



**Before you begin:** ✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, line 10, on page 25).

1.	Enter the amount from Form 1040A, line 25 . . . . .	1.	<u>2,550</u>	
2.	Enter the amount from Form 1040A, line 10 . . . . .	2.	<u>700</u>	
3.	Subtract line 2 from line 1. If zero or less, enter -0- . . . . .	3.	<u>1,850</u>	
4.	Look up the amount on line 3 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	4.	<u>186</u>	
5.	Enter the <b>smaller</b> of:			
	• The amount on line 1, or	}	5.	<u>2,550</u>
	• \$27,050 if single; \$45,200 if married filing jointly or qualifying widow(er); \$22,600 if married filing separately; or \$36,250 if head of household.			
6.	Is the amount on line 3 equal to or more than the amount on line 5?			
	<input type="checkbox"/> <b>Yes.</b> Leave lines 6 through 8 blank; go to line 9 and check the “No” box.			
	<input checked="" type="checkbox"/> <b>No.</b> Enter the amount from line 3 . . . . .	6.	<u>1,850</u>	
7.	Subtract line 6 from line 5 . . . . .	7.	<u>700</u>	
8.	Multiply line 7 by 10% (.10) . . . . .	8.	<u>70</u>	
9.	Are the amounts on lines 2 and 7 the same?			
	<input checked="" type="checkbox"/> <b>Yes.</b> Leave lines 9 through 12 blank; go to line 13.			
	<input type="checkbox"/> <b>No.</b> Enter the <b>smaller</b> of line 1 or line 2 . . . . .	9.	<u>          </u>	
10.	Enter the amount, if any, from line 7 . . . . .	10.	<u>          </u>	
11.	Subtract line 10 from line 9. If zero or less, enter -0- . . . . .	11.	<u>          </u>	
12.	Multiply line 11 by 20% (.20). . . . .	12.	<u>          </u>	
13.	Add lines 4, 8, and 12 . . . . .	13.	<u>256</u>	
14.	Look up the amount on line 1 above in the Tax Table on pages 55–60. Enter the tax here. . . . .	14.	<u>256</u>	
15.	<b>Tax on all taxable income (including capital gain distributions).</b> Enter the <b>smaller</b> of line 13 or line 14 here and on Form 1040A, line 26 . . . . .	15.	<u>256</u>	

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## Glossary

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

**Adjusted gross income.**

Gross income (defined later) minus adjustments to income (defined next).

**Adjustments to income.** Deductions that are subtracted from gross income in figuring adjusted gross income. They include 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, a U.S. resident, or a resident of Canada or Mexico,
- 3) Does not file a joint return,
- 4) Does not have \$2,900 or more of gross (total) income (does not apply to your child if under age 19 or a student under age 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 (\$2,900 for 2001) 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.

**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 2001, 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*. If Schedule D is not required, net capital gain is the amount of capital gain distributions on Form 1040, line 13, or Form 1040A, line 10.

**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) \$750 plus itemized deductions directly connected with producing the investment income, or
- 2) \$1,500.

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

**Tax year.** The 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.** Income other than earned income. This is investment-type income and includes interest, dividends, and capital gains. Distributions of interest, dividends, capital gains, and other unearned income from a trust are also unearned income to a beneficiary of the trust. ■

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# How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

**Contacting your Taxpayer Advocate.** If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate at **1-877-777-4778**.
- Call the IRS at **1-800-829-1040**.
- Call, write, or fax the Taxpayer Advocate office in your area.
- Call **1-800-829-4059** if you are a TTY/TDD user.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

**Free tax services.** To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



**Personal computer.**

With your personal computer and modem, you can access the IRS on the Internet at [www.irs.gov](http://www.irs.gov). While visiting our web site, you can:

- Find answers to questions you may have.
- Download forms and publications or search for forms and publications by topic or keyword.
- View forms that may be filled in electronically, print the completed form, and then save the form for recordkeeping.
- View Internal Revenue Bulletins published in the last few years.
- Search regulations and the Internal Revenue Code.
- Receive our electronic newsletters on hot tax issues and news.
- Get information on starting and operating a small business.

You can also reach us with your computer using File Transfer Protocol at [ftp.irs.gov](http://ftp.irs.gov).



**TaxFax Service.**

Using the phone attached to your fax machine, you can receive forms and instructions by calling **703-368-9694**. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call the FedWorld Help Desk at **703-487-4608**.



**Phone.** Many services are available by phone.

- *Ordering forms, instructions, and publications.* Call **1-800-829-3676** to order current and prior year forms, instructions, and publications.
- *Asking tax questions.* Call the IRS with your tax questions at **1-800-829-1040**.
- *TTY/TDD equipment.* If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax questions or

to order forms and publications.

- *TeleTax topics.* Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.

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

- A second IRS representative sometimes monitors live telephone calls. That person only evaluates the IRS assistant and does not keep a record of any taxpayer's name or tax identification number.
- We sometimes record telephone calls to evaluate IRS assistants objectively. We hold these recordings no longer than one week and use them only to measure the quality of assistance.
- We value our customers' opinions. Throughout this year, we will be surveying our customers for their opinions on our service.



**Walk-in.**

You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county governments, credit unions, and office supply stores have an extensive collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, Internal Revenue Bulletins, and Cumulative Bulletins available for research purposes.



**Mail.**

You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is

received. Find the address that applies to your part of the country.

- **Western part of U.S.:**  
Western Area Distribution Center  
Rancho Cordova, CA  
95743-0001
- **Central part of U.S.:**  
Central Area Distribution Center  
P.O. Box 8903  
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:**  
Eastern Area Distribution Center  
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Richmond, VA 23261-5074



**CD-ROM.** You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current tax forms, instructions, and publications.
- Prior-year tax forms and instructions.
- Popular tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

The CD-ROM can be purchased from National Technical Information Service (NTIS) by calling **1-877-233-6767** or on the Internet at [www.irs.gov](http://www.irs.gov). The first release is available in mid-December and the final release is available in late January.

IRS Publication 3207, *Small Business Resource Guide*, is an interactive CD-ROM that contains information important to small businesses. It is available in mid-February. You can get one free copy by calling **1-800-829-3676** or visiting the IRS web site at [www.irs.gov](http://www.irs.gov).

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