

Don't Let Your Kids Do Their Own Taxes

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If you think your kid has to file her own tax return, don't let her do it on her own. It might backfire.

Yesterday in [“When To File Your First Tax Return,”](#) I explain the complicated rules on when teens and new workers must start reporting to the IRS. For example, did you know you need to report \$400 in babysitting, lawn-mowing or snow-shoveling income? Or total investment income, including gross proceeds from stock sales, of more than \$950 even if you have a loss? Then, there's the kiddie tax to deal with: kids' unearned income above \$1,900 is taxed at the parents' rate. (And “kids” can be up to 24 if they're full-time students).

Here's how confusing it gets, and the kind of mistake you want to avoid. Sherrill Trovato, an enrolled agent in Yorba Linda, Calif., had one client whose college-aged son filed his own return on his own last year, incorrectly claiming himself as a dependent. So when she filed the parents' return, including him as a dependent, it got bounced back. (As long as your kid is your dependent, that is you provide over half their support, including college tuition, room and board, only you can take the dependency exemption for them.)

The kid filed an amended return; then the parents had to file on paper, delaying their refund. “The kid's not happy; he thought he got a nice refund,” Trovato says.

“It's a good life lesson to file your first tax return and recognize there are consequences to earning money, but you need to talk about the strategy,” she adds.

Another surprise: you could have a separate requirement in some states, including California, to file a separate state return. For example, Trovato has clients where the child goes on the federal return but files a separate California return because California defines a “kiddie” as under 14.

Craig Eaton, a CPA with Moody, Famiglietti & Adronico in Tewksbury, Mass. said he's filed separate returns for kids with earned income who are due refunds as a courtesy for the parent-clients. A good business move. One kid whose dad had him report his lawn-mowing income on a Schedule C

each year starting in high school has now graduated and has a full-scale landscape business. The dad, and the “kid,” still file with MFA.