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Tax Rules for Children and Dependents

For use in preparing
1996 Returns

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Important Changes for 1996

Social security numbers for dependents.

On your 1996 tax return, you must write the social security number (SSN) of any dependent you claim who was born before December 1, 1996.

On your **1997** return, you will have to show the SSN of any dependent born before January 1, 1998.

If you do not give a correct SSN for a dependent, the dependency exemption may not be allowed.

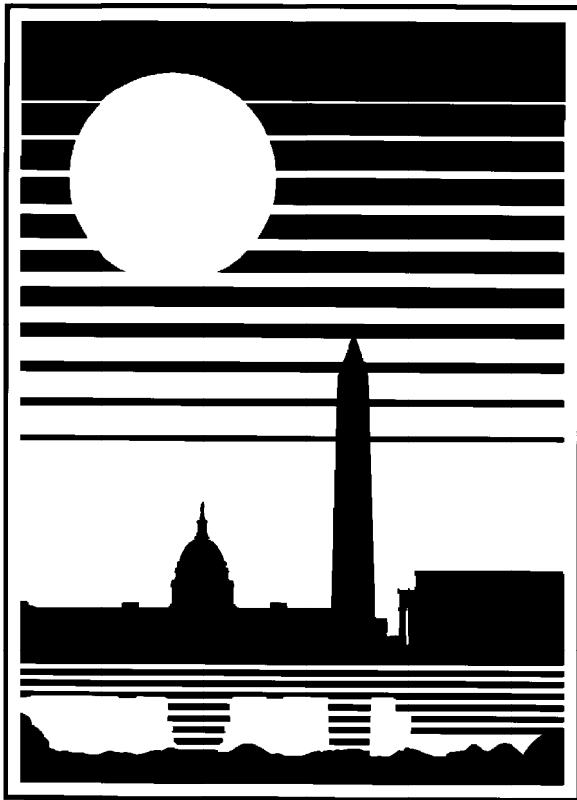
Filing requirements for dependents. The amount of gross income that dependents can have during the year without having to file a return has increased. See *Filing Requirements for Dependents* in *Part 1* for more information.

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 a social security number (SSN). To apply for an ITIN, Form W-7 must be filed with the IRS. It usually takes about 30 days to get an ITIN. The ITIN is entered wherever an SSN is requested on a tax return. If you are required to include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

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

Important Reminders

Standard deduction for dependents. The minimum standard deduction for dependents is \$650. The maximum standard deduction for



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

Investment income of child under age 14.

The amount of investment income that may cause part of a child's investment income to be taxed at the parents' higher rate is \$1,300. See *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300*, later.

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

Parent's election to report child's 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*.

Introduction

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

Part 2 explains how to report and figure the tax on certain investment income of children under age 14 (whether or not they can be claimed as dependents).

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

Useful Items

You may want to see:

Publication

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

Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- 6251** Alternative Minimum Tax — Individuals
- 8615** Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300
- 8814** Parents' Election To Report Child's Interest and Dividends

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

Part 1. Rules for All Dependents

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

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

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

Filing Requirements for Dependents

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

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

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

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	\$4,000
Either 65 or older or blind	\$5,000
65 or older and blind	\$6,000
Married*	
Under 65 and not blind	\$3,350
Either 65 or older or blind	\$4,150
65 or older and blind	\$4,950

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

Example. William is 16. His mother claims an exemption for him on her income tax return. He worked part time on weekends during the school year and full time during the summer. He earned \$4,100 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 \$4,000. If he were blind, he would not have to file a return because his total income is not more than \$5,000.

Unearned Income Only

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

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

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

Election to report child's unearned income on parent's return.

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


Example. Kim is 18 and single. Her parents can claim an exemption for her on their income tax return. She received \$800 of taxable interest and dividend income. She did not work during the year.

She must file a tax return because she has unearned income only and her total income of \$800 is more than \$650. If she were blind, she would not have to file a return because she has unearned income only and her total income is not more than \$1,650.

Earned and Unearned Income

A dependent who has both earned and unearned income generally must file a return if his or her gross (total) income is **more than \$650**. However, if the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file a return if his or her gross income is \$5 or more.

65 or older and/or blind.

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

Instructions for Figure 1, 2, and 3

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

Answer the questions in the block labeled "Start Here." Follow the arrow marked "Yes" or the arrow marked "No," depending on your answer to the question in the block. Continue answering questions and following arrows until you reach a block that tells you whether or not the dependent must file a return.

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

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

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

Figure 1. Dependents Under 65 and Not Blind

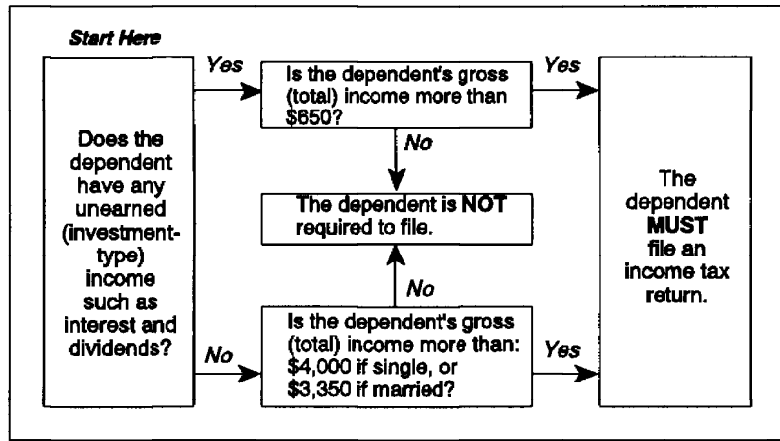


Figure 2. Single Dependents 65 or Older or Blind

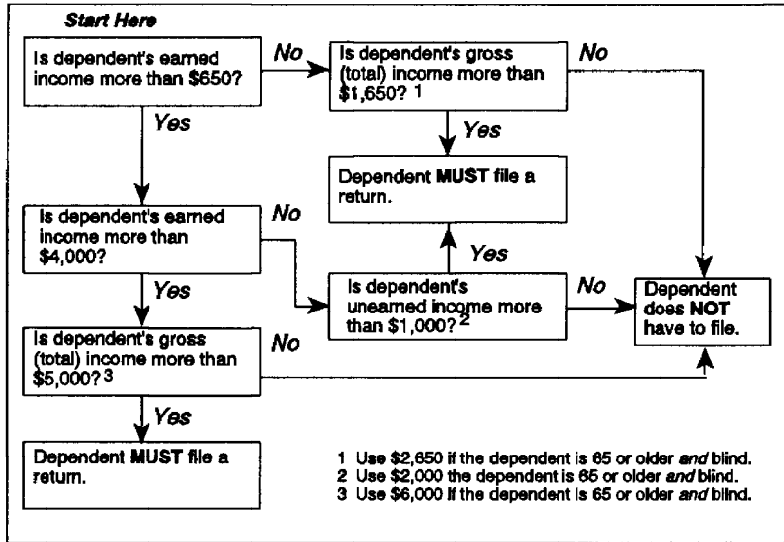
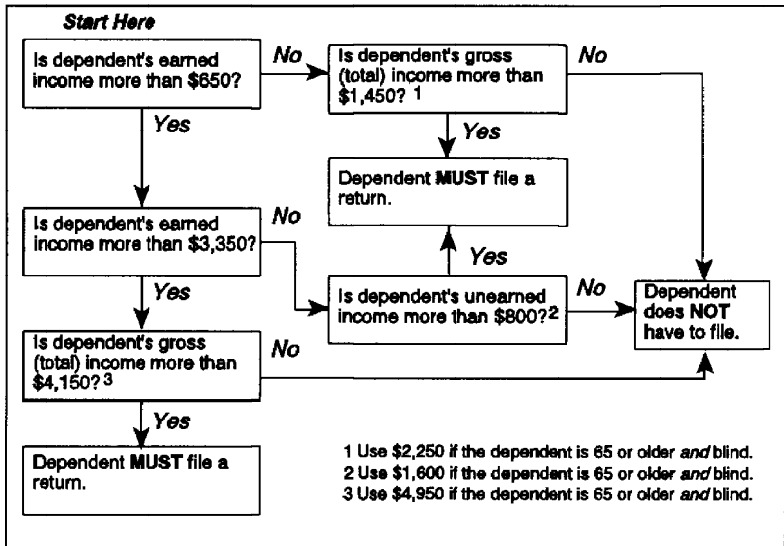


Figure 3. Married Dependents 65 or Older or Blind



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

1. Enter dependent's earned income _____
2. Minimum amount \$ 650
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts ... _____
4. Enter the appropriate amount from the following table _____

<u>Marital Status</u>	<u>Amount</u>
Single	\$ 4,000
Married	\$ 3,350

5. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts _____
6. Enter the amount from the following table that applies to the dependent _____

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

7. Add the amounts on lines 5 and 6. Enter the total _____
8. Enter the dependent's gross (total) income _____

If the amount on line 8 is more than the amount on line 7, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if gross income is \$5 or more.

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

He must file a tax return because his total income of \$2,900 (\$400 interest plus \$2,500 wages) consists of both earned and unearned income and is more than \$650.

If he were blind, he would not have to file a return because his total income of \$2,900 is not more than \$3,500 (figured by filling in the *Filing Requirement Worksheet for Dependents Who Are 65 or Older and/or Blind*, as shown next).

Filled-in Example for Joe (who is blind)
Filing Requirement Worksheet for Dependents Who Are 65 or Older and/or Blind

1. Enter dependent's earned income \$2,500
2. Minimum amount \$ 650
3. Compare the amounts on lines 1 and 2. Enter the **larger** of the two amounts ... \$2,500
4. Enter the appropriate amount from the following table \$4,000

<u>Marital Status</u>	<u>Amount</u>
Single	\$ 4,000
Married	\$ 3,350

5. Compare the amounts on lines 3 and 4. Enter the **smaller** of the two amounts \$2,500

6. Enter the amount from the following table that applies to the dependent \$1,000

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

7. Add the amounts on lines 5 and 6. Enter the total \$3,500
8. Enter the dependent's gross (total) income \$2,900

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

Other Filing Requirements

Some dependents may have to file tax returns even if their income is below the amount that would normally require them to file a return. Some dependents who are not required to file a tax return should still file to receive a refund (for example, if they had tax taken out of their pay).

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

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

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

- 1) Received any advance earned income credit payments from his or her employers in 1996,
- 2) Had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes, or
- 3) Had net earnings from self-employment of at least \$400.

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

Refund of withheld tax. An individual who is not required to file a return but who had federal

income tax withheld can get a refund of the withheld tax by filing a return.

Responsibility for Child's Return

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

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

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

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

IRS notice received. If you or the child gets a notice from the Internal Revenue Service concerning the child's return or tax liability, you should immediately inform the IRS that the notice concerns a child. The notice will show who to contact. The IRS will try to resolve the matter with the parent(s) or guardian(s) of the child consistent with their authority.

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

A parent or guardian who does not sign the child's return may only provide information concerning the child's return and pay the child's tax. That parent or guardian is not entitled to receive information from the IRS or legally bind the child for a tax liability arising out of that return.

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

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

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

The parent may be liable for the child's tax to the extent it is due to income for personal services performed by the child and it is not paid by the child.

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 qualify as business and charitable contribution tax deductions. You made these payments out of your child's earnings. Only your child can take these tax deductions.

Standard Deduction for Dependents

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

- 1) \$650, or
- 2) The individual's earned income for the year, but not more than the regular standard deduction amount (generally \$4,000).

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

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

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

Example 1. Michael is single, 15, and not blind. His parents can claim him as a dependent on their tax return. He has taxable interest income of \$800 and wages of \$150. Michael uses *Table 1* to find his standard deduction. He enters his earned income, \$150, on line 1. On line 3, he enters \$650, the larger of his earned income (\$150) and \$650. Because Michael is single, he enters \$4,000 on line 4. On line 5a, he enters \$650, the smaller of \$650 and \$4,000. \$650 is his standard deduction.

Example 2. Judy, a full-time student, is single, 22, and not blind. Her parents can claim her as a dependent on their tax return. She has dividend income of \$75 and wages of \$2,500. To find her standard deduction, she enters her earned income, \$2,500, on line 1 of *Table 1*. On line 3, she enters \$2,500, the larger of her earned income (\$2,500) and \$650. She enters \$4,000 on line 4. On line 5a, she enters \$2,500 (the smaller of \$2,500 and \$4,000) as her standard deduction.

Example 3. Amy, who is single, is claimed as a dependent on her parents' tax return. She is 18 and blind. She has taxable interest income of \$1,000 and wages of \$2,000. To find her standard deduction, she enters her earned income (\$2,000) on line 1 of *Table 1*. She enters \$2,000 (the larger of \$2,000 or \$650) on line 3, \$4,000 on line 4, and \$2,000 (the smaller of \$2,000 or \$4,000) on line 5a. Because Amy is blind, she checked the box for blindness at the top of *Table 1* and enters \$1,000 on line 5b. Her standard deduction, entered on line 5c, is \$3,000 (\$2,000 + \$1,000).

Dependents for Whom the Standard Deduction Is Zero

The standard deduction for the following dependents is zero:

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

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

Note. If you are a nonresident or dual-status alien who is married to a U.S. citizen or resident at the end of 1996, you may be able to choose to be treated as a U.S. resident for 1996. See Publication 519, *U.S. Tax Guide for Aliens*.

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

Dependent's Own Exemption

If you can be claimed as a dependent on another taxpayer's return, you cannot claim your own exemption. This is true even if the other taxpayer does not actually claim your exemption.

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

Exemption From Withholding

If you have a job, your employer usually will withhold federal income tax, social security tax, and Medicare tax from your wages. But if you claim exemption from withholding on

Table 1. Standard Deduction Worksheet for Dependents

Use this worksheet ONLY if someone can claim you (or your spouse, if filing jointly) as a dependent.	
If you were 65 or older and/or blind, check the correct number of boxes below. Then go to the worksheet.	
You	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
Your spouse, if claiming spouse's exemption	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
Total number of boxes you checked <input type="checkbox"/>	
1. Enter your earned income (defined below). If none, go on to line 3.	1. _____
2. Minimum amount	2. <u>\$650</u>
3. Compare the amounts on lines 1 and 2. Enter the larger of the two amounts here.	3. _____
4. Enter on line 4 the amount shown below for your filing status. <ul style="list-style-type: none"> • Single, enter \$4,000 • Married filing separate return, enter \$3,350 • Married filing jointly or Qualifying widow(er) with dependent child, enter \$6,700 • Head of household, enter \$5,900 	4. _____
5. Standard deduction.	
a. Compare the amounts on lines 3 and 4. Enter the smaller of the two amounts here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b.	5a. _____
b. If 65 or older or blind, multiply \$1,000 (\$800 if married or qualifying widow(er) with dependent child) by the number in the box above. Enter the result here.	5b. _____
c. Add lines 5a and 5b. This is your standard deduction for 1996.	5c. _____
Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in your income.	

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

Conditions for exemption from withholding. You can claim exemption from withholding for 1997 only if you meet both of the following conditions.

- 1) For 1996 you had a right to a refund of all federal income tax withheld because you had no tax liability.
- 2) For 1997 you expect a refund of all federal income tax withheld because you expect to have no tax liability.

Dependents. You ordinarily cannot claim exemption from withholding if:

- 1) Someone will be able to claim you as a dependent for 1997,

- 2) Your total income will be more than \$650 (plus any cost-of-living increase; see 1997 Form W-4), and
- 3) You will have any unearned (investment-type) income.

But if you are 65 or older or blind, or will claim adjustments to income, itemized deductions, or tax credits on your 1997 tax return, you may be able to claim exemption from withholding even if you are a dependent. See the discussions in Chapter 1 of Publication 505 under *Exemption From Withholding* if you need more information.

Example. Guy is 17 and a student. During the summer he works part time at a grocery store. He expects to earn about \$1,000 in 1997. He also worked at the store last summer and received a refund of all his withheld income tax because he did not have a tax liability. The only other income he expects in 1997 is \$75 interest on a savings account. He expects to be claimed as a dependent on his parents' tax return.

Guy is not blind and will not claim adjustments to income, itemized deductions, or tax credits on his return. He cannot claim exemption from withholding when he fills out Form W-4 for his employer because his parents will be able to claim him as a dependent, his total income will be more than \$650 (plus any 1997 cost-of-living increase), and he will have unearned income.

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

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

Part 2. Tax on Investment Income of Child Under 14

Terms you may need to know (see Glossary):

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

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

- 1) If a child's interest, dividends, and other investment income total more than \$1,300, part of that income may be taxed at the parent's tax rate instead of at the child's tax rate (see *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,300*, later).
- 2) A child's parent may be able to choose to include the child's interest and dividend income on the parent's return rather than file a return for the child (see *Parent's Election To Report Child's Interest and Dividends*, later).

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

These rules do **not** apply if:

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

Which Parent's Return To Use

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

Child's Parents Married

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

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

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

Child's Parents Divorced

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

Custodial parent remarried. If the custodial parent has remarried, the stepparent (rather than the noncustodial parent) is treated as the child's other parent. Therefore, 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 treated as not married* applies.

Child's Parents Never Married

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

Widows and Widowers

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

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

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

You can make this election for 1996 only if **all** the following conditions are met.

- 1) Your child was under age 14 on January 1, 1997.

- 2) Your child is required to file a return for 1996 unless you make this election.
- 3) Your child had income only from interest and dividends (including Alaska Permanent Fund dividends).
- 4) The dividend and interest income was less than \$6,500.
- 5) No estimated tax payments were made for 1996 and no 1995 overpayment was applied to 1996 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*, on this page.)

These conditions are also shown in *Figure 4*.

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

Tax effect of election. The federal income tax on your child's income may be more if you make the Form 8814 election rather than file a return for the child. This is because the income may be taxed at a higher tax rate on your return. Also, by making the Form 8814 election, you cannot take certain deductions the child would be entitled to on his or her return, as explained next.

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

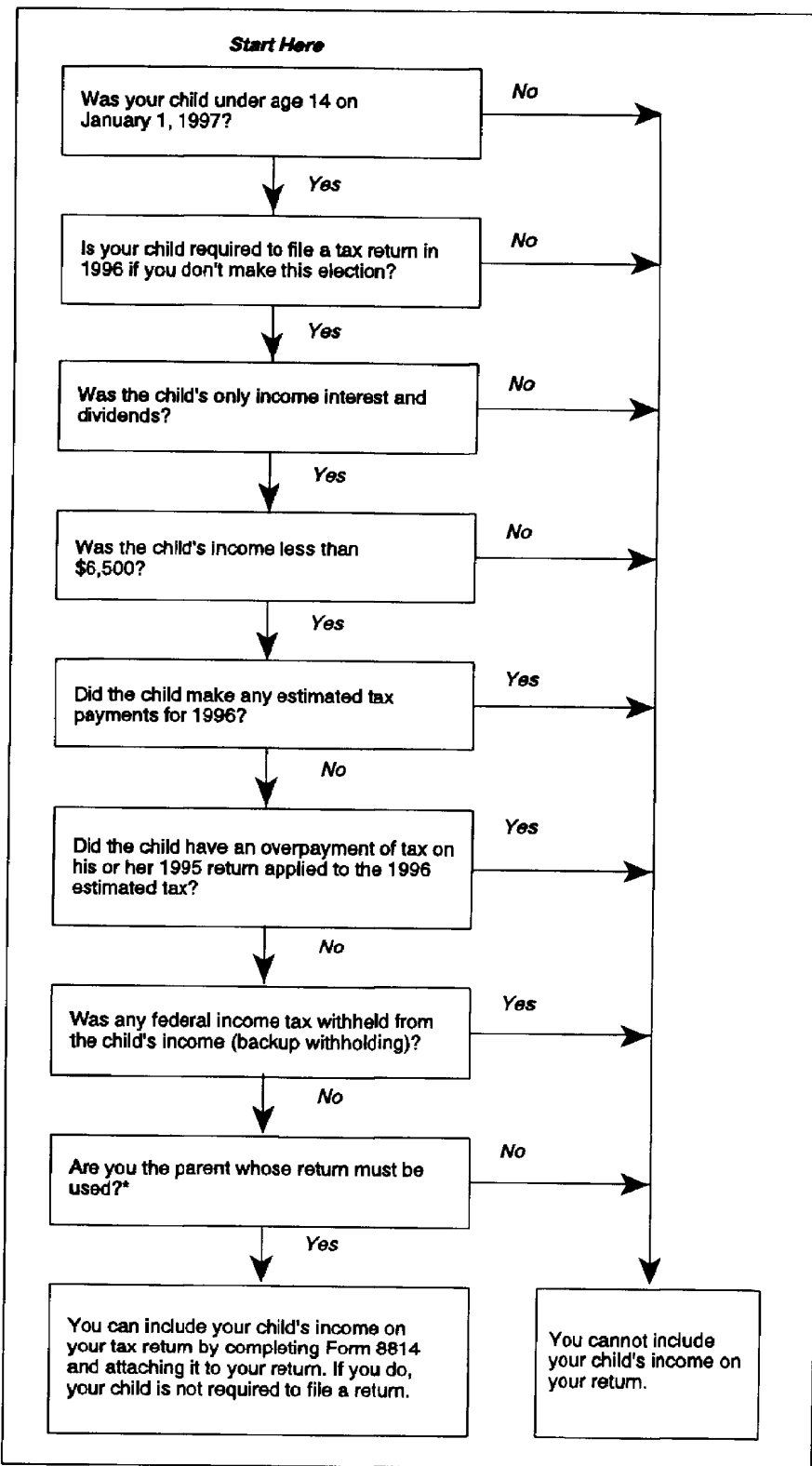
- 1) Standard deduction of \$650 (\$1,650 if your child was blind),
- 2) Deduction for penalty on early withdrawal of your child's savings, and
- 3) Itemized deductions (such as your child's investment expenses or charitable contributions).

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

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

- 1) Deduction for contributions to an individual retirement arrangement (IRA),

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



* See *Which Parent's Return to Use*

- 2) Itemized deductions for medical expenses, casualty and theft losses, and certain miscellaneous expenses,
- 3) Total itemized deductions,
- 4) Credit for child and dependent care expenses,
- 5) Personal exemptions, and
- 6) Earned income credit.

Penalty for underpayment of estimated tax. If you make this election for 1996 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 1997, 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 on increasing your withholding and estimated taxes.

Figuring Amount of Child's Income To Report

Step 1 of Form 8814 is used to figure the amount of your child's interest and dividend income to report on your return. Only the amount over \$1,300 is added to your income. This amount is shown on line 5 of Form 8814. Include the amount from line 5 of all your Forms 8814 in the total on line 21, Form 1040 or Form 1040NR. In the space next to line 21, write "Form 8814" and the total from line 5 of all your Forms 8814.

Alternative minimum tax. If your child received any tax-exempt interest from 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 this amount with your own tax preference items when figuring your AMT. For more information, get the instructions for **Form 6251**, *Alternative Minimum Tax—Individuals*.

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

- 1) You file Schedule D (Form 1040) to report capital gains and losses. If you file Schedule D, you should report part or all of these capital gain distributions on that schedule, where they may be offset by your capital losses.
- 2) You can use the *Capital Gain Tax Worksheet* to figure your tax because your taxable income (Form 1040, line 37) is more than: \$96,900 if married filing jointly or qualifying widow(er); \$58,150 if single; \$83,050 if head of household; or \$48,450 if married filing separately.



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

Worksheet (Keep for your records)

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

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

Example. Fred is 6 years old. In 1996, he received dividend income of \$1,500, which included a \$300 capital gain distribution from a mutual fund. He has no other income and is not subject to backup withholding. No estimated tax payments were made under his name and social security number.

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

\$200 of Fred's income must be included as income on his parents' tax return (\$1,500 gross income minus \$1,300). However, because they file Schedule D (Form 1040), they figure the amount to report on that schedule and the amount to report on line 5, Form 8814, as follows:

Filled-in Worksheet for Fred

1. Enter amount of any capital gain distribution included on Form 8814, line 2a \$ 300
2. Enter amount from Form 8814, line 3 \$ 1,500
3. Divide the amount on line 1 by the amount on line 2 and enter result20
4. Base amount 1,300

5. Subtract the amount on line 4 from the amount on line 2 \$ 200
6. Multiply the amount on line 5 by the decimal on line 3. Enter the result here and on Schedule D, line 14 (or on line 13, Form 1040, if you are not filing Schedule D) \$ 40
7. Subtract the amount on line 6 from the amount on line 5. Enter the result here and on Form 8814, line 5 \$ 160

Fred's parents enter \$160 on line 5 of Form 8814 and write "CGD-\$40" on the dotted line next to line 5. They include the \$160 on line 21 of their Form 1040 and write "Form 8814-\$160" on the dotted line next to the total. On Schedule D they include \$40 on line 14 and write "Form 8814-\$40" on the dotted line next to this line.

Fred's parents also complete Step 2 of Form 8814. (See *Figuring Additional Tax*, next.) They add their \$97.50 additional tax to the tax otherwise entered on line 38 of their Form 1040 and also check box a next to line 38.

Figuring Additional Tax

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

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

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

Include the amount from line 8 of all your Forms 8814 in the total on line 38, Form 1040, or line 37, Form 1040NR. Check box a on Form 1040, line 38, or Form 1040NR, line 37.

Illustrated Example

This example shows how to fill in Form 8814.

David and Linda Parks are married and will file separate tax returns for 1996. Their only child, Philip, is 8. For 1996, Philip received a Form 1099-INT showing \$3,200 taxable interest income and a Form 1099-DIV showing \$300 ordinary dividends. His parents decide to include that income on one of their returns so that they will not have to file a return for Philip.

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

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

Linda adds the amounts on lines 1a and 2c and enters the result, \$3,500, on line 3. From that amount she subtracts the \$1,300 base amount shown on line 4 and enters the result, \$2,200, on line 5. This is the portion of Philip's income that Linda must add to her income.

Linda includes the \$2,200 in the total on line 21 of her Form 1040 and in the space next to that line writes "Form 8814-\$2,200." Adding that amount to her income increases each of the amounts on lines 22, 31, 32, 35, and 37 of her Form 1040 by \$2,200. Linda is not claiming any deductions or credits that are affected by the increase to her income. Therefore, her revised taxable income on line 37 is \$61,500 (\$59,300 + \$2,200).

On Form 8814, Linda subtracts the \$650 shown on line 6 from the \$3,500 on line 3 and enters the result, \$2,850, on line 7. Because that amount is \$650 or more, she enters \$97.50 on line 8. This is the tax on the \$1,300 of Philip's income that Linda did not add to her income. She must add this additional tax to the tax figured on her revised taxable income.

She figures the tax on her \$61,500 revised taxable income to be \$15,013, then adds \$97.50, and enters the \$15,110.50 total on line 38. She checks box a on her Form 1040, line 38.

Linda attaches Form 8814 to her Form 1040.

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

Part of a child's 1996 investment income may be subject to tax at the parent's tax rate if:

- 1) The child was under age 14 on January 1, 1997,
- 2) The child's investment income was more than \$1,300, and
- 3) The child is required to file a tax return for 1996.

Figure 5 illustrates this.

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

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

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

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

Step 3. Figure the child's tax.

Parent's Return Information

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

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

Example. Kimberly must use her mother's tax and taxable income to complete her Form 8615 for calendar year 1996 (January 1 – December 31). Kimberly's mother files her tax returns on a fiscal year basis (July 1 – June 30). Kimberly must use the information on her mother's return for the tax year ending June 30, 1996, to complete her 1996 Form 8615.

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

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

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

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

For calendar year taxpayers, you must file Form 4868 by April 15, 1997. If you file for an extension, you must file the child's return by August 15, 1997.

An extension of time to file is not an extension of time to pay. You must make an accurate estimate of the tax for 1996. If you find you cannot pay the full amount due with Form 4868, you can still get the extension. You will owe interest on the unpaid amount. See Form 4868 and its instructions.

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

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

- 1) A statement saying that 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 that the child is under 14 years of age (for example, a copy of the child's birth certificate).

- 3) Evidence that the child has more than \$1,300 of unearned income (for example, a copy of the child's prior year tax return or copies of Forms 1099 for the current year).
- 4) The name, address, social security number (if known), and filing status (if known) of the parent whose information is to be shown on Form 8615.

If the child's legal representative makes the request, he or she should include a copy of the Power of Attorney, such as Form 2848, or proof of legal guardianship.

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

Step 1. Figuring Net Investment Income

The first step in figuring a child's tax using Form 8615 is to figure the child's net investment income. To do that, use Step 1 of Form 8615. For an example, see the *Illustrated Step 1 of Form 8615*.

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

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



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

Alternate Worksheet for Line 1 of Form 8615

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

**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 <i>Linda Parks</i>	Your social security number <i>111 00 1111</i>
A Child's name (first, initial, and last) <i>Philip Parks</i>	B Child's social security number <i>000 00 0000</i>

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

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

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

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

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

Note: If you checked the box on line C above, see the instructions. Otherwise, include the amount from line 8 in the tax you enter on Form 1040, line 38, or Form 1040NR, line 37. Be sure to check box a on Form 1040, line 38, or Form 1040NR, line 37.

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, 1997.
- Is required to file a 1996 return.
- Had income only from interest and dividends, including Alaska Permanent Fund dividends.
- Had gross income for 1996 that was less than \$6,500.

- Had no estimated tax payments for 1996.
 - Did not have any overpayment of tax shown on his or her 1995 return applied to the 1996 return.
 - Had no Federal income tax withheld from his or her income.
- You must also qualify as explained on page 2 of these instructions.

Step 1 of the form is used to figure the amount of your child's income to report on your return. Step 2 is used to figure an additional tax that must be added to your tax.

How To Make the Election.—To make the election, complete and attach Form 8814 to your tax return and file your return by the due date (including extensions). A separate Form 8814 must be filed for each child whose income you choose to report.
TIP: The Federal income tax on your child's income may be less if you file a tax return for the child instead of making this election. This is because you cannot take certain deductions that your child would be entitled to on his or her own return. For details, see *Deductions You May Not Take* on page 2.

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

Investment income. The paragraphs that follow explain some items that are, and some that are not, investment income.

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

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

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

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

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

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

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

The dividends were on stock given to her by her grandparents. Amanda's investment income is \$1,900. This is the total of the dividends (\$600), taxable interest (\$1,200), and capital gains reduced by capital losses (\$300 - \$200 = \$100). Her wages are earned (not

investment) income because they are received for work actually done. Her tax-exempt interest is not included because it is nontaxable.

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, reduce your investment income by any penalty on the early withdrawal of savings. This is automatically done if you use the worksheet in the Form 8615 instructions or the *Alternate Worksheet for Line 1 of Form 8615*, illustrated earlier.

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

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

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

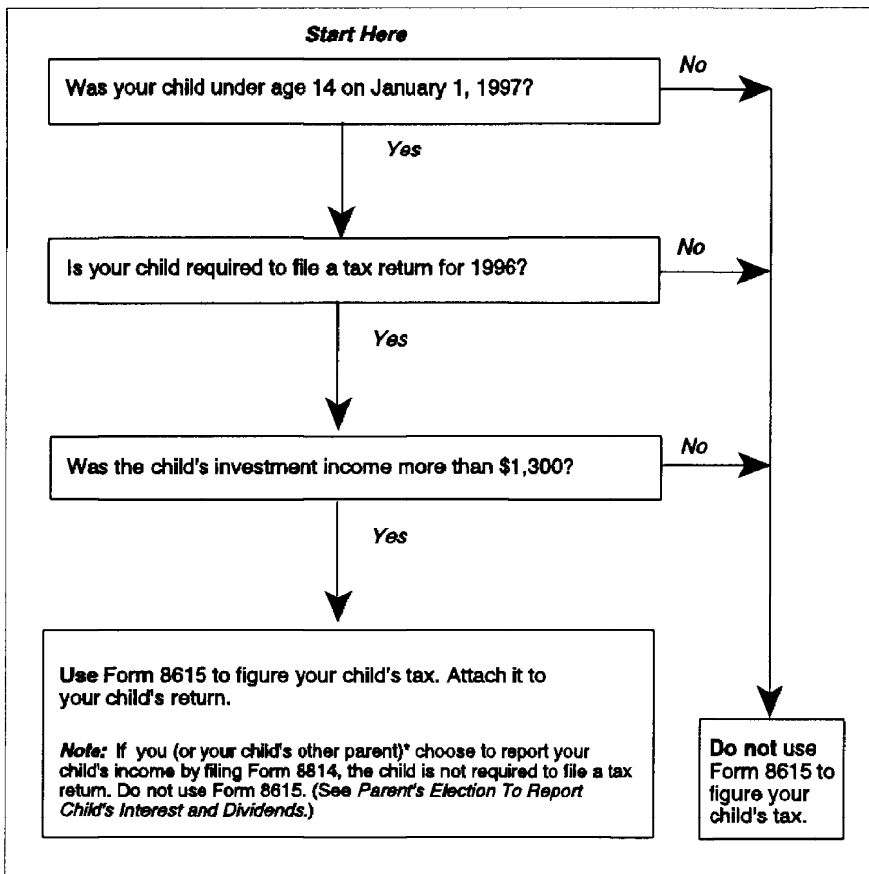
If the child's directly-connected itemized deductions are not more than \$650, enter \$1,300 on line 2.

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

Example 1. Roger, 12, has investment income of \$8,000, no other income, no adjustments to income, and itemized deductions of \$300 that are directly connected with his investment income. His adjusted gross income is \$8,000, which is entered on line 1. The amount on line 2 is \$1,300 because \$1,300 is more than the sum of \$650 plus his directly connected itemized deductions of \$300. His net investment income, on line 3, is \$6,700 (\$8,000 - \$1,300).

Example 2. Eleanor, 8, has investment income of \$16,000 and an early withdrawal penalty of \$100. She has no other income. She has itemized deductions of \$1,100 that are directly connected with the production of her investment income. Her adjusted gross income, entered on line 1, is \$15,900 (\$16,000 - \$100). The amount entered on line 2 is \$1,750. This is the larger of:

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



*See Which Parent's Return To Use

Illustrated Step 1 of Form 8615

Carla's total income on Form 1040A, line 14, is \$5,000. This total includes wages (earned income) of \$600 reported on line 7. She has no itemized deductions. Carla's taxable income on Form 1040A, line 22, is \$4,350. Because Carla has earned income, the worksheet in the instructions is used to figure the amount on line 1 of Form 8615.

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

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

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

The amount from line 3 of the worksheet is entered on line 1 of Form 8615. Carla did not itemize deductions, so \$1,300 is entered on line 2. Line 3 of Form 8615 is the result of subtracting \$1,300 from \$4,400. Carla's taxable income of \$4,350 (as shown on line 22 of her Form 1040A) is entered on line 4 of Form 8615. The smaller of \$3,100 or \$4,350 is entered on line 5. This is her net investment income.

Worksheet (keep for your records)

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

1) \$650 plus the \$1,100 of directly connected itemized deductions, or

2) \$1,300.

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

Line 3. If the amount on line 2 equals or is more than the amount on line 1, do not complete the rest of the form. However, you must still attach Form 8615 to the child's tax return. Figure the tax on the child's taxable income in the normal manner.

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

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 the amount on line 3 or the amount on line 4 of Form 8615. This is the child's *net investment income*.

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

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

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

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

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

Line 6 (parent's taxable income). Enter on line 6 the amount from the parent's Form 1040, line 37; Form 1040A, line 22; Form 1040EZ, line 6; TeleFile Tax Record, line J; Form 1040NR, line 36; or Form 1040NR-EZ, line 13. If the parent's taxable income is less than zero, enter zero on line 6.

Trusts. Special rules may apply if the parent transferred property to a trust at less than the property's fair market value. If the trust sold the property in 1996 and the sale was within two years of the transfer, the trust will have to pay tax at the parent's tax rate on at least part of any gain. See the Form 8615, *Line Instructions* for lines 6 and 10.

Line 7 (net investment income of other children). If the tax return information of the parent is also used on any other child's Form

8615, enter on line 7 the total of the amounts from line 5 of all the other children's Forms 8615. Do not include the amount from line 5 of the Form 8615 being completed.

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

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

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

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

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

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 use an extension of time to file. Using estimates and extensions was discussed earlier under *Parent's Return Information*.

Line 9 (tax on parent's taxable income plus children's net investment income). Figure the tax to enter on line 9 in one of the following ways, depending on whether there is any net

Illustrated Step 2 of Form 8615

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

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

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

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

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

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

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

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

capital gain included in the total on line 8. (Note: If there is net capital gain included in the amounts on lines 5, 6, or 7, then there is also net capital gain on line 8. If not, then there is no net capital gain on line 8.)

- 1) If net capital gain is **not** included in the total on line 8, use the Tax Table or Tax Rate Schedules to figure the tax to enter on line 9. If the amount on line 8 is less than \$100,000, use the Tax Table. If the amount on line 8 is \$100,000 or more, use the Tax Rate Schedules.
- 2) If net capital gain **is** included in the total on line 8, the tax on line 9 may be less if you can use the *Capital Gain Tax Worksheet* in the Form 1040 instructions. This is because the Worksheet reflects the maximum tax rate on a net capital gain of 28%. The rest of this discussion explains when the *Worksheet* can be used and how to use it.

Net capital gain is the excess of net long-term capital gain over any net short-term capital loss. For 1996, this is the smaller of the gain on line 17 or the gain on line 18 of **Schedule D** (Form 1040), *Capital Gains and Losses*. If you are not filing Schedule D, it is the amount of capital gain distributions reported on line 13 of Form 1040.

The *Capital Gain Tax Worksheet* can be used to figure the tax if:

The parent's filing status is:	AND	The amount on Form 8615, line 8, is over:
• Single		• \$58,150
• Married filing joint return or Qualifying widow(er) with dependent child		• \$96,900
• Married filing separate return		• \$48,450
• Head of household		• \$83,050

If the *Capital Gain Tax Worksheet* cannot be used to figure the tax, use the Tax Table.

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

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

Net capital gain on line 6. If net capital gain is on line 6 of Form 8615, the net capital gain from that line included on line 8 is:

- 1) If the parent files Schedule D, the smaller of the gain on line 17 or line 18 of the parent's Schedule D, or
- 2) If the parent does not file Schedule D, the amount of capital gain distribution on line 13 of the parent's Form 1040.

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

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

Line 5 worksheets. You can figure the net capital gain included on line 5 of a child's Form 8615 by using whichever of the following worksheets applies.



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

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 the amount on line A by the amount on line B and enter the result here _____
- D. Multiply \$1,300 by the result on line C and enter the answer here _____
- E. Subtract the amount on line D from the amount on line A. This is the net capital gain included on line 5 _____



If the amount on line 5 of the child's Form 8615 is the same as the amount on line 3, and the amount on line 2 is **more** than \$1,300, figure the net capital gain included on line 5 using the following worksheet.

Line 5 Worksheet #2

- A. Enter the child's net capital gain _____
- B. Enter the amount of the child's itemized deductions that are directly connected with the production of the child's net capital gain _____
- C. Subtract the amount on line B from the amount on line A _____
- D. Enter the amount from line 1 of the child's Form 8615 _____
- E. Divide the amount on line A by the amount on line D and enter the result here _____
- F. Multiply \$650 by the result on line E and enter the answer here _____
- G. Subtract the amount on line F from the amount on line C. This is the net capital gain included on line 5 _____



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

Line 5 Worksheet #3

- A. Enter the child's net capital gain _____
- B. If the child itemized deductions, enter the amount of the child's itemized deductions that are directly connected with the production of the child's net capital gain _____
- C. Subtract the amount on line B from the amount on line A _____
- D. If the child can claim his or her own exemption, enter \$2,550*. Otherwise, enter zero _____
- E. If the child itemized deductions, enter the amount of the child's itemized deductions that are *not* directly connected with the production of the child's net capital gain. Otherwise, enter the amount of the child's standard deduction _____
- F. Add the amounts on lines D and E _____
- G. Enter the child's adjusted gross income (line 32 of the child's Form 1040) _____
- H. Divide the amount on line A by the amount on line G and enter the result here _____
- I. Multiply the amount on line F by the result on line H and enter the result here _____
- J. Subtract the amount on line I from the amount on line C. This is the net capital gain included on line 5 _____

* If you enter more than \$117,950 on line G, see *Deduction for Exemptions Worksheet—Line 36* in the Form 1040 instructions for the amount to enter on line D.

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

- 1) The net capital gain included on line 5 of the child's Form 8615, **plus**
- 2) The smaller of the gain on line 17 or line 18 of Schedule D that the parent is filing with his or her return (or the amount of capital gain distributions on line 13 of the parent's Form 1040, if the parent does not file a Schedule D), **plus**
- 3) The total of the net capital gains included on line 5 of any other children's Forms 8615.

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

- 1) Enter on line 1 of the *Capital Gain Tax Worksheet*, the amount from line 8 of Form 8615,
- 2) Enter on line 2 of the *Capital Gain Tax Worksheet*, the net capital gain included on line 8 of Form 8615,
- 3) Enter on line 3 of the *Capital Gain Tax Worksheet* the total of the amounts on line 4e of all Forms 4952, *Investment Interest Expense Deduction*, filed by the

parent and all the parent's children for whom Form 8615 is filed,

- 4) Complete the rest of the *Capital Gain Tax Worksheet* (lines 4 through 13),
- 5) Enter on line 9 of Form 8615 the amount from line 13 of the *Capital Gain Tax Worksheet*, and enter in the space to the left of line 9 the amount from line 4 of the worksheet.

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

Line 10 (parent's tax). Enter on line 10 the amount from the parent's Form 1040, line 38; Form 1040A, line 23; Form 1040EZ, line 10; TeleFile Tax Record, line J; Form 1040NR, line 37; or Form 1040NR-EZ, line 14. If that amount is from the *Capital Gain Tax Worksheet*, enter in the space to the left of line 10 the amount from line 4 of that Worksheet.

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

If an amount is entered on line 7, 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 .33, figured as follows and rounded to two places.

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

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

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

Step 3. Figuring the Child's Tax

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

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

Illustrated Step 3 of Form 8615

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

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

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

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

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

This is the child's tax. It is figured on lines 14 through 18 of Form 8615. For an example, see the *Illustrated Step 3 of Form 8615*.

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

Line 15 (tax on excess of child's taxable income over child's net investment income). Generally, the Tax Table (use the *Single* column) or Tax Rate Schedule X must be used to figure the tax to enter on line 15. However, if the amount on line 14 is more than \$58,150 and includes any net capital gain, the tax may be less if the *Capital Gain Tax Worksheet* is used.

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

Figure the net capital gain included on line 14 by referring to the *Line 5 Worksheet* that was used to figure the net capital gain included on line 5. Subtract the net capital gain included on line 5 (the amount on the last line of the worksheet) from the child's net capital gain (the amount on line A of that worksheet). The result is the amount of net capital gain included on line 14 of the child's Form 8615.

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

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

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

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

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

Alternative Minimum Tax

A child may be subject to alternative minimum tax (AMT) if he or she has certain items given preferential treatment under the tax laws or certain adjustments to taxable income that total more than an exemption amount. This tax

may apply if the child, for example, claims accelerated depreciation, has tax-exempt interest income, has a passive activity, or receives distributions from estates or trusts.

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

Limit on exemption amount. Ordinarily, single people can subtract a \$33,750 exemption amount from their AMT taxable income. However, a child who files Form 8615 has a limited exemption amount. The child's exemption amount is limited to the child's earned income plus the greater of \$1,300 or the child's share of the unused parental AMT exemption. Figure the child's allowable exemption amount on the worksheet in the instructions for line 22 of Form 6251.

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

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

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

Illustrated Example

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

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

Because Sara has both earned and unearned income and her gross income is more than \$650, she must file a tax return. Because she is under age 14 and has more than \$1,300 investment income, part of her income may be subject to tax at her parents' rate. A completed Form 8615 must be attached to her return.

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

John enters his name and social security number on Sara's Form 8615 because his name and number are listed first on the joint

return he and Laura are filing. He checks the box for married filing jointly.

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

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

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

John enters \$48,000 on line 6. This is the taxable income from line 37 of John and Laura's joint Form 1040 return. Sara is an only child, so line 7 is blank. He adds the amounts on line 5 (\$1,200), line 6 (\$48,000), and line 7 and enters the \$49,200 total on line 8.

Using the column for married filing jointly in the Tax Table, John finds the tax on \$49,200. He enters the tax, \$8,570, on line 9. He enters

\$8,234 on line 10. This is the tax from line 38 of John and Laura's Form 1040. He enters \$336 on line 11 (\$8,570 - \$8,234).

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

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

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

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

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

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

Department of the Treasury
Internal Revenue Service

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

Child's name shown on return

Sara L. Brown

Child's social security number

111 00 111

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

Step 1 Figure child's net investment income

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

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

6	Enter parent's taxable income from Form 1040, line 37; Form 1040A, line 22; Form 1040EZ, line 6; TeleFile Tax Record, line J; Form 1040NR, line 36; or Form 1040NR-EZ, line 13. If the parent transferred property to a trust, see instructions	6	<i>48,000</i>
7	Enter the total net investment income, if any, from Forms 8615, line 5, of ALL OTHER children of the parent identified above. Do not include the amount from line 5 above	7	
8	Add lines 5, 6, and 7	8	<i>49,200</i>
9	Tax on line 8 based on the parent's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	9	<i>8,570</i>
10	Enter parent's tax from Form 1040, line 38; Form 1040A, line 23; Form 1040EZ, line 10; TeleFile Tax Record, line J; Form 1040NR, line 37; or Form 1040NR-EZ, line 14. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	10	<i>8,234</i>
11	Subtract line 10 from line 9. If line 7 is blank, enter on line 13 the amount from line 11; skip lines 12a and 12b	11	<i>336</i>
12a	Add lines 5 and 7 12a		
b	Divide line 5 by line 12a. Enter the result as a decimal (rounded to two places)	12b	<i>x</i>
13	Multiply line 11 by line 12b ▶	13	<i>336</i>

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

14	Subtract line 5 from line 4 14	<i>1,300</i>
15	Tax on line 14 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, enter amount from line 4 of that worksheet here ▶	<i>197</i>
16	Add lines 13 and 15	<i>533</i>
17	Tax on line 4 based on the child's filing status. See instructions. If from Capital Gain Tax Worksheet, check here ▶ <input type="checkbox"/>	<i>377</i>
18	Enter the larger of line 16 or line 17 here and on Form 1040, line 38; Form 1040A, line 23; or Form 1040NR, line 37. ▶	<i>533</i>

General Instructions

Purpose of Form.—For children under age 14, investment income over \$1,300 is taxed at the parent's rate if the parent's rate is higher than the child's rate. If the child's investment income is more than \$1,300, use this form to figure the child's tax.

Investment Income.—As used on this form, "investment income" includes all taxable income other than earned income as defined on page 2. It includes taxable interest, dividends, capital gains, rents,

royalties, etc. It also includes pension and annuity income and income (other than earned income) received as the beneficiary of a trust.

Who Must File.—Generally, Form 8615 must be filed for any child who was under age 14 on January 1, 1997, had more than \$1,300 of investment income, and is required to file a tax return. If neither parent was alive on December 31, 1996, do not use Form 8615. Instead, figure the child's tax in the normal manner.

Note: The parent may be able to elect to report the child's interest and dividends on his or her return. If the parent makes this election, the child will not have to file a return or Form 8615. For more details, get Form 8814, Parents' Election To Report Child's Interest and Dividends.

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

Incomplete Information for Parent.—If the parent's taxable income or filing status or the net investment income of the parent's other children is not known by the

Label (See page 15.) Use the IRS label. Otherwise, please print in ALL CAPITAL LETTERS.

OMB No. 1545-0065

LABEL HERE

Your first name: **SARA** Init: **L** Last name: **BROWN**

If a joint return, spouse's first name: _____ Init: _____ Last name: _____

Home address (number and street). If you have a P.O. box, see page 15. Apt. no. _____
1040A MAIN STREET

City, town or post office. If you have a foreign address, see page 15. State ZIP code
HOMETOWN **AZ** **85240** **111**

Your social security number
111001111

Spouse's social security number

For Privacy Act and Paperwork Reduction Act Notice, see page 9.

Presidential Election Campaign Fund (See page 15.)

Do you want \$3 to go to this fund? Yes No

If a joint return, does your spouse want \$3 to go to this fund? Yes No

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

- 1 Single
- 2 Married filing joint return (even if only one had income)
- 3 Married filing separate return. Enter spouse's social security number above and full name here. ▶ _____
- 4 Head of household (with qualifying person). (See page 18.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____
- 5 Qualifying widow(er) with dependent child (year spouse died ▶ 19 _____). (See page 16.)

6a Yourself. If your parent (or someone else) can claim you as a dependent on his or her tax return, do not check box 6a.

b Spouse

c Dependents. If more than six dependents, see page 17.

(1) First name	Last name	(2) Dependent's social security number. If born in Dec. 1990, see page 18.	(3) Dependent's relationship to you	(4) No. of months lived in your home in 1996

No. of boxes checked on lines 6a and 6b

No. of your children on line 6c who:
• lived with you

• did not live with you due to divorce or separation (see page 18)

Dependents on 6c not entered above

Add numbers entered in boxes above

d Total number of exemptions claimed

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

7 \$ **1500**

8a Taxable interest income. If over \$400, attach Schedule 1.

8a \$ **1400**

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

8b \$

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

9 \$ **1100**

10a Total IRA distributions. 10a \$

10b Taxable amount (see page 20).

10b \$

11a Total pensions and annuities. 11a \$

11b Taxable amount (see page 20).

11b \$

12 Unemployment compensation.

12 \$

13a Social security benefits. 13a \$

13b Taxable amount (see page 22).

13b \$

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

14 \$ **4000**

15a Your IRA deduction (see page 22).

15a \$

b Spouse's IRA deduction (see page 22).

15b \$

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

15c \$

16 Subtract line 15c from line 14. This is your adjusted gross income. If under \$28,495 (under \$9,500 if a child did not live with you), see the instructions for line 29c on page 29. ▶

16 \$ **4000**

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

17 Enter the amount from line 16. 17 \$

4	0	0	0
---	---	---	---

18a Check it: You were 65 or older Blind Spouse was 65 or older Blind Enter number of boxes checked ▶ 18a

b If you are married filing separately and your spouse itemizes deductions, see page 26 and check here ▶ 18b

19 Enter the standard deduction for your filing status. But see page 26 if you checked any box on line 18a or b OR someone can claim you as a dependent.
 • Single—4,000 • Married filing jointly or Qualifying widow(er)—6,700
 • Head of household—5,900 • Married filing separately—3,350 19 \$

1	5	0	0
---	---	---	---

20 Subtract line 19 from line 17. If line 19 is more than line 17, enter 0. 20 \$

2	5	0	0
---	---	---	---

21 Multiply \$2,550 by the total number of exemptions claimed on line 6d. 21 \$

--	--	--	--

22 Subtract line 21 from line 20. If line 21 is more than line 20, enter 0. This is your taxable income. If you want the IRS to figure your tax, see page 26. ▶ 22 \$

2	5	0	0
---	---	---	---

23 Find the tax on the amount on line 22 (see page 26). 23 \$

	5	3	3
--	---	---	---

24a Credit for child and dependent care expenses. Attach Schedule 2. 24a \$

--	--	--	--	--	--

b Credit for the elderly or the disabled. Attach Schedule 3. 24b \$

--	--	--	--	--	--

c Add lines 24a and 24b. These are your total credits. 24c \$

--	--	--	--	--	--

25 Subtract line 24c from line 23. If line 24c is more than line 23, enter 0. 25 \$

	5	3	3
--	---	---	---

26 Advance earned income credit payments from Form(s) W-2. 26 \$

--	--	--	--	--	--

27 Household employment taxes. Attach Schedule H. 27 \$

--	--	--	--	--	--

28 Add lines 25, 26, and 27. This is your total tax. ▶ 28 \$

	5	3	3
--	---	---	---

29a Total Federal income tax withheld from Forms W-2 and 1099. 29a \$

	1	3	5
--	---	---	---

b 1996 estimated tax payments and amount applied from 1995 return. 29b \$

--	--	--	--	--	--

c Earned income credit. Attach Schedule EC if you have a qualifying child. 29c \$

--	--	--	--	--	--

Nontaxable earned income: amount ▶ \$

--	--	--	--	--	--

 and type ▶

d Add lines 29a, 29b, and 29c (do not include nontaxable earned income). These are your total payments. ▶ 29d \$

	1	3	5
--	---	---	---

30 If line 29d is more than line 28, subtract line 28 from line 29d. This is the amount you overpaid. 30 \$

--	--	--	--	--	--

31a Amount of line 30 you want refunded to you. If you want it sent directly to your bank account, see page 35 and fill in 31b, c, and d. 31a \$

--	--	--	--	--	--

b Routing number

--	--	--	--	--	--	--	--	--	--

 c Type: Checking Savings

d Account number

--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

32 Amount of line 30 you want applied to your 1997 estimated tax. 32 \$

--	--	--	--	--	--

33 If line 28 is more than line 29d, subtract line 29d from line 28. This is the amount you owe. For details on how to pay, including what to write on your payment, see page 36. 33 \$

	3	9	8
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34 Estimated tax penalty (see page 36). 34 \$

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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 <i>Sara L. Brown</i>	Date 2-15-97	Your occupation Student
Spouse's signature, if joint return, BOTH must sign.	Date	Spouse's occupation

Keep a copy of this return for your records.

Paid preparer's use only

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN
Firm's name (or yours if self-employed) and address	EIN	ZIP code	

Glossary

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

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

Adjustments to income—Deductions that are subtracted from gross income in figuring adjusted gross income. They include 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 some kinds of income and allow deductions and credits for some kinds of expenses.

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

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

- 1) Lives with or is related to you,
- 2) Is a U.S. citizen, U.S. resident, or a resident of Canada or Mexico,
- 3) Does not file a joint return,
- 4) Does not have \$2,550 or more of gross (total) income (does not apply to your child if under 19 or a student under 24), and
- 5) Is supported (generally more than 50%) by you.

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

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

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

Exemption—An amount (\$2,550 for 1996) that can be subtracted from income in figuring how much income will be taxed. Exemptions generally are allowed for the taxpayer, the taxpayer's spouse, and qualifying dependents.

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

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

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

Investment income—See *Unearned income*.

Itemized deductions—Deductions allowed on Schedule A (Form 1040) for medical and dental expenses, taxes, interest, 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 1996, this is the smaller of the gain on line 17 or the gain on line 18 of Schedule D (Form 1040), *Capital Gains and Losses*. If you are not filing Schedule D, it is the amount of the capital gain distributions reported on line 13 of Form 1040.

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

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

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

Tax year—Time period covered by a tax return. Usually this is January 1 to December 31, a

calendar year, but taxpayers sometimes elect a fiscal tax year with different beginning and ending dates.

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

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

How To Get More Information



You can get help from the IRS in several ways.

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

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

If you have access to a personal computer and modem, you also can get many forms and publications electronically. See *Quick and Easy Access to Tax Help and Forms* in your income tax package for details. If space permitted, this information is at the end of this publication.

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

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

How To Get Forms, Publications, and Other Information



You can get information from the IRS in several ways. Choose the method from the table below that is best for you.

Method	Type of Information	How To Get the Information								
• By phone	• Forms and publications	▶ Call 1-800-TAX-FORM (1-800-829-3676) during regular business hours. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 .								
	• Tele-Tax topics	▶ See your income tax package for the phone number and list of Tele-Tax topics.								
	• Personal assistance	▶ Call 1-800-829-1040 during regular business hours. If you have access to TTY/TDD equipment, you can call 1-800-829-4059 .								
• By mail	• Forms and publications	▶ Write to the IRS Forms Distribution Center listed for your state. Print or type your name and address clearly and indicate the number of the form or publication, i.e., Form 1040 or Publication 463. <table border="0"> <tr> <td><i>Address</i></td> <td><i>States (abbreviated)</i></td> </tr> <tr> <td>Western Area Distribution Center Rancho Cordova, CA 95743-0001</td> <td>AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY, Guam, Northern Marianas, American Samoa</td> </tr> <tr> <td>Central Area Distribution Center P.O. Box 8903 Bloomington, IL 61702-8903</td> <td>AL, AR, IL, IN, IA, KS, KY, LA, MI, MN, MS, MO, NE, ND, OH, OK, SD, TN, TX, WI</td> </tr> <tr> <td>Eastern Area Distribution Center P.O. Box 85074 Richmond, VA 23261-5074</td> <td>CT, DE, DC, FL, GA, ME, MD, MA, NH, NJ, NY, NC, PA, RI, SC, VT, VA, WV</td> </tr> </table> <p>If you live in any other location, see your income tax package for the address.</p>	<i>Address</i>	<i>States (abbreviated)</i>	Western Area Distribution Center Rancho Cordova, CA 95743-0001	AK, AZ, CA, CO, HI, ID, MT, NV, NM, OR, UT, WA, WY, Guam, Northern Marianas, American Samoa	Central Area Distribution Center P.O. Box 8903 Bloomington, IL 61702-8903	AL, AR, IL, IN, IA, KS, KY, LA, MI, MN, MS, MO, NE, ND, OH, OK, SD, TN, TX, WI	Eastern Area Distribution Center P.O. Box 85074 Richmond, VA 23261-5074	CT, DE, DC, FL, GA, ME, MD, MA, NH, NJ, NY, NC, PA, RI, SC, VT, VA, WV
	<i>Address</i>	<i>States (abbreviated)</i>								
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Eastern Area Distribution Center P.O. Box 85074 Richmond, VA 23261-5074	CT, DE, DC, FL, GA, ME, MD, MA, NH, NJ, NY, NC, PA, RI, SC, VT, VA, WV									
• Forms and publications	▶ The post office is a good source of the most common forms and schedules. The library stocks a wider variety of forms and some publications that you may photocopy. It may also have a CD-ROM from which you can view or print items. The CD contains forms from 1991 to the present and publications from 1994 to the present.									
• With a computer and modem	• Forms and publications	▶ Use the Internet— World Wide Web — http://www.irs.ustreas.gov Telnet — irs.irs.ustreas.gov FTP — ftp.irs.ustreas.gov <i>TIP:</i> If you subscribe to an on-line service, ask your provider how to best access IRS information. ▶ Access the Internal Revenue Information Services bulletin board at 703-321-8020 (not toll-free). <i>TIP:</i> If you're a new user, you may want to read the on-line help first.								
	• Educational materials									
• By fax	• IRS press releases and fact sheets									
	• Tele-Tax topics									
• By fax	• Forms and other information	▶ Dial 703-487-4160 (not toll-free) from your fax machine to reach IRS Tax Fax. You can request up to 3 items during each call. This fax program provides 100 of the most popular forms and instructions (not publications), as well as other information, 24 hours a day, seven days a week.								
	• Tele-Tax topics	▶ See your income tax package for a list of Tele-Tax topics.								

