Accutek Solutions
Doug Beecher, C.P.A.

51 North 1000 West, Suite 5
Hurricane, UT 84737
Tel: (435) 635-3684
Fax: (435) 635-5454
E-mail: dougbeecher@yahoo.com
Website: www.accuteksolutions.com

March 2003 - When Should Children Claim Themselves as Dependents for Tax Purposes?

I have received several requests for an article addressing the subject of when children should claim themselves as dependents on their income tax returns. Some of this information will be repeated from my February 2002 article entitled "Who Gets to Claim the Dependent?" which is available in its entirety at www.accuteksolutions.com. The simple fact that I continue to get requests to look at the same question from different viewpoints is a reaffirmation that we, as Americans, have a very complex tax system, and that getting professional help to deal with it is more worthwhile than ever. Many tax questions do not have one simple right or wrong answer, but involve a series of tradeoffs. A professional can be well worth the fee to point out which set of tradeoffs results in hundreds or even thousands of dollars in lower taxes over a period of years given a specific group of people and their circumstances. Another group of people or circumstances could result in an entirely different conclusion.

I will focus in this article on circumstances where children should claim themselves as dependents, as contrasted with the February 2002 article which was more from the viewpoint of how long can parents continue to claim their children as dependents.

<u>When Do Children Have to Start Filing Tax Returns?</u>

A child who has not yet married must begin filing an income tax return when any of the following occur:

- Their total income exceeds $4,700.
- Their income from interest, dividends, or other investment income exceeds $250.
- Their gross revenue or sales from self-employment exceeds $400, or they receive a 1099 form for more than $400.

Many other children also file tax returns voluntarily, so that they can get a refund of their withheld federal and state income tax.

<u>Who Claims the Dependent Deduction for Children Who Are Not Required to File a Tax Return?</u>

Generally, if a child's income is low enough not to require filing a tax return, that child is dependent on someone else for over half of his or her support, and as such should be claimed by the person providing that support. One exception to this is when a child has reached age 19, has income over $3,000, and is not a full-time student at least five months of the year. A related exception is when a child has reached age 24 and has income over $3,000. In this case, no one else can claim this child as a dependent, even if he or she continues to be a full-time student.

Who Claims a Child Who Is Required to File a Tax Return?

Often, when a child's income is high enough to require filing an income tax return, that child will appropriately claim themselves as a dependent on his or her own return. This can get tricky when the child is under 19, or under 24 and a full-time student. In these cases, the child needs to sit down with the person who is helping support them and determine who is providing over half the support. This can be a complex calculation, and you may very well need professional help to make sure all the rules are being followed and the best decision is being made.

A related thought is that sometimes it is beneficial for a child attending college to make sure they provide over half of their own support, particularly if their parents have joint income of more than $80,000. Be especially careful with this determination, and consider the entire period the child expects to continue in college, not just the current year. To the extent possible, both of you will want to estimate what your income and taxes will be with and without the dependency deduction for each of the years in question. You will want to consider how much time the student should devote to outside work at a time when education is requiring a large time commitment. It is also worthwhile to consider that in some cases work experience will contribute to the quality of the education received. If a parent can help a child find relevant work experience, that could be more valuable than direct financial support from the parent. In other cases, the reverse is true. These decisions can truly result in thousands of dollars difference, so be sure to make them with care and good planning.

What Happens When a Child Marries?

In almost every case, when a child marries, they will claim themselves as dependents with their new spouse on a joint tax return the two of them will file together. The sole exception is when the newly married couple owes zero tax and only files a joint return to get a refund. Only then can someone else claim either of the newly married people as their dependents if they provided over half of their financial support for the year.

Note that for tax purposes, a couple that marries on or before December 31 is consider to be married for the entire year.

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (doug@accuteksolutions.com) if you would like a free initial 30-minute consultation to discuss your personal situation and how the tax laws might benefit you. Questions you'd like to have answered in a future article are welcome!