

TAX TALK
BY JEFFREY D. SKOLNICK, CPA, M.S. TAXATION

MY CHILD NOW HAS A JOB, HOW DOES THAT AFFECT HIS/HER TAX RETURN AND MY TAX RETURN?

This is a question that is posed to me on quite a regular basis. This article will outline some of the implications of your child working. There are also implications when a child has unearned income of more than \$950, however this article does not address those situations.

How is my return impacted?

You may claim your child as a dependent if the following applies:

- **The child must be your son, daughter, stepchild, foster child, brother, sister, half brother or sister, stepbrother or sister or a descendant of any of those named.**
- **The child must be under age 19 at the end of the year and younger than you (or your spouse if filing jointly) or under age 24 at the end of the year and a full –time student, or any age if permanently disabled.**
- **Child must not have provided more than half of his/her own support**
- **Child must have lived with you for more than half the year**
- **Child generally cannot file a joint return for the year**

If you can claim your child you are generally eligible to take a personal exemption for the child on your return. This exemption was \$3,650 in 2009; however there are certain income phase-out rules. You would also be entitled to some other benefits such as being able to claim as deductions medical expenses paid on behalf of your child.

Please note that if we are discussing a qualifying child, then there are no restrictions on the amount of income that can be earned by the child as long as they do not provide more than 50% of their own support.

There are certain laws that pertain to Head-of-household status and other eligible dependents that are not qualifying children, but they are beyond the scope of this article.

How is my child's return impacted?

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This seems to be a huge area of confusion. I have spoken to many people that are under the impression that if their child is a full-time student, then they are exempt from income tax. This assumption unfortunately is incorrect. If your dependent child earns more than \$5,700 during the year, then they would be subject to the federal income tax (NJ is a little more lenient the number here is \$10,000).

The impact of the above is important. With the minimum wage being \$7.25, it takes less than 800 hours of work to exceed the \$5,700 threshold. It is therefore very important that your child fill out his/her form W-4 correctly to ensure that they do not have a balance due at the end of the year.

Conclusion

The above article outlines some very basic elements regarding dependent children with jobs. There are many laws that pertain to dependency and associated benefits which are attached to dependency. For these reasons it is vital that any taxpayer seek the advice of tax professionals familiar with these provisions.