



The “kiddie tax” can apply long after childhood

Many parents don’t know that the so-called “kiddie tax” exists. Others assume it affects only minor children. But it also can apply to full-time students through age 23 and 18-year-olds even if they aren’t full-time students. When it applies, most of the child’s unearned income may be taxed at the *parent’s* higher tax rate.

The purpose of the kiddie tax is to minimize the ability of parents to significantly reduce their family’s taxes by transferring income-producing assets to their children in lower tax brackets. If your child has investment income from custodial accounts or other assets, understanding these rules can help you avoid unexpected tax consequences.

Who it affects

The kiddie tax generally applies to most unearned income of individuals who, at the end of the tax year, are:

- Under age 18,
- Age 18 (unless they provide more than half of their own support from earned income), or
- At least age 19 but under age 24 and full-time students (unless they provide more than half of their own support from earned income).

So, for a student, the kiddie tax can be an issue until the year that he or she turns age 24. For that year and future years, even full-time students who are still supported by their parents are kiddie-tax-exempt.

How it works

Earned income from a job or self-employment is never subject to the kiddie tax. And the tax is assessed on a child's (or young adult's) *unearned* income only to the extent that it exceeds the applicable threshold, which is \$2,700 for 2026.

Unearned income usually means interest, dividends and capital gains. These types of income often come from custodial accounts that parents and grandparents set up and fund for younger children.

For 2026, the first \$1,350 of unearned income is taxed at 0%. The second \$1,350 is taxed at the child's (or young adult's) rate. This might also be 0% for some or all of the second \$1,350, depending on 1) how much of the unearned income is made up of long-term capital gains and qualified dividends, and 2) whether the child's (or young adult's) taxable income is low enough for him or her to qualify for the 0% rate.

Then the excess is taxed at the parent's rate. This could be up to 20% on long-term capital gains and qualified dividends and as much as 37% on interest, short-term capital gains and nonqualified dividends — depending on the parent's taxable income.

When it applies

For 2026, Form 8615, "Tax for Certain Children Who Have Unearned Income," must be filed and kiddie tax paid for any child (or young adult) who:

- Has more than \$2,700 of unearned income,
- Is required to file Form 1040,
- As of December 31, 2026, is under age 18, is age 18 and didn't have earned income in excess of half of his or her support, or is age 19, 20, 21, 22 or 23 and a full-time student and didn't have earned income in excess of half of his or her support,
- Has at least one living parent, and
- Isn't married and filing a joint return for the year.

The kiddie tax threshold is annually adjusted for inflation, but generally only in increments of at least \$100. So it doesn't necessarily go up every year. It didn't increase for 2026, so it may be more likely to increase for 2027.

Planning opportunities

The kiddie tax can increase a family's overall tax liability if investment income is generated in a child's name. In some situations, it may make sense to review the types of investments owned in custodial accounts and the timing of investment sales. For example, growth-oriented investments that generate little current income may help reduce exposure to the kiddie tax until your child is old enough that this tax no longer applies. At that time, appreciated investments can begin to be sold, with the gains taxed at your child's own, potentially lower, rate.

If you'd like help evaluating your family's situation, contact us. We can assess potential kiddie tax exposure and suggest tax-efficient investment strategies.

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