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What Is the Kiddie Tax?

When you save or invest for a child, it is easy to focus only on the account balance. But taxes can also play an important role. One rule families should be aware of is the “kiddie tax.”

The kiddie tax is an IRS rule that can cause some of a child’s investment income to be taxed at the parents’ tax rate instead of the child’s potential lower rate. This can matter for children who have custodial accounts, gifted investments, savings accounts, or other taxable investment assets.

WHAT IS UNEARNED INCOME?

To understand the kiddie tax, it helps to first understand unearned income. Unearned income is money a child receives that does not come from working a job. It is different from wages, salaries, tips, or self-employment income. Common examples include:

- Interest from a savings account
- Dividends from investments
- Capital gains from selling investments
- Rental income
- Certain other investment-related income (ex. Income from a trust)

For many children, this income may come from a custodial account, an investment account, or assets gifted by a parent or grandparent. While this income may seem small at first, it can create tax reporting requirements once it reaches certain IRS limits (\$2,700 in 2025).

WHY THE KIDDIE TAX EXISTS

The kiddie tax was created to prevent families from moving large amounts of investment income into a child’s name just to pay less tax. Why? Children often have lower tax rates than adults. Without this rule, a family could shift investment

income to a child and have that income taxed at the child's lower rate. The kiddie tax limits that strategy.

Once a child's unearned income goes above the IRS limit for that tax year, part of that income may be taxed at the parents' tax rate. That means a child's investment account can sometimes create a larger tax bill than families expect.

HOW THE INCOME MAY BE REPORTED

When a child has investment income, the family may need to decide how that income should be reported. In some situations, parents may be able to report a child's interest, dividends, and certain capital gain distributions on the parents' own tax return, using Form 8814.

In other situations, the child may need to file a separate tax return, and Form 8615 may apply if the kiddie tax is triggered.

What matters most is not just which form is used, but whether the reporting method is allowed, tax-efficient, and aligned with the family's overall plan. Because IRS income thresholds and federal and state filing rules can change from year to year, families should review these details with a tax professional before filing.

WHEN FORM 8615 MAY APPLY

Form 8615 is used to calculate the kiddie tax when a child has unearned income above the annual IRS limit and meets certain other requirements. Generally, this can apply when the child:

- Has unearned income above the IRS threshold for the year
- Is required to file a tax return
- Is under age 18, or a full-time student at least age 19 and under age 24 at the end of the year and didn't have earned income that was more than half of their support
- Has at least one living parent at year-end
- Does not file a joint tax return

When these rules apply, Form 8615 is attached to the child's tax return. The form helps calculate how much of the child's unearned income is subject to the kiddie tax. This is especially important for families who hold taxable investments in a child's name.

WHY THIS MATTERS FOR FAMILIES

The kiddie tax may sound like a small technical rule, but it can have a real impact on family planning. If a child's account is growing and producing income, taxes can affect how much stays invested for the future. Over time, even small tax differences can matter because money that remains invested has more opportunity to grow.

This does not mean families should avoid investing for children. It simply means the account structure should be thoughtful. Families may want to consider:

- What type of account is being used

- How much income the investments may generate
- Whether the child may need to file a tax return
- Whether another savings vehicle may be more appropriate
- How the account fits into education, gifting, and long-term family goals

FINAL THOUGHTS

Investing for a child can be a meaningful way to support their future. But it is important to understand that a child's investment income may come with specific tax implications.

The kiddie tax is one of those rules that can be easy to overlook. By understanding how it works, families can plan more intentionally, avoid unexpected tax issues, and keep their child's financial future on stronger footing.

As your family's situation changes, these accounts should be regularly reviewed with your advisor and a tax professional. A little planning today can help protect more of what you are building for tomorrow.

*This article is part of an ongoing series aimed to help build overall financial literacy and was authored by Grimes & Company's 2026 Intern Carter Richardson. While not a comprehensive deep dive into every single topic, it is designed to provide a helpful overview to key topics within the world of investing and financial planning. Please **reach out to connect** with an advisor or expert on the subject to learn more and start planning for your financial future.*

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