

2006 Tax Legislation - Age Increase for Kiddie Tax Children

Congress recently passed the Tax Increase Prevention and Reconciliation Act (Tax Reconciliation Act), which increases the age of minor children subject to the tax on certain unearned income (income taxed as if it were the parent's income). This tax, known as the Kiddie Tax, is applicable to children who have not attained age 18 by the close of the tax year (increased from age 14) as long as either parent is alive at the close of the tax year and the child does not file a joint return for the tax year. This provision is applicable to tax years beginning after December 31, 2005.

We feel that this information is important to you as it may impact your tax situation for 2006 and subsequent years. A review of your recent returns indicates that you have a dependent child (or children) who may have been subject to the Kiddie Tax at one time, but not since they reached the age of 14. Such dependent(s) may again (or may continue to be) subject to this tax in 2006 or subsequent years if they are not yet 18. In addition, your estimated tax liability for 2006 may be affected. Thus, your remaining estimated tax payments for 2006 should be adjusted if necessary.

The Tax Reconciliation Act also clarifies that income received by children as the beneficiary of a qualified disability trust is earned income and not subject to the Kiddie Tax. This provision is also applicable to tax years beginning after December 31, 2005. Therefore, if this income has previously been included in your Kiddie Tax calculation, you need not continue to do so in 2006 and subsequent years.

Please contact us at your earliest opportunity if you would like more information about these developments and how they may affect you.