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Tax Rules for Children and Dependents

For use in preparing
2003 Returns



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Important Changes

Filing requirements. The amount of gross income that many dependents with earned income (wages, tips, etc.) can have during the year without having to file a return has increased. See *Filing Requirements* in *Part 1*.

Standard deduction. The standard deduction for many dependents with earned income (wages, tips, etc.) has increased. See *Standard Deduction* in *Part 1*.

Alternative minimum tax. The limit on the exemption amount for figuring the alternative minimum tax of a child filing Form 8615 has increased to the child's earned income plus \$5,600. See *Alternative Minimum Tax* in *Part 2*.

Lower tax rates on post-May 5 gain and qualified dividends. The capital gain tax rates have been lowered for net capital gain from sales and other dispositions of property after May 5, 2003. In addition, qualified dividends received in 2003 are taxed at the lower capital gain rates. For details, see Publication 550, *Investment Income and Expenses*. Because of these changes, many of the worksheets in this publication have been revised.

Important Reminders

Third party designee. A child's parent or guardian who does not sign the child's return may be authorized by the person who does sign the return to answer, as a third party designee,

any questions that may arise during the processing of the return. This authorization also allows the parent to perform certain actions. See your income tax package for details. Also, see *Responsibility for Child's Return*, in Part 1.

Parent's election to report child's interest and dividends. You may be able to elect to include your child's interest and dividends on your tax return. If you make this election, the child does not have to file a return. See *Parent's Election To Report Child's Interest and Dividends* in Part 2.

Social security number (SSN). Dependents who are required to file a tax return must have an SSN. To apply for an SSN, file Form SS-5 with the Social Security Administration. It usually takes about 2 weeks to get an SSN.

Individual taxpayer identification number (ITIN). The IRS will issue an ITIN to a nonresident or resident alien who does not have and is not eligible to get an SSN. To apply for an ITIN, file Form W-7 with the IRS. It usually takes about 4 to 6 weeks to get an ITIN. The ITIN is entered wherever an SSN is requested on a tax return. If you are required to include another person's SSN on your return and that person does not have and cannot get an SSN, enter that person's ITIN.

An ITIN is for tax use only. It does not entitle the holder to social security benefits or change the holder's employment or immigration status under U.S. law.

Exemption. A person who can be claimed as a dependent on another person's tax return cannot claim an exemption for himself or herself on his or her own return.

Photographs of missing children. The Internal Revenue Service is a proud partner with the National Center for Missing and Exploited Children. Photographs of missing children selected by the Center may appear in this publication on pages that would otherwise be blank. You can help bring these children home by looking at the photographs and calling 1-800-THE-LOST (1-800-843-5678) if you recognize a child.

Introduction

Part 1 of this publication explains the filing requirements and other tax information for individuals who can be claimed as a dependent on another person's tax return.

Part 2 explains how to report and figure the tax on certain investment income of children under age 14 (whether or not they can be claimed as dependents).

Definitions. Many of the terms used in this publication, such as "dependent," "earned income," and "unearned income," are defined in the *Glossary* at the back of this publication.

Comments and suggestions. We welcome your comments about this publication and your suggestions for future editions.

You can e-mail us at taxforms@irs.gov. Please put "Publications Comment" on the subject line.

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We respond to many letters by telephone. Therefore, it would be helpful if you would include your daytime phone number, including the area code, in your correspondence.

Useful Items

You may want to see:

Publication

- 501** Exemptions, Standard Deduction, and Filing Information

Form (and Instructions)

- W-4** Employee's Withholding Allowance Certificate
- 8615** Tax for Children Under Age 14 With Investment Income of More Than \$1,500
- 8814** Parents' Election To Report Child's Interest and Dividends

See *How To Get Tax Help* near the end of this publication for information about getting these publications and forms.

Part 1. Rules for All Dependents

Terms you may need to know (see Glossary):

- Dependent
- Earned income
- Exemption
- Gross income
- Itemized deductions
- Standard deduction
- Unearned income

This part of the publication discusses the filing requirements for dependents, who is responsible for a child's return, how to figure a dependent's standard deduction and exemption (if any), and whether a dependent can claim exemption from federal income tax withholding.

Filing Requirements

Whether a dependent has to file a return generally depends on the amount of the dependent's earned and unearned income and whether the dependent is married, is age 65 or older, or is blind.



A dependent may have to file a return even if his or her income is below the amount that would normally require a return. See Other Filing Requirements, later.

The following sections apply to dependents with:

- Earned income only,
- Unearned income only, and
- Both earned and unearned income.

To find out whether a dependent must file, read the section that applies, or use *Table 1* on the next page.

Earned Income Only

A dependent must file a return if all his or her income is earned income, and the total is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	\$4,750
Either 65 or older or blind	\$5,900
65 or older and blind	\$7,050
Married*	
Under 65 and not blind	\$4,750
Either 65 or older or blind	\$5,700
65 or older and blind	\$6,650

*If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has \$5 or more of gross income (earned and/or unearned).

Example. William is 16. His mother claims an exemption for him on her income tax return. He worked part time on weekends during the school year and full time during the summer. He earned \$5,600 in wages. He did not have any unearned income.

He must file a tax return because he has earned income only and his total income is more than \$4,750. If he were blind, he would not have to file a return because his total income is not more than \$5,900.

Unearned Income Only

A dependent must file a return if all his or her income is unearned income, and the total is more than the amount listed in the following table.

Marital Status	Amount
Single	
Under 65 and not blind	\$ 750
Either 65 or older or blind	\$1,900
65 or older and blind	\$3,050
Married*	
Under 65 and not blind	\$ 750
Either 65 or older or blind	\$1,700
65 or older and blind	\$2,650

*If a dependent's spouse itemizes deductions on a separate return, the dependent must file a return if the dependent has \$5 or more of gross income (earned and/or unearned).

Example. Sarah is 18 and single. Her parents can claim an exemption for her on their income tax return. She received \$850 of taxable interest and dividend income. She did not work during the year.

Table 1. 2003 Filing Requirements for Dependents

If your parent (or someone else) can claim you as a dependent, use this table to see if you must file a return.

See the definitions of “dependent,” “earned income,” and “unearned income” in the *Glossary*.

Single dependents—Were you *either* age 65 or older *or* blind?

No. You must file a return if *any* of the following apply.

- Your unearned income was over \$750.
- Your earned income was over \$4,750.
- Your gross income was more than the **larger** of:
 - \$750, or
 - Your earned income (up to \$4,500) plus \$250.

Yes. You must file a return if any of the following apply.

- Your unearned income was over \$1,900 (\$3,050 if 65 or over **and** blind),
- Your earned income was over \$5,900 (\$7,050 if 65 or older **and** blind),
- Your gross income was more than—

The larger of:		This amount:
• \$750, or	PLUS	\$1,150 (\$2,300 if 65 or older and blind)
• Your earned income (up to \$4,500) plus \$250		

Married dependents—Were you *either* age 65 or older *or* blind?

No. You must file a return if any of the following apply.

- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over \$750.
- Your earned income was over \$4,750.
- Your gross income was more than the **larger** of:
 - \$750, or
 - Your earned income (up to \$4,500) plus \$250.

Yes. You must file a return if any of the following apply.

- Your gross income was at least \$5 and your spouse files a separate return and itemizes deductions.
- Your unearned income was over \$1,700 (\$2,650 if 65 or over **and** blind),
- Your earned income was over \$5,700 (\$6,650 if 65 or older **and** blind),
- Your gross income was more than—

The larger of:		This amount:
• \$750, or	PLUS	\$950 (\$1,900 if 65 or older and blind)
• Your earned income (up to \$4,500) plus \$250		

She must file a tax return because she has unearned income only and her total income is more than \$750. If she were blind, she would not have to file a return because she has unearned income only and her total income is not more than \$1,900.

Election to report child’s unearned income on parent’s return. A parent of a child under age 14 may be able to elect to include the child’s interest and dividend income on the parent’s return. See *Parent’s Election To Report Child’s Interest and Dividends in Part 2. If the parent makes this election, the child does not have to file a return.*

Earned and Unearned Income



A dependent who has both earned and unearned income generally must file a return if the total income is more than line 5 of the following worksheet.

Filing Requirement Worksheet for Most Dependents

1. Enter dependent’s earned income plus \$250
2. Minimum amount \$ 750
3. Compare lines 1 and 2. Enter the **larger** amount
4. Maximum amount 4,750
5. Compare lines 3 and 4. Enter the **smaller** amount
6. Enter the dependent’s gross (total) income. If line 6 is more than line 5, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is \$5 or more.

Example 1. Joe is 20, single, not blind, and a full-time college student. His parents provide

most of his support and claim an exemption for him on their income tax return. He received \$200 taxable interest income and earned \$2,750 from a part-time job.

He does not have to file a tax return because his total income of \$2,950 (\$200 interest plus \$2,750 in wages) is not more than \$3,000, the amount on line 5 of his filled-in *Filing Requirement Worksheet for Most Dependents* (shown next).

Filing Requirement Worksheet for Most Dependents

1. Enter dependent’s earned income plus \$250 \$ 3,000
2. Minimum amount 750
3. Compare lines 1 and 2. Enter the **larger** amount 3,000
4. Maximum amount 4,750
5. Compare lines 3 and 4. Enter the **smaller** amount 3,000
6. Enter the dependent’s gross (total) income. If line 6 is more than line 5, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is \$5 or more. \$ 2,950

Example 2. The facts are the same as in *Example 1* except that Joe had \$600 taxable interest income.

He must file a tax return because his total income of \$3,350 (\$600 interest plus \$2,750 wages) is more than \$3,000, the amount on line 5 of his filled-in worksheet (shown next).

Filing Requirement Worksheet for Most Dependents

1. Enter dependent’s earned income plus \$250 \$ 3,000
2. Minimum amount 750
3. Compare lines 1 and 2. Enter the **larger** amount 3,000
4. Maximum amount 4,750
5. Compare lines 3 and 4. Enter the **smaller** amount 3,000
6. Enter the dependent’s gross (total) income. If line 6 is more than line 5, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 6 is \$5 or more. \$ 3,350



Age 65 or older or blind. A dependent who is age 65 or older or blind must file a return if his or her gross (total) income is more than line 7 of the following worksheet.

**Filing Requirement Worksheet
for Dependents
Who Are Age 65 or Older or Blind**

1. Enter dependent's earned income plus \$250
 2. Minimum amount \$ 750
 3. Compare lines 1 and 2. Enter the **larger** amount
 4. Maximum amount 4,750
 5. Compare lines 3 and 4. Enter the **smaller** amount
 6. Enter the amount from the following table that applies to the dependent
- | Marital Status | Amount |
|-----------------------------|---------|
| Single | |
| Either 65 or older or blind | \$1,150 |
| 65 or older and blind | \$2,300 |
| Married | |
| Either 65 or older or blind | \$ 950 |
| 65 or older and blind | \$1,900 |
7. Add lines 5 and 6. Enter the total
 8. Enter the dependent's gross (total) income. If line 8 is more than line 7, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 8 is \$5 or more.

Example 3. The facts are the same as in Example 2 except that Joe is also blind. He does not have to file a return because his total income of \$3,350 is not more than \$4,150, the amount on line 7 of his filled-in *Filing Requirement Worksheet for Dependents Who Are Age 65 or Older or Blind* (shown next).

**Filing Requirement Worksheet
for Dependents
Who Are Age 65 or Older or Blind**

1. Enter dependent's earned income plus \$250 \$3,000
 2. Minimum amount 750
 3. Compare lines 1 and 2. Enter the **larger** amount 3,000
 4. Maximum amount 4,750
 5. Compare lines 3 and 4. Enter the **smaller** amount 3,000
 6. Enter the amount from the following table that applies to the dependent 1,150
- | Marital Status | Amount |
|-----------------------------|---------|
| Single | |
| Either 65 or older or blind | \$1,150 |
| 65 or older and blind | \$2,300 |
| Married | |
| Either 65 or older or blind | \$ 950 |
| 65 or older and blind | \$1,900 |
7. Add lines 5 and 6. Enter the total 4,150
 8. Enter the dependent's gross (total) income. If line 8 is more than line 7, the dependent **must file** an income tax return. If the dependent is married and his or her spouse itemizes deductions on a separate return, the dependent must file an income tax return if line 8 is \$5 or more. \$3,350

Other Filing Requirements

Some dependents may have to file a tax return even if their income is below the amount that would normally require them to file a return.

A dependent must file a tax return if he or she owes any other taxes, such as:

- 1) Social security and Medicare taxes on tips not reported to his or her employer,
- 2) Uncollected social security and Medicare or railroad retirement taxes on tips reported to his or her employer or on group-term life insurance,
- 3) Alternative minimum tax,
- 4) Tax on a qualified plan, including an individual retirement arrangement (IRA), or other tax-favored account, or
- 5) Recapture taxes, such as the tax from recapture of an education credit.

A dependent must also file a tax return if he or she:

- 1) Received any advance earned income credit payments from his or her employers in 2003,
- 2) Had wages of \$108.28 or more from a church or qualified church-controlled organization that is exempt from employer social security and Medicare taxes, or
- 3) Had net earnings from self-employment of at least \$400.

Spouse itemizes. A dependent must file a return if the dependent's spouse itemizes deductions on a separate return and the dependent has \$5 or more of gross income (earned and/or unearned).

Should a Return Be Filed Even If Not Required?

Even if a dependent does not meet any of the filing requirements discussed earlier, he or she **should** file a tax return if either of the following applies.

- 1) Income tax was withheld from his or her pay.
- 2) He or she qualifies for the earned income credit or the additional child tax credit. See the tax return instructions to find out who qualifies for these credits.

By filing a return, the dependent can get a refund.

Responsibility for Child's Return

Generally, the child is responsible for filing his or her own tax return and for paying any tax, penalties, or interest on that return. If a child cannot file his or her own return for any reason, such as

age, the child's parent or guardian is responsible for filing a return on his or her behalf.

Signing the child's return. If the child cannot sign his or her return, a parent or guardian can sign the child's name in the space provided at the bottom of the tax return. Then, he or she should add: "By (signature), parent (or guardian) for minor child."

Authority of parent or guardian. A parent or guardian who signs a return on a child's behalf can deal with the IRS on all matters connected with the return.

In general, a parent or guardian who does not sign the child's return can only provide information concerning the child's return and pay the child's tax. That parent or guardian is not entitled to receive information from the IRS or legally bind the child to a tax liability arising from the return.

Third party designee. A child's parent or guardian who does not sign the child's return may be authorized, as a third party designee, to discuss the processing of the return with the IRS as well as provide information concerning the return. The child or the person signing the return on the child's behalf must check the "Yes" box in the "Third Party Designee" area of the return and name the parent or guardian as the designee.

If designated, a parent or guardian can respond to certain IRS notices and receive information about the processing of the return and the status of a refund or payment. This designation does not authorize the parent or guardian to receive any refund check, bind the child to any tax liability, or otherwise represent the child before the IRS. See the return instructions for more information.

Designated as representative. A parent or guardian who does not sign the child's return may be designated as the child's representative by the child or the person signing the return on the child's behalf. **Form 2848, Power of Attorney and Declaration of Representative**, is used to designate a child's representative. See Publication 947, *Practice Before the IRS and Power of Attorney*, for more information.

If designated, a parent or guardian can receive information about the child's return but cannot legally bind the child to a tax liability unless authorized to do so by the law of the state in which the child lives.

IRS notice. If you or the child receives a notice from the IRS concerning the child's return or tax liability, you should immediately inform the IRS that the notice concerns a child. The notice will show who to contact. The IRS will try to resolve the matter with the parent(s) or guardian(s) of the child consistent with their authority.

Child's earnings. For federal income tax purposes, the income a child receives for his or her personal services (labor) is the child's, even if, under state law, the parent is entitled to and receives that income.

If the child does not pay the tax due on this income, the parent may be liable for the tax.

Child's expenses. Deductions for payments that are made out of a child's earnings are the child's, even if the payments are made by the parent.



Standard Deduction of Zero

The standard deduction for the following dependents is zero.

- 1) A married dependent filing a separate return whose spouse itemizes deductions.
- 2) A dependent who files a return for a period of less than 12 months due to a change in his or her annual accounting period.
- 3) A nonresident or dual-status alien dependent, unless the dependent is married to a U.S. citizen or resident at the end of the year and chooses to be treated as a U.S. resident for the year. See Publication 519, *U.S. Tax Guide for Aliens*, for information on making this choice.

Example. Jennifer, who is a dependent of her parents, is entitled to file a joint return with her husband. However, her husband elects to file a separate return and itemize his deductions. Because he itemizes, Jennifer's standard deduction on her return is zero. She can, however, itemize any of her allowable deductions.

Dependent's Own Exemption

A person who can be claimed as a dependent on another taxpayer's return cannot claim his or her own exemption. This is true even if the other taxpayer does not actually claim the exemption.

Example. James and Barbara can claim their child, Ben, as a dependent on their return. Ben is a full-time college student who works during the summer and must file a tax return. Ben cannot claim his own exemption on his return. This is true even if James and Barbara do not claim him as a dependent on their return.

Withholding From Wages

Employers generally withhold federal income tax, social security tax, and Medicare tax from an employee's wages. If the employee claims exemption from withholding on **Form W-4**, the employer will not withhold federal income tax. The exemption from withholding does not apply to social security and Medicare taxes.

Conditions for exemption from withholding. An employee can claim exemption from withholding for 2004 only if he or she meets both of the following conditions.

- 1) For 2003, the employee had a right to a refund of all federal income tax withheld because he or she had no tax liability.
- 2) For 2004, the employee expects a refund of all federal income tax withheld because he or she expects to have no tax liability.

Table 2. Standard Deduction Worksheet for Dependents

Use this worksheet ONLY if someone can claim you (or your spouse, if filing jointly) as a dependent.	
If you were 65 or older and/or blind, check the correct number of boxes below. Put the total number of boxes checked in box c and go to line 1.	
a. You	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
b. Your spouse, if claiming spouse's exemption	65 or older <input type="checkbox"/> Blind <input type="checkbox"/>
c. Total boxes checked	<input type="checkbox"/>
1. Enter your earned income (defined below) plus \$250. If none, go on to line 3.	1. _____
2. Minimum amount.	2. \$750
3. Compare lines 1 and 2. Enter the larger of the two amounts here.	3. _____
4. Enter on line 4 the amount shown below for your filing status. <ul style="list-style-type: none"> • Single or Married filing separately—\$4,750 • Married filing jointly or qualifying widow(er) with dependent child—\$9,500 • Head of household—\$7,000 	4. _____
5. Standard deduction.	
a. Compare lines 3 and 4. Enter the smaller amount here. If under 65 and not blind, stop here. This is your standard deduction. Otherwise, go on to line 5b.	5a. _____
b. If 65 or older or blind, multiply \$1,150 (\$950 if married or qualifying widow(er) with dependent child) by the number in box c above. Enter the result here.	5b. _____
c. Add lines 5a and 5b. This is your standard deduction for 2003.	5c. _____
Earned income includes wages, salaries, tips, professional fees, and other compensation received for personal services you performed. It also includes any amount received as a scholarship that you must include in income.	

Example. You made payments on your child's behalf that are deductible as a business expense and a charitable contribution. You made the payments out of your child's earnings. These items can be deducted only on the child's return.

income of \$800 and wages of \$150. He enters \$400 (his earned income plus \$250) on line 1 of *Table 2*. On line 3, he enters \$750, the larger of \$400 or \$750. Michael enters \$4,750 on line 4. On line 5a, he enters \$750, the smaller of \$750 or \$4,750. His standard deduction is \$750.

Example 2. Judy, a full-time student, is single, age 22, and not blind. Her parents can claim her as a dependent on their tax return. She has dividend income of \$275 and wages of \$2,500. She enters \$2,750 (her earned income plus \$250) on line 1 of *Table 2*. On line 3, she enters \$2,750, the larger of \$2,750 or \$750. She enters \$4,750 on line 4. On line 5a, she enters \$2,750 (the smaller of \$2,750 or \$4,750) as her standard deduction.

Example 3. Amy, who is single, is claimed as a dependent on her parents' tax return. She is 18 and blind. She has taxable interest income of \$1,000 and wages of \$2,000. She enters \$2,250 (her earned income plus \$250) on line 1 of *Table 2*. She enters \$2,250 (the larger of \$2,250 or \$750) on line 3, \$4,750 on line 4, and \$2,250 (the smaller of \$2,250 or \$4,750) on line 5a. Because Amy is blind, she checks the box for blindness and enters "1" in box c at the top of *Table 2*. She enters \$1,150 (the number in box c times \$1,150) on line 5b. Her standard deduction on line 5c is \$3,400 (\$2,250 + \$1,150).

Standard Deduction

The standard deduction for an individual who can be claimed as a dependent on another person's tax return is generally limited to the larger of:

- 1) \$750, or
- 2) The individual's earned income plus \$250, but not more than the regular standard deduction (generally \$4,750).

However, the standard deduction for a dependent who is age 65 or older or blind is higher.

Certain dependents cannot claim any standard deduction. See *Standard Deduction of Zero*, later.

Table 2. Use *Table 2* to figure the dependent's standard deduction.

Example 1. Michael is single, age 15, and not blind. His parents can claim him as a dependent on their tax return. He has taxable interest

Dependents. An employee who is a dependent ordinarily cannot claim exemption from withholding if both of the following are true.

- 1) The employee's total income will be more than the minimum standard deduction amount. This amount was \$750 for 2003, but may be higher for 2004. Check the instructions for the 2004 Form W-4 for the correct amount.
- 2) The employee's unearned income will be more than \$250.

Exceptions. An employee who is age 65 or older or blind, or who will claim adjustments to income, itemized deductions, or tax credits on his or her 2004 tax return, may be able to claim exemption from withholding even if the employee is a dependent. For more information, see the discussions under *Exemption From Withholding* in chapter 1 of Publication 505, *Tax Withholding and Estimated Tax*.

Example. Guy is 17 and a student. During the summer he works part time at a grocery store. He expects to earn about \$1,000 this year. He also worked at the store last summer and received a refund of all his withheld income tax because he did not have a tax liability. The only other income he expects during the year is \$275 interest on a savings account. He expects that his parents will be able to claim him as a dependent on their tax return. He is not blind and will not claim adjustments to income, itemized deductions, or tax credits on his return.

Guy cannot claim exemption from withholding when he fills out Form W-4 because his parents will be able to claim him as a dependent, his total income will be more than \$750, the minimum standard deduction amount, and his unearned income will be more than \$250.

Claiming exemption from withholding. To claim exemption from withholding, an employee must write "EXEMPT" in the space provided on Form W-4. The employee must complete the rest of the form, as explained in the form instructions, and give it to his or her employer.

Renewing an exemption from withholding. An exemption from withholding is good for only one year. An employee must file a new Form W-4 by February 15 each year to continue the exemption.

Part 2. Tax on Investment Income of Child Under 14

Terms you may need to know (see Glossary):

Adjusted gross income
Adjustments to income
Alternative minimum tax
Capital gain distribution

Dependent
Earned income
Gross income
Investment income
Itemized deductions
Net capital gain
Net investment income
Post-May 5 gain
Qualified dividends
Standard deduction
Tax year
Taxable income
Unearned income
Unrecaptured section 1250 gain
28% rate gain

The two rules that follow may affect the tax on certain investment income of a child under age 14.

- 1) If the child's interest, dividends, and other investment income total more than \$1,500, part of that income may be taxed at the parent's tax rate instead of the child's tax rate. (See *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,500*, later.)
- 2) If the child's interest and dividend income total less than \$7,500, the child's parent may be able to choose to include that income (including capital gain distributions) on the parent's return rather than file a return for the child. (See *Parent's Election To Report Child's Interest and Dividends*, later.)

For these rules, the term "child" includes a legally adopted child and a stepchild. These rules apply whether or not the child is a dependent.

These rules do **not** apply if:

- 1) The child is not required to file a tax return (see *Filing Requirements* in *Part 1*), or
- 2) Neither of the child's parents were living at the end of the tax year.

Which Parent's Return To Use

If a child's parents are married to each other and file a joint return, use the joint return to figure the tax on the investment income of a child under 14. The tax rate and other return information from that return are used to figure the child's tax as explained later under *Tax for Children Under Age 14 Who Have Investment Income of More Than \$1,500*.

Parents Who Do Not File a Joint Return

For parents who do not file a joint return, the following discussions explain which parent's tax return must be used to figure the tax.

Only the parent whose tax return is used can make the election described under *Parent's Election To Report Child's Interest and Dividends*.

Parents are married. If the child's parents file separate returns, use the return of the parent with the greater taxable income.

Parents not living together. If the child's parents are married to each other but not living together, and the parent with whom the child lives (the custodial parent) is considered unmarried, use the return of the custodial parent. If the custodial parent is not considered unmarried, use the return of the parent with the greater taxable income.

For an explanation of when a married person living apart from his or her spouse is considered unmarried, see *Head of Household* in Publication 501.

Parents are divorced. If the child's parents are divorced or legally separated, and the parent who had custody of the child for the greater part of the year (the custodial parent) has not remarried, use the return of the custodial parent.

Custodial parent remarried. If the custodial parent has remarried, the stepparent (rather than the noncustodial parent) is treated as the child's other parent. Therefore, if the custodial parent and the stepparent file a joint return, use that joint return. Do not use the return of the noncustodial parent.

If the custodial parent and the stepparent are married, but file separate returns, use the return of the one with the greater taxable income. If the custodial parent and the stepparent are married but not living together, the earlier discussion under *Parents not living together* applies.

Parents never married. If a child's parents did not marry each other, but lived together all year, use the return of the parent with the greater taxable income. If the parents did not live together all year, the rules explained earlier under *Parents are divorced* apply.

Widowed parent remarried. If a widow or widower remarries, the new spouse is treated as the child's other parent. The rules explained earlier under *Custodial parent remarried* apply.

Parent's Election To Report Child's Interest and Dividends

You may be able to elect to include your child's interest and dividend income (including capital gain distributions) on your tax return. If you do, your child will not have to file a return.

You can make this election for 2003 only if **all** the following conditions are met.

- 1) Your child was under age 14 at the end of 2003. (A child born on January 1, 1990, is considered to be age 14 at the end of 2003; you cannot make the election for this child.)

- 2) Your child is required to file a return for 2003 unless you make this election.
- 3) Your child had income only from interest and dividends (including capital gain distributions and Alaska Permanent Fund dividends).
- 4) The dividend and interest income was less than \$7,500.
- 5) No estimated tax payments were made for 2003 and no 2002 overpayment was applied to 2003 under your child's name and social security number.
- 6) No federal income tax was taken out of your child's income under the backup withholding rules.
- 7) You are the parent whose return must be used when applying the special tax rules for children under age 14. (See *Which Parent's Return To Use*, earlier.)

These conditions are also shown in *Figure 1*.

How to make the election. Make the election by attaching **Form 8814** to your Form 1040 or Form 1040NR. (If you make this election, you cannot file Form 1040A or Form 1040EZ.) Attach a separate Form 8814 for each child for whom you make the election. You can make the election for one or more children and not for others.

Effect of Making the Election

The federal income tax on your child's income may be more if you make the Form 8814 election.

Rate may be higher. If you use Form 8814, the child's income may be taxed at a higher rate on your return than it would be on the child's own return.

For example, if your child received qualified dividends or capital gain distributions, you may pay up to \$37.50 more tax if you make this election instead of filing a separate tax return for the child. This is because the tax rate on the child's income between \$750 and \$1,500 is 10% if you make this election. However, if you file a separate return for the child, the tax rate may be as low as 5% because of the preferential tax rates for qualified dividends and post-May 5, 2003, capital gain distributions (8% on qualified 5-year gain).

Deductions you cannot take. By making the Form 8814 election, you cannot take any of the following deductions that the child would be entitled to on his or her return.

- 1) The higher standard deduction for a blind child.
- 2) The deduction for a penalty on an early withdrawal of your child's savings.
- 3) Itemized deductions (such as your child's investment expenses or charitable contributions).

Deductible investment interest. If you use Form 8814, your child's investment income is considered your investment income. To figure the limit on your deductible investment interest, add the child's investment income to yours.

However, if your child received qualified dividends, capital gain distributions, or Alaska Permanent Fund dividends, see chapter 3 of Publication 550, *Investment Income and Expenses*, for information about how to figure the limit.

Alternative minimum tax. If your child received tax-exempt interest from a private activity bond, you must determine if that interest is a tax preference item for alternative minimum tax (AMT) purposes. If it is, you must include it with your own tax preference items when figuring your AMT. For more information, get the instructions for **Form 6251, Alternative Minimum Tax—Individuals**.

Reduced deductions or credits. If you use Form 8814, your increased adjusted gross income may reduce certain deductions or credits on your return, including the following.

- 1) Deduction for contributions to a traditional individual retirement arrangement (IRA).
- 2) Deduction for student loan interest.
- 3) Itemized deductions for medical expenses, casualty and theft losses, and certain miscellaneous expenses.
- 4) Total itemized deductions.
- 5) Personal exemptions.
- 6) Credit for child and dependent care expenses.
- 7) Child tax credit.
- 8) Education tax credits.
- 9) Earned income credit.

Penalty for underpayment of estimated tax. If you make this election for 2003 and did not have enough tax withheld or pay enough estimated tax to cover the tax you owe, you may be subject to a penalty. If you plan to make this election for 2004, you may need to increase your federal income tax withholding or your estimated tax payments to avoid the penalty. Get Publication 505 for more information.

Figuring Child's Income

Use **Part I** of Form 8814 to figure your child's interest and dividend income to report on your return. **Only the amount over \$1,500 is added to your income.** This amount is shown on line 6 of Form 8814. Include this amount on line 21 of Form 1040 or Form 1040NR. If you file more than one Form 8814, include the total amounts from line 6 of all your Forms 8814 on line 21. In the space next to line 21, write "Form 8814" and the total of the line 6 amounts.

Note. The tax on the first \$1,500 is figured in **Part II** of Form 8814. See *Figuring Additional Tax*, later.

Qualified dividends. Enter on line 2 of Form 8814 any ordinary dividends your child received. This amount may include qualified dividends. Qualified dividends are those dividends reported on line 9b of Form 1040, that are eligible for the lower tax rates that apply to a net capital gain. For detailed information about qualified dividends, see Publication 550, *Investment Income and Expenses*.

If your child received qualified dividends, the amount of these dividends that is added to your income must be reported on lines 9a and 9b of Form 1040. You do not include these dividends on line 6 of Form 8814 or on line 21 of Form 1040.



Use the following worksheet to figure the amount to report as qualified dividends on Form 1040, lines 9a and 9b, and the amount to report on Form 8814, line 6. (The worksheet is needed to divide the \$1,500 base amount on line 5 of Form 8814 between the child's qualified dividends, capital gain distributions, and other interest and dividend income.)

Worksheet for Child's Qualified Dividends and Capital Gain Distributions (Keep for your records)

1. Enter the amount of qualified dividends included on Form 8814, line 2	_____
2. Enter the amount from Form 8814, line 3	_____
3. Enter the amount from Form 8814, line 4	_____
4. Divide line 1 by line 3. Enter the result as a decimal	_____
5. Divide line 2 by line 3. Enter the result as a decimal	_____
6. Base amount	\$ 1,500
7. Subtract line 6 from line 3	_____
8. Multiply line 7 by line 4. Include this amount on lines 9a and 9b of Form 1040	_____
9. Multiply line 7 by line 5. Include this amount on Schedule D, line 13, column (f), or on line 13a of Form 1040	_____
10. Add lines 8 and 9	_____
11. Subtract line 10 from line 7. Enter the result here and on Form 8814, line 6	_____
12. Enter the child's post-May 5 capital gain distributions, if any	_____
13. Divide line 12 by line 2. Enter the result as a decimal	_____
14. Multiply line 9 by line 13. Include this amount on Schedule D, line 13, column (g), or on Form 1040, line 13b	_____

On the dotted line next to line 6, Form 8814, write "QD" and the amount from line 8 of the worksheet. On the dotted lines next to lines 9a and 9b, Form 1040, write "Form 8814" and the amount from line 8 of the worksheet.

Capital gain distributions. Enter on line 3 of Form 8814 any capital gain distributions your child received. The amount of these distributions that is added to your income must be reported on line 13 of Schedule D (Form 1040) or, if you are not required to file Schedule D, on line 13a of Form 1040. You do not include it on line 6 of Form 8814 or on line 21 of Form 1040.



Use the *Worksheet for Child's Qualified Dividends and Capital Gain Distributions*, earlier, to figure the amount to report as capital gain distributions on Schedule D, or directly on Form 1040, and the amount to

report on Form 8814, line 6. (The worksheet is needed to divide the \$1,500 base amount on line 5 of Form 8814 between the child's qualified dividends, capital gain distributions, and other interest and dividend income.)

On the dotted line next to line 6, Form 8814, write "CGD" and the amount from line 9 of the worksheet. On the dotted line next to line 13, Schedule D, or in the space to the left of line 13a, Form 1040, write "Form 8814" and the amount from line 9 of the worksheet. If there is an amount on line 14 of the worksheet, write "Form 8814" and that amount (post-May 5 capital gain distributions) in the space to the right of line 13, column (g), Schedule D, or in the space to the left of line 13b, Form 1040.

28% rate gain. If any of the child's capital gain distributions are reported on Form 1099-DIV as 28% rate gain, you must determine how much to also include on line 4 of the *28% Rate Gain Worksheet* in the instructions for line 20 of Schedule D. Multiply the child's capital gain distribution included on Schedule D, line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is 28% rate gain. The denominator is the child's total capital gain distribution.

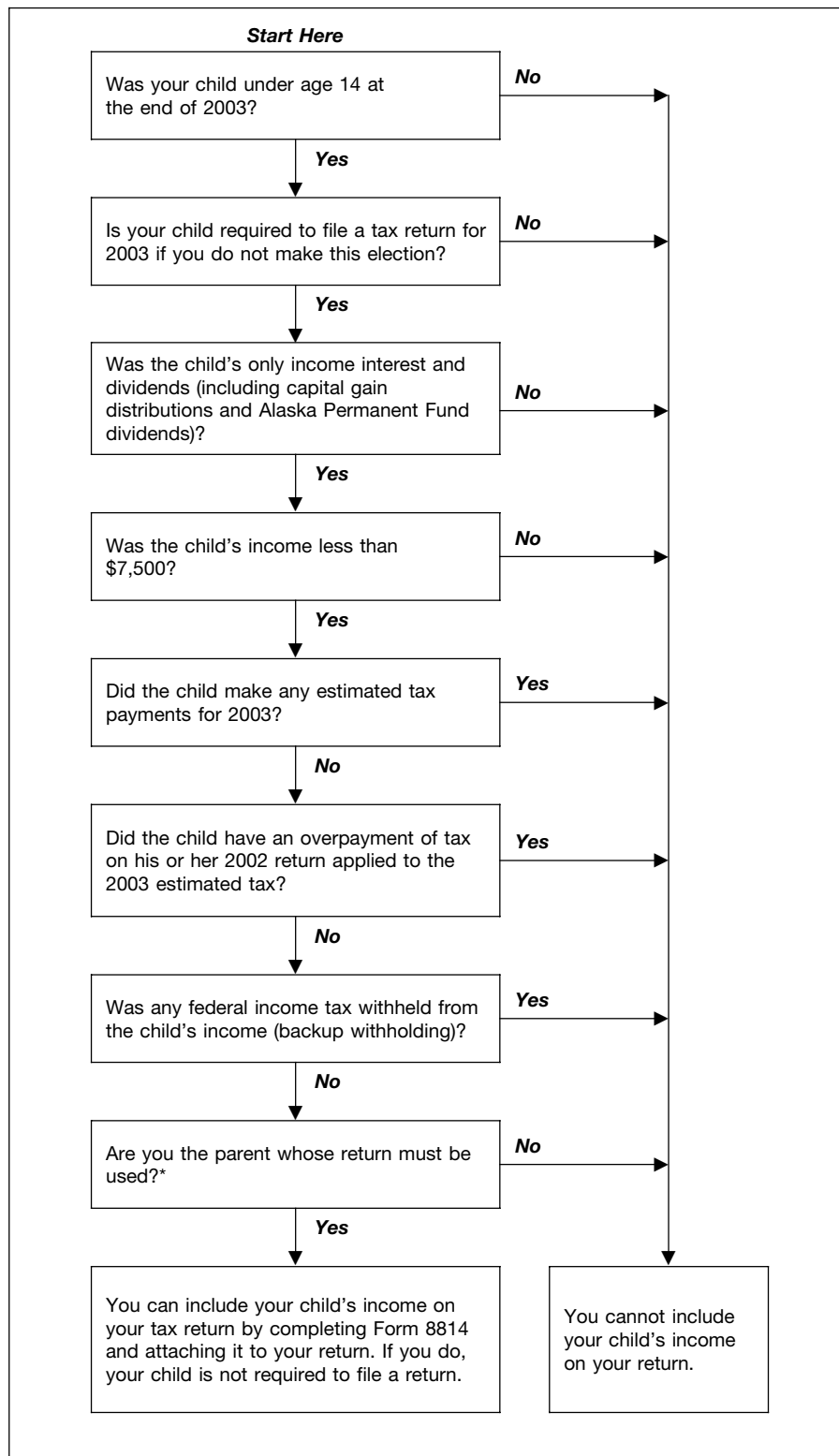
Qualified 5-year gain. If any of the child's capital gain distributions are reported on Form 1099-DIV as qualified 5-year gain, you must determine how much to also include on line 5 of the *Qualified 5-Year Gain Worksheet* in the instructions for line 35 of Schedule D. Multiply the child's capital gain distribution included on Schedule D, line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is qualified 5-year gain. The denominator is the child's total capital gain distribution.

Unrecaptured section 1250 gain. If any of the child's capital gain distributions are reported on Form 1099-DIV as unrecaptured section 1250 gain, you must determine how much to include on line 11 of the *Unrecaptured Section 1250 Gain Worksheet* in the instructions for line 19 of Schedule D. Multiply the child's capital gain distribution included on Schedule D, line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is unrecaptured section 1250 gain. The denominator is the child's total capital gain distribution.

Section 1202 gain. If any of the child's capital gain distributions are reported as section 1202 gain (gain on qualified small business stock) on Form 1099-DIV, part or all of that gain may be eligible for the section 1202 exclusion. (For information about the exclusion, see chapter 4 of Publication 550.) To figure that part, multiply the child's capital gain distribution included on Schedule D, line 13, column (f), by a fraction. The numerator is the part of the child's total capital gain distribution that is section 1202 gain. The denominator is the child's total capital gain distribution. Your section 1202 exclusion is generally 50% of the result, but may be subject to a limit. See the instructions for Schedule D for information on how to report the exclusion amount.

Example. Fred is 6 years old. In 2003, he received dividend income of \$1,600, which in-

Figure 1. Can You Include Your Child's Income On Your Tax Return?



*See Which Parent's Return To Use

cluded \$1,280 of ordinary dividends and a \$320 capital gain distribution from a mutual fund. (None of the distributions were reported on Form 1099-DIV as 28% gain, qualified 5-year gain, unrecaptured section 1250 gain, or section 1202 gain.) All of the ordinary dividends are qualified dividends. The distribution from the mutual fund was a post-May 5 capital gain distri-

bution. He has no other income and is not subject to backup withholding. No estimated tax payments were made under his name and social security number.

Fred's parents elect to include Fred's income on their tax return instead of filing a return for him. They enter \$1,280 on line 2 and \$320 on line 3, Form 8814.

\$100 of Fred's income must be included as income on his parents' tax return (\$1,600 gross income minus \$1,500). They figure the amount to report on lines 9a and 9b of Form 1040, the amount to report on line 13 of their Schedule D, and the amount to report on line 6, Form 8814, as follows.



Include the amount from line 9 of all your Forms 8814 in the total on line 41, Form 1040, or line 39, Form 1040NR. Check box a on Form 1040, line 41, or Form 1040NR, line 39.

11. Subtract line 10 from line 7. Enter the result here and on Form 8814, line 6	1,829
12. Enter the child's post-May 5 capital gain distributions, if any	0
13. Divide line 12 by line 2. Enter the result as a decimal	0
14. Multiply line 9 by line 13. Include this amount on Schedule D, line 13, column (g), or on Form 1040, line 13b	\$ 0

Worksheet for Child's Qualified Dividends and Capital Gain Distributions (Keep for your records)

1. Enter the amount of qualified dividends included on Form 8814, line 2	\$ 1,280
2. Enter the amount from Form 8814, line 3	320
3. Enter the amount from Form 8814, line 4	1,600
4. Divide line 1 by line 3. Enter the result as a decimal80
5. Divide line 2 by line 3. Enter the result as a decimal20
6. Base amount	\$ 1,500
7. Subtract line 6 from line 3	100
8. Multiply line 7 by line 4. Include this amount on lines 9a and 9b of Form 1040	80
9. Multiply line 7 by line 5. Include this amount on Schedule D, line 13, column (f), or on line 13a of Form 1040	20
10. Add lines 8 and 9	100
11. Subtract line 10 from line 7. Enter the result here and on Form 8814, line 6	0
12. Enter the child's post-May 5 capital gain distributions, if any	320
13. Divide line 12 by line 2. Enter the result as a decimal	1.00
14. Multiply line 9 by line 13. Include this amount on Schedule D, line 13, column (g), or on Form 1040, line 13b	\$ 20

Illustrated Example

David and Linda Parks are married and will file separate tax returns for 2003. Their only child, Philip, is 8. Philip received a Form 1099-INT showing \$3,200 taxable interest income and a Form 1099-DIV showing \$300 ordinary dividends. All the dividends were qualified dividends. His parents decide to include that income on one of their returns so they will not have to file a return for Philip.

First, David and Linda each figure their taxable income (Form 1040, line 40) without regard to Philip's income. David's taxable income is \$41,700 and Linda's is \$59,300. Because her taxable income is greater, Linda can elect to include Philip's income on her return. (See *Which Parent's Return To Use*, earlier.)

On Form 8814 (illustrated on the next page), Linda enters her name and social security number, then Philip's name and social security number. She enters Philip's taxable interest income, \$3,200, on line 1a. Philip had no tax-exempt interest income, so she leaves line 1b blank. Linda enters Philip's ordinary dividends, \$300, on line 2. Philip did not have any capital gain distributions, so she leaves line 3 blank.

Linda adds lines 1a and 2 and enters the result, \$3,500, on line 4. Because Philip had qualified dividends, Linda must use the *Worksheet for Child's Qualified Dividends and Capital Gain Distributions* to figure the amount to enter on line 6, instead of subtracting line 5 from line 4. The amount she enters on line 6 is \$1,829, the amount from line 11 of the worksheet. On the dotted line next to line 6, she writes "QD-\$171," the amount from line 8 of the worksheet. She includes that amount (\$171) on lines 9a and 9b of her Form 1040. On the dotted line next to lines 9a and 9b, she writes "Form 8814-\$171."

Linda includes \$1,829 in the total on line 21 of her Form 1040 (not illustrated) and in the space next to that line writes "Form 8814-\$1,829." Adding that amount, plus the \$171 of qualified dividends, to her income increases each of the amounts on lines 22, 34, 35, 38, and 40 of her Form 1040 by \$2,000. Linda is not claiming any deductions or credits that are affected by the increase to her income. Therefore, her revised taxable income on line 40 is \$61,300 (\$59,300 + \$171 + \$1,829).

On Form 8814, Linda subtracts the \$750 shown on line 7 from the \$3,500 on line 4 and enters the result, \$2,750, on line 8. Because that amount is not less than \$750, she enters \$75 on line 9. This is the tax on the first \$1,500 of Philip's income, which Linda did not have to add to her income. She must add this additional tax to the tax figured on her revised taxable income.

The tax on her \$61,300 revised taxable income is \$12,231. She adds \$75, and enters the \$12,306 total on line 41 of Form 1040, and checks box a.

Linda attaches Form 8814 to her Form 1040.

On Form 8814, Fred's parents enter \$0 on line 6 and write "QD-\$80" and "CGD-\$20" on the dotted line next to line 6. Because the amount on line 6 is -0-, they do not include any amount from Form 8814 on line 21 of their Form 1040.

On Form 1040, they include \$80 on lines 9a and 9b and write "Form 8814-\$80" on the dotted line next to each of those lines. On Schedule D, they include \$20 on line 13, column (f), and write "Form 8814-\$20" on the dotted line next to this line. They also include \$20 in column (g) and write "Form 8814-\$20" in the space to the right of column (g).

Figuring Additional Tax

Use **Part II** of Form 8814 to figure the tax on the \$1,500 of your child's interest and dividends that you do not include in your income. This tax is added to the tax figured on your income.

This additional tax is the **smaller** of:

- 1) 10% x your child's gross income - \$750,
or
- 2) \$75.

Worksheet for Child's Qualified Dividends and Capital Gain Distributions (Keep for your records)

1. Enter the amount of qualified dividends included on Form 8814, line 2	\$ 300
2. Enter the amount from Form 8814, line 3	0
3. Enter the amount from Form 8814, line 4	3,500
4. Divide line 1 by line 3. Enter the result as a decimal0857
5. Divide line 2 by line 3. Enter the result as a decimal	0
6. Base amount	\$ 1,500
7. Subtract line 6 from line 3	2,000
8. Multiply line 7 by line 4. Include this amount on lines 9a and 9b of Form 1040	171
9. Multiply line 7 by line 5. Include this amount on Schedule D, line 13, column (f), or on line 13a of Form 1040	0
10. Add lines 8 and 9	171

Part of a child's 2003 investment income may be subject to tax at the parent's tax rate if all of the following statements are true.

- 1) The child was under age 14 at the end of 2003. (A child born on January 1, 1990, is considered to be age 14 at the end of 2003; this child's investment income is not taxed at the parent's tax rate.)
- 2) The child's investment income was more than \$1,500.
- 3) The child is required to file a tax return for 2003.

These conditions are also shown in *Figure 2*.

If neither parent was alive on December 31, 2003, **do not use Form 8615**. Instead, figure the child's tax in the normal manner.

If the parent does not or cannot choose to include the child's income on the parent's return, **use Form 8615** to figure the child's tax. Attach the completed form to the child's Form 1040, Form 1040A, or Form 1040NR.

**Parents' Election To Report
Child's Interest and Dividends**

▶ See instructions below and on back.
▶ Attach to parents' Form 1040 or Form 1040NR.

Name(s) shown on your return

Linda Parks

Your social security number

111 00 1111

Caution: The Federal income tax on your child's income, including qualified dividends and capital gain distributions, may be less if you file a separate tax return for the child instead of making this election. This is because you cannot take certain tax benefits that your child could take on his or her own return. For details, see **Tax Benefits You May Not Take** on the back.

A Child's name (first, initial, and last)

Philip Parks

B Child's social security number

000 00 0000

c If more than one Form 8814 is attached, check here.

Part I Child's Interest and Dividends To Report on Your Return

1a Enter your child's taxable interest. If this amount is different from the amounts shown on the child's Forms 1099-INT and 1099-OID, see the instructions	1a	3,200	
b Enter your child's tax-exempt interest. Do not include this amount on line 1a	1b		
2 Enter your child's ordinary dividends, including any Alaska Permanent Fund dividends. If your child received any ordinary dividends as a nominee, see the instructions	2	300	
3 Enter your child's capital gain distributions. If your child received any capital gain distributions as a nominee, see the instructions	3		
4 Add lines 1a, 2, and 3. If the total is \$1,500 or less, skip lines 5 and 6 and go to line 7. If the total is \$7,500 or more, do not file this form. Your child must file his or her own return to report the income.	4	3,500	
5 Base amount	5	1,500	00
6 Subtract line 5 from line 4. See the instructions for where to report this amount. Go to line 7 below	6	1,829	

Part II Tax on the First \$1,500 of Child's Interest and Dividends

7 Amount not taxed	7	750	00
8 Subtract line 7 from line 4. If the result is zero or less, enter -0-	8	2,750	
9 Tax. Is the amount on line 8 less than \$750? <input checked="" type="checkbox"/> No. Enter \$75 here and see the Note below. <input type="checkbox"/> Yes. Multiply line 8 by 10% (.10). Enter the result here and see the Note below. }	9	75	

Note: If you checked the box on line C above, see the instructions. Otherwise, include the amount from line 9 in the tax you enter on Form 1040, line 41, or Form 1040NR, line 39. Be sure to check box a on Form 1040, line 41, or Form 1040NR, line 39.

General Instructions

Purpose of Form. Use this form if you elect to report your child's income on your return. If you do, your child will not have to file a return. You can make this election if your child meets **all** of the following conditions.

- The child was under age 14 at the end of 2003. A child born on January 1, 1990, is considered to be age 14 at the end of 2003.
- The child's only income was from interest and dividends, including capital gain distributions and Alaska Permanent Fund dividends.
- The child's gross income for 2003 was less than \$7,500.
- The child is required to file a 2003 return.

- There were no estimated tax payments for the child for 2003 (including any overpayment of tax from his or her 2002 return applied to 2003 estimated tax).
- There was no Federal income tax withheld from the child's income.

You must also qualify. See **Parents Who Qualify To Make the Election** below.

How To Make the Election. To make the election, complete and attach Form(s) 8814 to your tax return and file your return by the due date (including extensions). A separate Form 8814 must be filed for **each** child whose income you choose to report.

Parents Who Qualify To Make the Election. You qualify to make this election if you file Form 1040 or Form 1040NR and **any** of the following apply.

- You are filing a joint return for 2003 with the child's other parent.

- You and the child's other parent were married to each other but file separate returns for 2003 **and** you had the **higher** taxable income.
- You were unmarried, treated as unmarried for Federal income tax purposes, or separated from the child's other parent by a divorce or separate maintenance decree. You must have had custody of your child for most of the year (you were the custodial parent). If you were the custodial parent and you remarried, you may make the election on a joint return with your new spouse. But if you and your new spouse do not file a joint return, you qualify to make the election only if you had **higher** taxable income than your new spouse.

(continued)

The following discussions explain the parental information needed for Form 8615 and the steps to follow in figuring the child's tax.

Providing Parental Information (Form 8615, Lines A–C)

On lines A and B of Form 8615, enter the parent's name and social security number. (If the parents filed a joint return, enter the name and social security number listed first on the joint return.) On line C, check the box for the parent's filing status.

See *Which Parent's Return To Use*, earlier, for a discussion of which parent's return information must be used on Form 8615.

Parent with different tax year. If the parent and the child do not have the same tax year, complete Form 8615 using the information on the parent's return for the tax year that ends in the child's tax year.

Example. Kimberly must use her mother's tax and taxable income to complete her Form 8615 for calendar year 2003 (January 1 – December 31). Kimberly's mother files her tax return on a fiscal year basis (July 1 – June 30). Kimberly must use the information on her mother's return for the tax year ending June 30, 2003, to complete her 2003 Form 8615.

Parent's return information not known timely. If the information needed from the parent's return is not known by the time the child's return is due (usually April 15), you can file the return using estimates.

You can use any reasonable estimate. This includes using information from last year's return. If you use an estimated amount on Form 8615, write "Estimated" on the line next to the amount.

When you get the correct information, file an amended return on Form 1040X, *Amended U.S. Individual Income Tax Return*.

Extension of time to file. Instead of using estimates, you can get an automatic 4-month extension of time to file if, by April 15, 2004, you file **Form 4868**, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. You can file a paper Form 4868 or you can file it electronically. See the instructions for Form 4868 for details.

If you have an extension, you must file the child's return by August 15, 2004, unless you ask for and are granted an additional extension.



CAUTION An extension of time to file is not an extension of time to pay. You must make an accurate estimate of the tax for 2003. If you do not pay the full amount due by the regular due date, the child will owe interest and may also be charged penalties. See Form 4868 and its instructions.

Parent's return information not available. If a child cannot get the required information about his or her parent's tax return, the child (or the child's legal representative) can request the necessary information from the Internal Revenue Service (IRS).

How to request. After the end of the tax year, send a signed, written request for the information to the Internal Revenue Service Center where the parent's return will be filed. (The IRS cannot process a request received before the end of the tax year.)



TIP You should also consider getting an extension of time to file the child's return, because there may be a delay in getting the requested information.

The request must contain **all** of the following.

- 1) A statement that you are making the request to comply with section 1(g) of the Internal Revenue Code and that you have tried to get the information from the parent.
- 2) Proof the child is under 14 years of age (for example, a copy of the child's birth certificate).
- 3) Evidence the child has more than \$1,500 of unearned income (for example, a copy of the child's prior year tax return or copies of Forms 1099 for the current year).
- 4) The name, address, social security number (if known), and filing status (if known) of the parent whose information is to be shown on Form 8615.

A child's legal representative making the request should include a copy of his or her Power of Attorney, such as Form 2848, or proof of legal guardianship.

Step 1. Figuring the Child's Net Investment Income (Form 8615, Part I)

The first step in figuring a child's tax using Form 8615 is to figure the child's net investment income. To do that, use *Part I* of Form 8615. For an example, see the *Illustrated Part I of Form 8615* on the next page.

Line 1 (Investment Income)

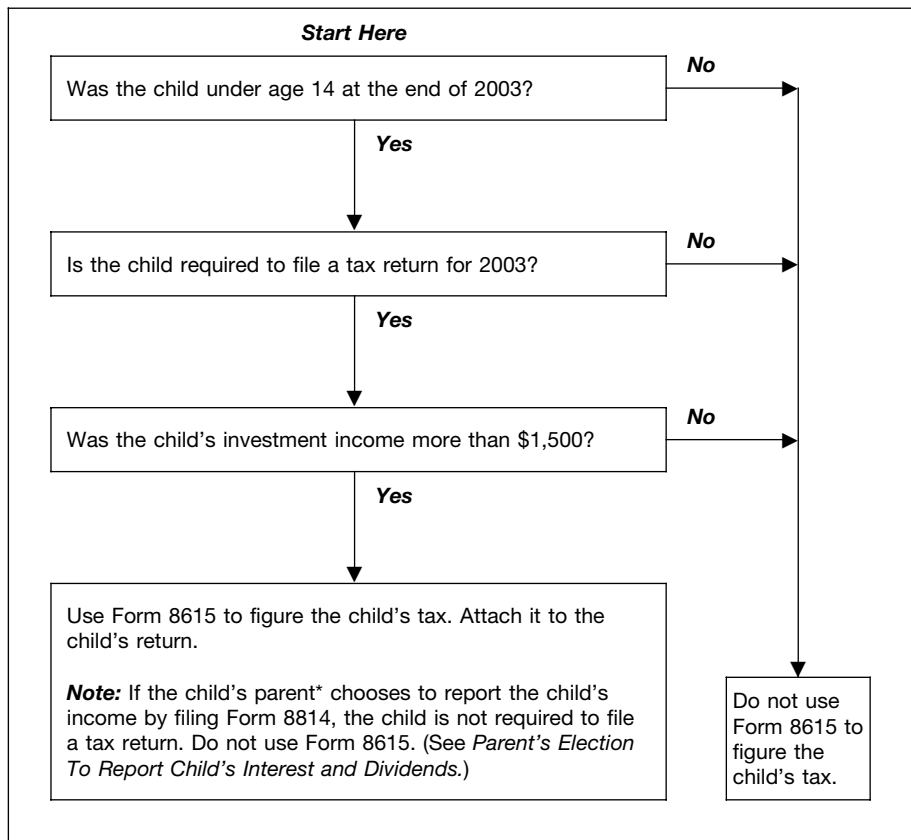
If the child had **no earned income**, enter on this line the adjusted gross income shown on the child's return. Adjusted gross income is shown on line 35 of Form 1040; line 22 of Form 1040A; or line 34 of Form 1040NR. Form 1040EZ and Form 1040NR-EZ cannot be used if Form 8615 must be filed.

If the child had **earned income**, figure the amount to enter on line 1 of Form 8615 by using the worksheet in the instructions for the form.



However, use the following worksheet if the child has excluded any foreign earned income or deducted a loss from self-employment or a net operating loss from another year.

Figure 2. Do You Have To Use Form 8615 To Figure Your Child's Tax?



*See *Which Parent's Return To Use*

Illustrated Part I of Form 8615

Carla's total income on Form 1040A, line 15, is \$5,000. This total includes wages (earned income) of \$600 reported on line 7. She has no itemized deductions. Carla's taxable income on Form 1040A, line 27, is \$4,150. Because Carla has earned income, the worksheet in the instructions is used to figure the amount on line 1 of Form 8615.

Carla's filled-in worksheet and Part I of her Form 8615, with lines 1 through 5 filled in, are shown here.

Carla's total income of \$5,000 (as shown on line 15 of her Form 1040A) is entered on

line 1 of the worksheet. Her earned income of \$600 (her wages as shown on line 7 of her Form 1040A) is entered on line 2 of the worksheet. Line 3 is the result of subtracting \$600 from \$5,000.

The amount from line 3 of the worksheet is entered on line 1 of Form 8615. Carla did not itemize deductions, so \$1,500 is entered on line 2. Line 3 of Form 8615 is the result of subtracting \$1,500 from \$4,400. Carla's taxable income of \$4,150 (as shown on line 27 of her Form 1040A) is entered on line 4 of Form 8615. The smaller of \$2,900 or \$4,150 is entered on line 5. This is her net investment income.

Worksheet—Line 1

1. Enter the amount from the child's Form 1040, line 22; Form 1040A, line 15; or Form 1040NR, line 23, whichever applies	5,000
2. Enter the child's earned income plus any amount from the child's Form 1040, line 31, or Form 1040NR, line 30, whichever applies	600
3. Subtract line 2 from line 1. Enter the result here and on Form 8615, line 1	4,400

Form 8615 Department of the Treasury Internal Revenue Service	Tax for Children Under Age 14 With Investment Income of More Than \$1,500 ▶ Attach only to the child's Form 1040, Form 1040A, or Form 1040NR. ▶ See separate instructions.	OMB No. 1545-0998 2003 Attachment Sequence No. 33
Child's name shown on return Carla C. Rose		Child's social security number 111;00;1111
Before you begin: If the child, the parent, or any of the parent's other children under age 14 received capital gains (including capital gain distributions), or qualified dividends, or farm income, see Pub. 929, Tax Rules for Children and Dependents . It explains how to figure the child's tax using the Qualified Dividends and Capital Gain Worksheet in the Form 1040 or Form 1040A instructions, or Schedule D or J (Form 1040) .		
A Parent's name (first, initial, and last). Caution: See instructions before completing. George B. Rose		B Parent's social security number 1 2 3;00; 4 5 6 7
C Parent's filing status (check one): <input type="checkbox"/> Single <input checked="" type="checkbox"/> Married filing jointly <input type="checkbox"/> Married filing separately <input type="checkbox"/> Head of household <input type="checkbox"/> Qualifying widow(er)		

Part I Child's Net Investment Income

1. Enter the child's investment income (see instructions)	1	4,400	
2. If the child did not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,500. Otherwise, see instructions	2	1,500	
3. Subtract line 2 from line 1. If zero or less, stop ; do not complete the rest of this form but do attach it to the child's return	3	2,900	
4. Enter the child's taxable income from Form 1040, line 40; Form 1040A, line 27; or Form 1040NR, line 38	4	4,150	
5. Enter the smaller of line 3 or line 4. If zero, stop ; do not complete the rest of this form but do attach it to the child's return	5	2,900	

**Alternate Worksheet
for Line 1 of Form 8615**

- A. Enter the amount from the child's Form 1040, line 22, or Form 1040NR, line 23 _____
 - B. Enter the total of any net loss from self-employment, any net operating loss deduction, any foreign earned income exclusion, and any foreign housing exclusion from the child's Form 1040 or Form 1040NR. Enter this total as a positive number (greater than zero) _____
 - C. Add line A and line B and enter the total. _____
 - D. Enter the child's earned income plus any amount from line 31 of the child's Form 1040 or line 30 of the child's Form 1040NR. _____
- Generally, the child's earned income is the total of the amounts reported on Form 1040, lines 7, 12, and 18 (if line 12 or 18 is a loss, use zero) or Form 1040NR, lines 8, 13, and 19 (if line 13 or 19 is a loss, use zero)
- E. Subtract line D from line C. Enter the result here and on Form 8615, line 1 _____

Investment income defined. Investment income is generally all income other than salaries, wages, and other amounts received as pay for

work actually done. It includes taxable interest, dividends, capital gains (including capital gain distributions), the taxable part of social security and pension payments, and certain distributions from trusts. Investment income includes amounts produced by assets the child obtained with earned income (such as interest on a savings account into which the child deposited wages).

Nontaxable income. For this purpose, investment income includes only amounts the child must include in total income. Nontaxable investment income, such as tax-exempt interest and the nontaxable part of social security and pension payments, is not included.

Capital loss. A child's capital losses are taken into account in figuring the child's investment income. Capital losses are first applied against capital gains. If the capital losses are more than the capital gains, the difference (up to \$3,000) is subtracted from the child's interest, dividends, and other investment income. Any difference over \$3,000 is carried to the next year.

Income from property received as a gift. A child's investment income includes all income produced by property belonging to the child. This is true even if the property was transferred to the child, regardless of when the property was transferred or purchased or who transferred it.

A child's investment income includes income produced by property given as a gift to the child. This includes gifts to the child from grandparents or any other person and gifts made under the Uniform Gift to Minors Act.

Example. Amanda Black, age 13, received the following income.

- Dividends—\$600
- Wages—\$2,100
- Taxable interest—\$1,200
- Tax-exempt interest—\$100
- Capital gains—\$300
- Capital losses—(\$200)

The dividends were qualified dividends on stock given to her by her grandparents.

Amanda's investment income is \$1,900. This is the total of the dividends (\$600), taxable interest (\$1,200), and capital gains reduced by capital losses (\$300 - \$200 = \$100). Her wages are earned (not investment) income because they are received for work actually done. Her tax-exempt interest is not included because it is nontaxable.

Trust income. If a child is the beneficiary of a trust, distributions of taxable interest, dividends, capital gains, and other investment income from the trust are investment income to the child.

Adjustment to income. In figuring the amount to enter on line 1, the child's investment income is reduced by any penalty on the early withdrawal of savings.

Illustrated Part II of Form 8615

Randy and his sister must each file Form 8615. Their parents' joint return information is used on the Forms 8615 of both children. The net investment income on line 5 of Randy's Form 8615 is \$2,280. His sister's net investment income is \$1,520. Randy's parents' taxable income is \$50,570. Their tax, from the Tax Table, is \$6,886.

Part II of Randy's Form 8615, with lines 6 through 13 filled in, is shown here.

Randy's parents' taxable income of \$50,570 (from line 40 of Form 1040) is entered on line 6 of Form 8615.

Randy's sister's net investment income of \$1,520 (from line 5 of her Form 8615) is entered on line 7 of Randy's Form 8615. The amounts on line 5 (\$2,280), line 6 (\$50,570), and line 7 (\$1,520) are added and the total of \$54,370 is entered on line 8.

The tax on \$54,370 is found in the Tax Table using the parents' joint filing status. The tax, \$7,456, is entered on line 9. Randy's parents' tax of \$6,886 (from line 41 of Form 1040) is entered on line 10 and is subtracted from the amount on line 9. The difference, \$570, is entered on line 11.

Randy's net investment income on line 5 (\$2,280) is added to his sister's net investment income on line 7 (\$1,520) and the total, \$3,800, is entered on line 12a.

The amount on line 5 (\$2,280) is divided by the amount on line 12a (\$3,800) and the result, .600, is entered on line 12b.

The amount on line 11 (\$570) is multiplied by the amount on line 12b (.600) and the result, \$342, is entered on line 13. This is Randy's tentative tax based on his parents' tax rate.

Part II Tentative Tax Based on the Tax Rate of the Parent		
6	Enter the parent's taxable income from Form 1040, line 40; Form 1040A, line 27; Form 1040EZ, line 6; TeleFile Tax Record, line K(1); Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If zero or less, enter -0-	6 50,570
7	Enter the total, if any, from Forms 8615, line 5, of all other children of the parent named above. Do not include the amount from line 5 above	7 1,520
8	Add lines 5, 6, and 7.	8 54,370
9	Enter the tax on the amount on line 8 based on the parent's filing status above (see instructions). If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used, check here <input type="checkbox"/>	9 7,456
10	Enter the parent's tax from Form 1040, line 41; Form 1040A, line 28, minus any alternative minimum tax; Form 1040EZ, line 10; TeleFile Tax Record, line K(2); Form 1040NR, line 39; or Form 1040NR-EZ, line 15. Do not include any tax from Form 4972 or 8814 . If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) was used to figure the tax, check here <input type="checkbox"/>	10 6,886
11	Subtract line 10 from line 9 and enter the result. If line 7 is blank, also enter this amount on line 13 and go to Part III	11 570
12a	Add lines 5 and 7	12a 3,800
b	Divide line 5 by line 12a. Enter the result as a decimal (rounded to at least three places)	12b × .600
13	Multiply line 11 by line 12b	13 342

Line 2 (Deductions)

If the child does not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,500 on line 2.

If the child does itemize deductions, enter on line 2 the larger of:

- 1) \$750 plus the child's itemized deductions that are directly connected with the production of the investment income entered on line 1, or
- 2) \$1,500.

Directly connected. Itemized deductions are directly connected with the production of investment income if they are for expenses paid to produce or collect taxable income or to manage, conserve, or maintain property held for producing income. These expenses include custodian fees and service charges, service fees to collect taxable interest and dividends, and certain investment counsel fees.

These expenses are added to certain other miscellaneous itemized deductions on Schedule A (Form 1040). Only the amount greater than 2% of the child's adjusted gross income can be deducted. See Publication 529, *Miscellaneous Deductions*, for more information.

Example 1. Roger, age 12, has investment income of \$8,000, no other income, no adjustments to income, and itemized deductions of \$300 (net of the 2%-of-adjusted-gross-income limit) that are directly connected with his investment income. His adjusted gross income is \$8,000, which is entered on line 35 of Form 1040

and on line 1 of Form 8615. Line 2 is \$1,500 because that is more than the sum of \$750 and his directly-connected itemized deductions of \$300.

Example 2. Eleanor, age 8, has investment income of \$16,000 and an early withdrawal penalty of \$100. She has no other income. She has itemized deductions of \$1,050 (net of the 2%-of-adjusted-gross-income limit) that are directly connected with the production of her investment income. Her adjusted gross income, entered on line 1, is \$15,900 (\$16,000 – \$100). The amount on line 2 is \$1,800. This is the larger of:

- 1) \$750 plus the \$1,050 of directly connected itemized deductions, or
- 2) \$1,500.

Line 3

Subtract line 2 from line 1 and enter the result on this line. If zero or less, do not complete the rest of the form. However, you must still attach Form 8615 to the child's tax return. Figure the tax on the child's taxable income in the normal manner.

Line 4 (Child's Taxable Income)

Enter on line 4 the child's taxable income from Form 1040, line 40; Form 1040A, line 27; or Form 1040NR, line 38.

Line 5 (Net Investment Income)

A child's net investment income cannot be more than his or her taxable income. Enter on line 5 the smaller of line 3 or line 4 of Form 8615. This is the child's **net investment income**.

If zero or less, do not complete the rest of the form. However, you must still attach Form 8615 to the child's tax return. Figure the tax on the child's taxable income in the normal manner.

Step 2. Figuring a Tentative Tax at the Parent's Tax Rate (Form 8615, Part II)

The next step in completing Form 8615 is to figure a tentative tax on the child's net investment income at the parent's tax rate. The tentative tax at the parent's tax rate is the difference between the tax on the parent's taxable income figured with the child's net investment income (plus the net investment income of any other child whose Form 8615 includes the tax return information of that parent) and the tax figured without it.

When figuring the tentative tax at the parent's tax rate, do not refigure any of the exclusions, deductions, or credits on the parent's return because of the child's net investment income. For example, do not refigure the medical expense deduction.

Figure the tentative tax on lines 6 through 13. For an example, see the *Illustrated Part II of Form 8615*.

Line 6 (Parent's Taxable Income)

Enter on line 6 the amount from the parent's Form 1040, line 40; Form 1040A, line 27; Form 1040EZ, line 6; TeleFile Tax Record, line K(1); Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If the parent's taxable income is zero or less, enter zero on line 6.

Line 7 (Net Investment Income of Other Children)

If the tax return information of the parent is also used on any other child's Form 8615, enter on line 7 the total of the amounts from line 5 of all the other children's Forms 8615. Do not include the amount from line 5 of the Form 8615 being completed.

Example. Paul and Jane Persimmon have three children, Sharon, Jerry, and Mike, who must attach Form 8615 to their tax returns. The children's net investment income amounts on line 5 of their Forms 8615 are:

- Sharon—\$800
- Jerry—\$600
- Mike—\$1,000

Line 7 of Sharon's Form 8615 will show \$1,600, the total of the amounts on line 5 of Jerry's and Mike's Forms 8615.

Line 7 of Jerry's Form 8615 will show \$1,800 (\$800 + \$1,000).

Line 7 of Mike's Form 8615 will show \$1,400 (\$800 + \$600).

Other children's information not available. If the net investment income of the other children is not available when the return is due, either file the return using estimates or get an extension of time to file. Estimates and extensions are discussed earlier under *Providing Parental Information (Form 8615, Lines A–C)*.

Line 8 (Parent's Taxable Income Plus Children's Net Investment Income)

Enter on this line the total of lines 5, 6, and 7. You must determine the amount of **net capital gain** and **qualified dividends** included on this line before completing line 9 of Form 8615.

Net capital gain. Net capital gain is the smaller of the gain, if any, on line 16 of Schedule D or the gain, if any, on line 17a of Schedule D. If Schedule D is not required, it is the amount on line 13a of Form 1040 or line 10a of Form 1040A.

Qualified dividends. Qualified dividends are those dividends reported on line 9b of Form 1040 or Form 1040A.

Net capital gain and qualified dividends on line 8. If neither the child nor the parent nor any other child has net capital gain, the net capital gain on line 8 is zero.

If neither the child, nor the parent, nor any other child has qualified dividends, the amount of qualified dividends on line 8 is zero.

If the child, parent, or any other child has net capital gain, figure the amount of net capital gain included on line 8 by adding together the net capital gain amounts included on lines 5, 6, and 7 of Form 8615. If the child, parent, or any other child has qualified dividends, figure the amount of qualified dividends included on line 8 by adding together the qualified dividend amounts included on lines 5, 6, and 7. Use the following discussions to find these amounts.

Net capital gain or qualified dividends on line 5. If the child has a net capital gain or qualified dividends, use the appropriate worksheet below to find the amount of each included on line 5. These worksheets are needed to adjust the child's net capital gain and qualified dividends by the appropriate allocated amount of the child's deductions.



Use the following worksheet **only if** line 2 of the child's Form 8615 is \$1,500 and lines 3 and 5 are the same amount.

Line 5 Worksheet #1

- A. Enter the child's qualified dividends _____
- B. Enter the child's net capital gain _____
- C. Enter the amount from line 1 of the child's Form 8615 _____
- D. Divide line A by line C (but do not enter more than 1) _____
- E. Divide line B by line C (but do not enter more than 1) _____
- F. Multiply \$1,500 by line D _____
- G. Multiply \$1,500 by line E _____
- H. **Qualified dividends on line 5.** Subtract line F from line A (but do not enter less than zero or more than the amount on line 5 of Form 8615) _____
- I. **Net capital gain on line 5.** Subtract line G from line B (but do not enter less than zero or more than the excess of Form 8615, line 5, over line H) _____



Use the following worksheet **only if** line 2 of the child's Form 8615 is **more** than \$1,500 and lines 3 and 5 are the same amount.

Line 5 Worksheet #2

- A. Enter the child's qualified dividends _____
- B. Enter the child's net capital gain _____
- C. Add lines A and B _____
- D. Divide line A by line C _____
- E. Enter the child's itemized deductions directly connected with the production of the child's qualified dividends or net capital gain _____
- F. Multiply line D by line E _____
- G. Subtract line F from line E _____
- H. Subtract line G from line B _____
- I. Subtract line F from line A _____

- J. Enter the amount from line 1 of the child's Form 8615 _____
- K. Divide line A by line J (but do **not** enter more than 1) _____
- L. Divide line B by line J (but do **not** enter more than 1 minus the amount on line K) _____
- M. Multiply \$750 by line K _____
- N. Multiply \$750 by line L _____
- O. **Qualified dividends on line 5.** Subtract line M from line I (but do not enter less than zero or more than the amount on line 5 of Form 8615) _____
- P. **Net capital gain on line 5.** Subtract line N from line H (but do not enter less than zero or more than the excess of Form 8615, line 5, over line O) _____



Use the following worksheet **only if** line 5 of the child's Form 8615 is less than line 3.

Line 5 Worksheet #3

- A. Enter the child's qualified dividends _____
- B. Enter the child's net capital gain _____
- C. Add lines A and B _____
- D. Divide line A by line C _____
- E. If the child itemized deductions, enter the child's itemized deductions directly connected with the production of the income on line C _____
- F. Multiply line D by Line E _____
- G. Subtract line F from line E _____
- H. Subtract line G from line B _____
- I. Subtract line F from line A _____
- J. If the child can claim his or her own exemption, enter \$3,050*. Otherwise, enter zero _____
- K. If the child itemized deductions, enter the child's itemized deductions **not** directly connected with the production of the income on line C. Otherwise, enter the child's standard deduction _____
- L. Add lines J and K _____
- M. Enter the child's adjusted gross income (line 35 of Form 1040, line 22 of Form 1040A, or line 34 of Form 1040NR) _____
- N. Divide line C by line M (but do not enter more than 1) _____
- O. Multiply line L by line N _____
- P. Multiply line O by line D _____
- Q. Subtract line P from line O _____
- R. **Qualified dividends on line 5.** Subtract line P from line I. Enter the result here (but do not enter less than zero or more than the amount on line 5 of Form 8615) _____

S. Net capital gain on line 5.
 Subtract line Q from line H (but do not enter less than zero or more than the excess of Form 8615, line 5, over line R) _____

* If you enter more than \$139,500 on line M, see *Deduction for Exemptions Worksheet—Line 39* in the Form 1040 instructions for the amount to enter on line J.

Net capital gain or qualified dividends on line 6. If the parent has a net capital gain, its full amount is the net capital gain included on line 6. If the parent has qualified dividends, the full amount is the amount of qualified dividends included on line 6.

Net capital gain or qualified dividends on line 7. The net capital gain included on line 7 is the total of the amounts of net capital gain included on line 5 of the other children's Forms 8615. The qualified dividends included on line 7 is the total of the amounts of qualified dividends included on line 5 of the other children's Forms 8615. Find these amounts for each other child as explained earlier under *Net capital gain or qualified dividends on line 5*. (Do not attach the other children's Forms 8615 to the child's return.)

Line 9 (Tax on Parent's Taxable Income Plus Children's Net Investment Income)

Figure the tax on the amount on line 8 using the Tax Table, the Tax Rate Schedules, the *Qualified Dividends and Capital Gain Tax Worksheet* (in the Form 1040, 1040A, or 1040NR instructions), the *Schedule D Tax Worksheet* (in the Schedule D instructions) or Schedule D or J (Form 1040), as follows.

- If line 8 **does not** include any net capital gain or qualified dividends, use the Tax Table or Tax Rate Schedules to figure this tax. But if Schedule J, *Farm Income Averaging*, is used to figure the tax on the parent's return, use it to figure this tax.
- If line 8 **does** include any net capital gain or qualified dividends, use the *Qualified Dividends and Capital Gain Tax Worksheet* to figure this tax. However, if the child, parent, or any other child is filing Schedule D or has qualified 5-year gain, use Schedule D to figure this tax. If the child, parent, or another child has 28% rate gain, unrecaptured section 1250 gain, or an amount on Form 4952, line 4g, use the *Schedule D Tax Worksheet*. But if Schedule J is used to figure the tax on the parent's return, use it to figure this tax.

Using the Qualified Dividends and Capital Gain Tax Worksheet for line 9 tax. If you use the *Qualified Dividends and Capital Gain Tax Worksheet* to figure the line 9 tax on Form 8615, complete that worksheet as follows.

1) On line 1, enter the amount from line 8 of Form 8615.

- 2) On line 2, enter the amount of qualified dividends included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 3) On line 3, enter the amount of the net capital gain included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 4) Complete lines 4 through 29 (line 27 of the worksheet in the Form 1040A instructions) following the worksheet instructions. Use the parent's filing status to complete lines 8, 26, and 28 (lines 6, 24, and 26 of the worksheet in the Form 1040A instructions). Enter zero on lines 11 and 19 (lines 9 and 17 of the worksheet in the Form 1040A instructions) if neither the child, the parent, nor any other child has post-May 5 capital gain distributions or qualified dividends. Otherwise, figure the amount to enter on those lines using the worksheet under *Figuring post-May 5 gain and qualified dividends (lines 11 and 19)*, next.

Enter the amount from line 29 of the *Qualified Dividends and Capital Gain Tax Worksheet* (or line 27 of the worksheet in the Form 1040A instructions) on line 9 of Form 8615 and check the box on that line. Do not attach this worksheet to the child's return.

Figuring post-May 5 gain and qualified dividends (lines 11 and 19). If the child, parent, or any other child has post-May 5 capital gain distributions or qualified dividends, figure the amount to enter on lines 11 and 19 (lines 9 and 17 of the worksheet in the Form 1040A instructions) using the following worksheet.

Worksheet for Lines 11 and 19 of the Qualified Dividends and Capital Gain Tax Worksheet (Line 9 Tax)

1. Enter the amount, if any, from line 13b of the child's Form 1040 or line 10b of the child's Form 1040A _____
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) _____
3. Enter the amount from line B of the child's completed *Line 5 Worksheet* _____
4. Divide line 2 by line 3. Enter the result as a decimal _____
5. Multiply line 1 by line 4 _____
6. If no other child has post-May 5 capital gain distributions, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has post-May 5 capital gain distributions and enter the total of the line 5 amounts for those other children _____

7. Enter the amount, if any, from line 13b of the parent's Form 1040 or line 10b of the parent's Form 1040A _____
8. Enter the amount, if any, from line 2 of this Qualified Dividends and Capital Gain Tax Worksheet _____
9. Add lines 5, 6, 7, and 8. Also enter this amount on lines 11 and 19 of this Qualified Dividends and Capital Gain Tax Worksheet (lines 9 and 17 if the worksheet is from the Form 1040A instructions) _____

Using Schedule D for line 9 tax. Use Schedule D to figure the line 9 tax on Form 8615 if the child, parent, or any other child is filing Schedule D or has qualified 5-year gain and none of them has unrecaptured section 1250 gain, 28% rate gain, or an amount on Form 4952, line 4g.

If you must use Schedule D, first complete any Schedule D required for the child, parent, or any other child. Then figure the tax using Part IV of **another** Schedule D as a worksheet. (Do not attach this worksheet Schedule D to the child's return.)

Complete this worksheet Schedule D as follows.

- 1) On lines 19 and 20, enter zero.
- 2) On line 21, enter the amount from line 8 of Form 8615.
- 3) On line 22, enter the net capital gain included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 4) On line 23, enter the qualified dividends included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 5) Complete lines 24 through 53, following the Schedule D instructions. Use the parent's filing status to complete lines 28, 50, and 52. Enter zero on lines 31 and 43 if neither the child, the parent, nor any other child has post-May 5 gain or qualified dividends. Otherwise, figure the amount to enter on lines 31 and 43 using the worksheet under *Figuring post-May 5 gain and qualified dividends (lines 31 and 43)*, next. If you need to complete line 35, enter zero if neither the child, nor the parent, nor any other child has qualified 5-year gain. Otherwise, enter the amount of qualified 5-year gain included in the net capital gain on line 22 of this worksheet Schedule D. Figure this amount as explained under *Figuring qualified 5-year gain (line 35)*, later.

Enter the amount from line 53 of this worksheet Schedule D on line 9 of Form 8615 and check the box on that line.

Figuring post-May 5 gain and qualified dividends (lines 31 and 43). If the child, parent, or any other child has post-May 5 gain or qualified dividends, figure the amount to enter on lines 31 and 43 of the worksheet Schedule D using the following worksheet.

Worksheet for Lines 31 and 43 of Schedule D (Line 9 Tax)

1. Enter the amount, if any, from line 17b of the child's Schedule D. If the child did not file Schedule D, enter the amount, if any, from line 13b of the child's Form 1040 or line 10b of the child's Form 1040A _____
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) _____
3. Enter the amount from line B of the child's completed *Line 5 Worksheet* _____
4. Divide line 2 by line 3. Enter the result as a decimal _____
5. Multiply line 1 by line 4 _____
6. If no other child has post-May 5 gain, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has post-May 5 gain and enter the total of the line 5 amounts for those other children _____
7. Enter the amount, if any, from line 17b of the parent's Schedule D. If the parent did not file Schedule D, enter the amount, if any, from line 13b of the parent's Form 1040 or line 10b of the parent's Form 1040A _____
8. Enter the amount, if any, from line 23 of the worksheet Schedule D _____
9. Add lines 5, 6, 7, and 8. Also enter this amount on lines 31 and 43 of the worksheet Schedule D _____

Figuring qualified 5-year gain (line 35). If the child, parent, or any other child has qualified 5-year gain, figure the amount of qualified 5-year gain included in the net capital gain on line 22 of the worksheet Schedule D using the following worksheet.

Worksheet for Line 35 of Schedule D (Line 9 Tax)

1. Enter the amount, if any, from line 8 of the child's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions _____
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) _____
3. Enter the amount from line B of the child's completed *Line 5 Worksheet* _____
4. Divide line 2 by line 3. Enter the result as a decimal _____

5. Multiply line 1 by line 4 _____
6. If no other child has qualified 5-year gain, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has qualified 5-year gain and enter the total of the line 5 amounts for those other children _____
7. Enter the amount, if any, from line 8 of the parent's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions _____
8. Add lines 5, 6, and 7. Also enter this amount on line 35 of the worksheet Schedule D _____

Using the Schedule D Tax Worksheet for line 9 tax. Use the *Schedule D Tax Worksheet* in the Schedule D instructions to figure the line 9 tax on Form 8615 if the child, parent, or any other child has unrecaptured section 1250 gain, 28% rate gain, or an amount on Form 4952, line 4g. If you must use the *Schedule D Tax Worksheet*, first complete any Schedule D and any actual *Schedule D Tax Worksheet* required for the child, parent, or any other child. Then figure the line 9 tax using **another** *Schedule D Tax Worksheet*. (Do not attach this *Schedule D Tax Worksheet* to the child's return.)

Complete this *Schedule D Tax Worksheet* as follows.

- 1) On line 1, enter the amount from line 8 of Form 8615.
- 2) On line 2, enter the qualified dividends included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 3) On line 3, enter the total of the amounts, if any, on line 4g of all Forms 4952 filed by the child, parent, or any other child.
- 4) On line 4, enter the total of the amounts, if any, on line 4e of all Forms 4952 filed by the child, parent, or any other child. If applicable, include instead the smaller amount entered on the dotted line next to line 4e.
- 5) On lines 5 and 6, follow the worksheet instructions.
- 6) On line 7, enter the net capital gain included on line 8 of Form 8615. (See the earlier discussion for line 8.)
- 7) On lines 8 through 10, follow the worksheet instructions.
- 8) On line 11, enter zero if neither the child, parent, nor any other child has unrecaptured section 1250 gain (line 19 of Schedule D) or 28% rate gain (line 20 of Schedule D). Otherwise, enter the amount of unrecaptured section 1250 gain and 28% rate gain included in the net capital gain on line 7. Figure these amounts as explained later under *Figuring unrecaptured section 1250 gain (line 11)* and *Figuring 28% rate gain (line 11)*.
- 9) Complete lines 12 through 51, following the worksheet instructions. Use the parent's filing status to complete lines 15, 48, and 50. Enter zero on lines 20 and 32 if neither the child, the parent, nor any other child has post-May 5 gain or quali-

fied dividends. Otherwise, figure the amount to enter on lines 20 and 32 using the worksheet under *Figuring post-May 5 gain and qualified dividends (lines 20 and 32)*, later. If you need to complete line 24, enter zero if neither the child, the parent, nor any other child has qualified 5-year gain (line 8 of the *Qualified 5-Year Gain Worksheet* in the Schedule D instructions). Otherwise, enter the amount of qualified 5-year gain included in the net capital gain on line 7. Figure this amount as explained later under *Figuring qualified 5-year gain (line 24)*.

Enter the amount from line 51 of this *Schedule D Tax Worksheet* on line 9 of Form 8615 and check the box on that line.

Figuring 28% rate gain (line 11). If the child, parent, or any other child has 28% rate gain, figure the amount of 28% rate gain included in the net capital gain on line 7 using the following worksheet.

Worksheet 1 for Line 11 of the Schedule D Tax Worksheet – 28% Rate Gain (Line 9 Tax)

1. Enter the amount, if any, from line 20 of the child's Schedule D. _____
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.) _____
3. Enter the amount from line B of the child's completed *Line 5 Worksheet* _____
4. Divide line 2 by line 3. Enter the result as a decimal _____
5. Multiply line 1 by line 4 _____
6. If no other child has 28% rate gain, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has 28% rate gain and enter the total of the line 5 amounts for those other children _____
7. Enter the amount, if any, from line 20 of the parent's Schedule D. . . . _____
8. Add lines 5, 6, and 7. Also include this amount on line 11 of the *Schedule D Tax Worksheet* _____

Figuring unrecaptured section 1250 gain (line 11). If the child, parent, or any other child has unrecaptured section 1250 gain, figure the amount of unrecaptured section 1250 gain included in the net capital gain on line 7 using the following worksheet.

Worksheet 2 for Line 11 of the Schedule D Tax Worksheet – Unrecaptured Section 1250 Gain (Line 9 Tax)

1. Enter the amount, if any, from line 19 of the child's Schedule D. _____

If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.

2. Enter the amount, if any, from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.)
3. Enter the amount from line B of the child's completed *Line 5 Worksheet*.
4. Divide line 2 by line 3. Enter the result as a decimal.
5. Multiply line 1 by line 4.
6. If no other child has unrecaptured section 1250 gain, enter zero. Otherwise, repeat lines 1 through 5 for each other child who has unrecaptured section 1250 gain and enter the total of the line 5 amounts for those children.
7. Enter the amount, if any, from line 19 of the parent's Schedule D.
8. Add lines 5, 6, and 7. Also include this amount on line 11 of the *Schedule D Tax Worksheet*.

Figuring post-May 5 gain and qualified dividends (lines 20 and 32). If the child, parent, or any other child has post-May 5 gain or qualified dividends, figure the amount to enter on lines 20 and 32 using the following worksheet.

Worksheet for Lines 20 and 32 of the Schedule D Tax Worksheet (Line 9 Tax)

1. Enter the amount, if any, from line 17b of the child's Schedule D. If the child did not file Schedule D, enter the amount, if any, from line 13b of the child's Form 1040 or line 10b of the child's Form 1040A.
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.)
3. Enter the amount from line B of the child's completed *Line 5 Worksheet*.
4. Divide line 2 by line 3. Enter the result as a decimal.
5. Multiply line 1 by line 4.
6. If no other child has post-May 5 gain, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has post-May 5 gain and enter the total of the line 5 amounts for those other children.
7. Enter the amount, if any, from line 17b of the parent's Schedule D. If the parent did not file Schedule D, enter the amount, if any, from line 13b of the parent's Form 1040 or line 10b of the parent's Form 1040A.

8. Enter the amount, if any, from line 2 of this Schedule D Tax Worksheet.
9. Add lines 5, 6, 7 and 8. Also enter this amount on lines 20 and 32 of this Schedule D Tax Worksheet.

Figuring qualified 5-year gain (line 24). If the child, parent, or any other child has qualified 5-year gain, figure the amount of qualified 5-year gain included in the net capital gain on line 7 using the following worksheet.

Worksheet for Line 24 of the Schedule D Tax Worksheet (Line 9 Tax)

1. Enter the amount, if any, from line 8 of the child's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions.
- If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.**
2. Enter the amount from the last line of the child's completed *Line 5 Worksheet*. (See the earlier discussion for line 8 of Form 8615.)
3. Enter the amount from line B of the child's completed *Line 5 Worksheet*.
4. Divide line 2 by line 3. Enter the result as a decimal.
5. Multiply line 1 by line 4.
6. If no other child has qualified 5-year gain, enter zero. Otherwise, repeat lines 1 through 5 above for each child who has qualified 5-year gain and enter the total of the line 5 amounts for those other children.
7. If the parent has no qualified 5-year gain, enter zero. Otherwise, enter the amount from line 8 of the parent's *Qualified 5-Year Gain Worksheet* in the Schedule D instructions.
8. Add lines 5, 6, and 7. Also enter this amount on line 24 of the *Schedule D Tax Worksheet*.

Using Schedule J for line 9 tax. Use Schedule J, *Farm Income Averaging*, to figure the line 9 tax on Form 8615 if Schedule J is used to figure the tax on the parent's return. First complete the actual Schedule J for the parent, then use **another** Schedule J as a worksheet to figure the tax to enter on line 9 of Form 8615. (Do not attach this worksheet to the child's return.) Complete this worksheet Schedule J as follows.

- 1) On line 1, enter the amount from line 8 of Form 8615.
- 2) On line 2, enter the amount from the parent's Schedule J, line 2.
- 3) Complete line 3 following the Schedule J instructions.
- 4) Complete line 4. If line 8 of Form 8615 includes any net capital gain, use the

Qualified Dividends and Capital Gain Tax Worksheet to figure the tax amount on this line. However, if the child, parent, or any other child is filing Schedule D, or has qualified 5-year gain, use Schedule D to figure this tax. If the child, parent, or any other child has 28% rate gain, unrecaptured section 1250 gain, or an amount on Form 4952, line 4g, use the *Schedule D Tax Worksheet*. **Follow the earlier instructions** under *Using the Qualified Dividends and Capital Gain Tax Worksheet for line 9 tax, Using Schedule D for line 9 tax, or Using the Schedule D Tax Worksheet for line 9 tax*, **except** use the amount on line 3 of **this** worksheet (instead of the amount on line 8 of Form 8615) in:

- a) Item (1) of *Using the Qualified Dividends and Capital Gain Tax Worksheet for line 9 tax* or *Using the Schedule D Tax Worksheet for line 9 tax*, or
- b) Item (2) of *Using Schedule D for line 9 tax*.
- 5) On lines 5 through 16, enter the amounts from the parent's Schedule J, lines 5 through 16.
- 6) Complete line 17 following the Schedule J instructions.
- 7) On lines 18 through 21, enter the amounts from the parent's Schedule J, lines 18 through 21.
- 8) Complete line 22 following the Schedule J instructions.

Enter the amount from line 22 of this worksheet Schedule J on line 9 of Form 8615 and check the box on that line.

Line 10 (Parent's Tax)

Enter on line 10 the amount from the parent's Form 1040, line 41; Form 1040A, line 28 (minus any alternative minimum tax); Form 1040EZ, line 10; TeleFile Tax Record, line K(2); Form 1040NR, line 39; or Form 1040NR-EZ, line 15. **Do not** include the tax, if any, from Form 4972 or Form 8814.

Line 11 (Tentative Tax)

Subtract line 10 from line 9 and enter the result on this line. This is the tentative tax.

If line 7 is blank, skip lines 12a and 12b and enter the amount from line 11 on line 13. Also skip the discussion for lines 12a and 12b that follows.

Lines 12a and 12b (Dividing the Tentative Tax)

If an amount is entered on line 7, divide the tentative tax shown on line 11 among the children according to each child's share of the total net investment income. This is done on lines 12a, 12b, and 13. Add the amount on line 7 to the amount on line 5 and enter the total on line 12a. Divide the amount on line 5 by the amount on line 12a and enter the result, as a decimal, on line 12b.

Example. In the earlier example under *Line 7 (Net Investment Income of Other Children)*, Sharon's Form 8615 shows \$1,600 on line 7. The amount entered on line 12a is \$2,400, the total of the amounts on lines 5 and 7 (\$800 + \$1,600). The decimal on line 12b is .333, figured as follows and rounded to three places.

$$\frac{\$800}{\$2,400} = .333$$

Line 13 (Child's Share of Tentative Tax)

If an amount is entered on line 7, multiply line 11 by the decimal on line 12b and enter the result on line 13. This is the child's share of the tentative tax.

Step 3. Figuring the Child's Tax

The final step in figuring a child's tax using Form 8615 is to determine the **larger** of:

- 1) The total of:
 - a) The child's share of the tentative tax based on the parent's tax rate, plus
 - b) The tax on the child's taxable income in excess of net investment income, figured at the child's tax rate, or
- 2) The tax on the child's taxable income, figured at the child's tax rate.

This is the child's tax. It is figured on lines 14 through 18 of Form 8615.

Line 14 (Child's Taxable Income in Excess of Net Investment Income)

If lines 4 and 5 of Form 8615 are the same, the child's taxable income does not exceed the child's net investment income. Enter zero on lines 14 and 15, and go to line 16. Also skip the rest of this discussion and the discussion for line 15 that follows.

If lines 4 and 5 are not the same, subtract line 5 from line 4 and enter the result on line 14. Then, before completing line 15, you must determine the amount of net capital gain and qualified dividends, if any, included on line 14.

Net capital gain and qualified dividends on line 14. If the child does not have any net capital gain or qualified dividends, the amount of the net capital gain and qualified dividends included on line 14 is zero.

If the child has net capital gain, the amount of net capital gain included on line 14 is the amount from line B of the child's completed *Line 5 Worksheet* minus the amount from the last line of that worksheet. (See the earlier discussion for line 8 of Form 8615.)

If the child has qualified dividends, the amount of qualified dividends included on line 14 is the amount from line A of the child's completed *Line 5 Worksheet* minus the amount from the next to the last line of that worksheet. (See the earlier discussion for line 8 of Form 8615.)

Line 15 (Tax on Child's Taxable Income in Excess of Net Investment Income)

Figure the tax on the amount on line 14 using the Tax Table, the Tax Rate Schedules, the *Qualified Dividends and Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, or Schedule D or J (Form 1040), as follows.

- If line 14 **does not** include any net capital gain or qualified dividends, use the Tax Table or Tax Rate Schedules (or Schedule J, if applicable) to figure this tax.
- If line 14 **does** include any net capital gain or qualified dividends, use the *Qualified Dividends and Capital Gain Tax Worksheet* to figure this tax unless the child is filing Schedule D or has qualified 5-year gain. In that case, use Schedule D to figure this tax. However, if the child has 28% rate gain or unrecaptured section 1250 gain, use the *Schedule D Tax Worksheet*. (But use Schedule J instead, if it applies.)

Using the Qualified Dividends and Capital Gain Tax Worksheet for line 15 tax. If you use the *Qualified Dividends and Capital Gain Tax Worksheet* to figure the line 15 tax on Form 8615, complete that worksheet as follows.

- 1) On line 1, enter the amount from line 14 of Form 8615.
- 2) On line 2, enter the amount of the qualified dividends included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 3) On line 3, enter the amount of the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 4) Complete line 4 following the worksheet instructions.
- 5) Leave line 5 blank.
- 6) Complete lines 6 through 29 (line 27 of the worksheet in the Form 1040A instructions) following the worksheet instructions. Use the child's filing status to complete lines 8, 26, and 28 of the worksheet for Form 1040 (lines 6, 24, and 26 of the worksheet for Form 1040A). On lines 11 and 19 (lines 9 and 17 of the worksheet in the Form 1040A instructions), enter zero if the child has no post-May 5 capital gain distributions or qualified dividends. Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Lines 11 and 19 of the Qualified Dividends and Capital Gain Tax Worksheet (Line 9 Tax)*, *Worksheet for Lines 31 and 43 of Schedule D (Line 9 Tax)*, or *Worksheet for Lines 20 and 32 of the Schedule D Tax Worksheet (Line 9 Tax)*, whichever applies. Then take the following steps.

- a) Subtract line 5 of that worksheet from line 1 of that worksheet.
- b) Add the result in (a) and the amount on line 2 of this *Qualified Dividends and Capital Gain Tax Worksheet*. Enter the result on lines 11 and 19 of this *Qualified Dividends and Capital Gain Tax*

Worksheet (lines 9 and 17 if the worksheet is from the Form 1040A instructions).

Enter the amount from line 29 of this *Qualified Dividends and Capital Gain Tax Worksheet* (line 27 of the worksheet in the Form 1040A instructions) on line 15 of Form 8615 and check the box on that line. Do not attach this worksheet to the child's return.

Using Schedule D for line 15 tax. Use Part IV of Schedule D to figure the line 15 tax on Form 8615 if the child is filing Schedule D or has qualified 5-year gain. However, if the child has unrecaptured section 1250 gain or 28% rate gain, use the *Schedule D Tax Worksheet* to figure the line 15 tax. See *Using the Schedule D Tax Worksheet for line 15 tax*, next.) If you must use Schedule D, first complete any actual Schedule D required for the child. Then figure the line 15 tax using Part IV of **another** Schedule D as a worksheet. (Do not attach this worksheet Schedule D to the child's return.)

Complete this worksheet Schedule D as follows.

- 1) On lines 19 and 20, enter zero.
- 2) On line 21, enter the amount from line 14 of Form 8615.
- 3) On line 22, enter the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 4) On line 23, enter the qualified dividends included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 5) Complete line 24, following the Schedule D instructions.
- 6) Leave line 25 blank.
- 7) Complete lines 26 through 53, following the Schedule D instructions. Use the child's filing status to complete lines 28, 50, and 52. On lines 31 and 43, enter zero if the child has no post-May 5 gain or qualified dividends. Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Lines 31 and 43 of Schedule D (Line 9 Tax)* or *Worksheet for Lines 20 and 32 of the Schedule D Tax Worksheet (Line 9 Tax)*, whichever applies. Then take the following steps.
 - a) Subtract line 5 of that worksheet from line 1 of that worksheet.
 - b) Add the result in (a) and the amount on line 23 of this worksheet Schedule D. Enter the result on lines 31 and 43 of this worksheet Schedule D.

If you need to complete line 35, enter zero if the child has no qualified 5-year gain (line 8 of the *Qualified 5-year Gain Worksheet* in the Schedule D instructions). Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Line 35 of Schedule D (Line 9 Tax)* or the *Worksheet for Line 24 of the Schedule D Tax Worksheet (Line 9 Tax)*, whichever was used. Subtract line 5 of that worksheet from line 1 of that worksheet and enter the result on line 35 of this worksheet Schedule D.

Enter the amount from line 53 of this worksheet Schedule D on line 15 of Form 8615.

Using the Schedule D Tax Worksheet for line 15 tax. Use the *Schedule D Tax Worksheet* in the Schedule D instructions to figure the line 15 tax on Form 8615 if the child has unrecaptured section 1250 gain or 28% rate gain. Do not attach this *Schedule D Tax Worksheet* to the child's return.

Complete this *Schedule D Tax Worksheet* as follows.

- 1) On line 1, enter the amount from line 14 of Form 8615.
- 2) On line 2, enter the qualified dividends included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 3) Leave lines 3 through 5 blank.
- 4) Enter the amount from line 2 on line 6.
- 5) On line 7, enter the net capital gain included on line 14 of Form 8615. (See the earlier discussion for line 14.)
- 6) Skip line 8.
- 7) Enter the amount from line 7 on line 9.
- 8) Complete line 10, following the worksheet instructions.
- 9) On line 11, enter zero if the child has no 28% rate gain (line 20 of Schedule D) or any unrecaptured section 1250 gain (line 19 of Schedule D). Otherwise, see *Worksheet 1 for Line 11 of the Schedule D Tax Worksheet – 28% Rate Gain (Line 9 Tax)* and *Worksheet 2 for Line 11 of the Schedule D Tax Worksheet – Unrecaptured Section 1250 Gain (Line 9 Tax)* under *Using the Schedule D Tax Worksheet for line 9 tax*, earlier. For each worksheet you complete, subtract line 5 of that worksheet from line 1 of that worksheet, and include the result on line 11 of this worksheet.
- 10) Complete lines 12 through 14, following the worksheet instructions.
- 11) Use the child's filing status to complete lines 15, 48, and 50.
- 12) Complete lines 16 through 19, following the worksheet instructions.
- 13) On lines 20 and 32, enter zero if the child has no post-May 5 gain or qualified dividends. Otherwise, in the earlier discussion for line 9 of Form 8615, see the *Worksheet for Lines 20 and 32 of the Schedule D Tax Worksheet (Line 9 Tax)*. Then take the following steps.
 - a) Subtract line 5 of that worksheet from line 1 of that worksheet.
 - b) Add the result in (a) and the amount on line 2 of this *Schedule D Tax Worksheet*. Enter the result on lines 20 and 32 of this *Schedule D Tax Worksheet*.
- 14) Complete lines 21 through 31, 33 through 47, 49, and 51 following the worksheet instructions. If you need to complete line 24, enter zero if the child has no qualified 5-year gain (line 8 of the *Qualified 5-Year Gain Worksheet* in the Schedule D instructions). Otherwise, in the earlier discussion

for line 9 of Form 8615, see the *Worksheet for Line 24 of the Schedule D Tax Worksheet (Line 9 Tax)*. Subtract line 5 of that worksheet from line 1 of that worksheet and enter the result on line 24 of this worksheet. If you need to complete line 39, enter the smaller of line 9 or the amount of unrecaptured section 1250 gain you included on line 11.

Enter the amount from line 51 of this *Schedule D Tax Worksheet* on line 15 of Form 8615 and check the box on that line.

Using Schedule J for line 15 tax. If Schedule J applies, use it as a worksheet to figure the tax to enter on line 15 of Form 8615. On line 1 of this worksheet, enter the amount from line 14 of Form 8615. Complete lines 2 through 22 following the Schedule J instructions. Use the child's filing status to complete lines 4, 8, 12, and 16.

Enter the amount from line 22 of this worksheet Schedule J on line 15 of Form 8615 and check the box on that line. Do not attach this worksheet to the child's return.

Line 16 Combined Tax

Add lines 13 and 15 and enter the total on line 16. This is the child's tax figured at the parent's rate on net investment income and the child's rate on other income.

Line 17 (Tax at Child's Rate)

Figure the tax on line 4 (the child's taxable income). Use the Tax Table, the Tax Rate Schedules, the *Qualified Dividends and Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, or the child's actual Schedule D or J, whichever applies. Enter the tax amount on line 17. If it is from the *Qualified Dividends and Capital Gain Tax Worksheet*, the *Schedule D Tax Worksheet*, Schedule D, or Schedule J, check the box on that line.

Line 18 (Tax)

Enter on line 18 the larger of line 16 or line 17. Also enter this amount on the child's Form 1040, line 41; Form 1040A, line 28; or Form 1040NR, line 39. This is the child's tax.

Alternative Minimum Tax

A child may be subject to alternative minimum tax (AMT) if he or she has certain items given preferential treatment under the tax law. These items include accelerated depreciation and certain tax-exempt interest income. The AMT may also apply if the child has passive activity losses or certain distributions from estates or trusts.

For more information on who is liable for AMT and how to figure it, get **Form 6251**.

Limit on exemption amount. Ordinarily, single people can subtract a \$40,250 exemption amount from their AMT taxable income. However, a child who files Form 8615 has a limited exemption amount. The child's exemption amount for 2003 is limited to the child's earned income plus \$5,600. Figure the child's allowable exemption amount on the worksheet in the instructions for line 29 of Form 6251.

Illustrated Example

This example shows how to fill out Forms 8615 and 1040A for Sara Brown. It also shows how to use the *Qualified Dividends and Capital Gain Tax Worksheet* in the Form 1040A instructions to figure Sara's tax.

John and Laura Brown have one child, Sara. She is 13 and has \$1,050 taxable interest, \$1,050 qualified dividend income, \$700 capital gain distributions, and \$1,550 earned income. She does not itemize deductions. John and Laura file a joint return with John's name and social security number listed first. They claim three exemptions, including an exemption for Sara, on their return.

Because she is under age 14 and has more than \$1,500 investment income, part of her income may be subject to tax at her parents' rate. A completed Form 8615 must be attached to her return.

Sara's father, John, fills out Sara's return. He completes her Form 1040A through line 27, then begins completing her Form 8615.

John enters his name and social security number on Sara's Form 8615 because his name and number are listed first on the joint return he and Laura are filing. He checks the box for married filing jointly.

He enters Sara's investment income, \$2,800, on line 1. Sara does not itemize deductions, so John enters \$1,500 on line 2. He enters \$1,300 (\$2,800 – \$1,500) on line 3.

Sara's taxable income, as shown on line 27 of her Form 1040A, is \$2,550. This is her total income (\$4,350) minus her standard deduction (\$1,800). Her standard deduction is limited to the amount of her earned income plus \$250. John enters \$2,550 on line 4.

John compares lines 3 and 4 and enters the smaller amount, \$1,300, on line 5.

John enters \$48,000 on line 6. This is the taxable income from line 40 of John and Laura's joint Form 1040 return. Sara is an only child, so line 7 is blank. He adds line 5 (\$1,300), line 6 (\$48,000), and line 7 (blank) and enters \$49,300 on line 8.

Because Sara's capital gain distributions and qualified dividends are included on line 5, John uses *Line 5 Worksheet #1* (in the discussion for line 8, earlier) to figure out that \$325 net capital gain and \$487 qualified dividends are included on line 5. He completes that worksheet as follows.

Line 5 Worksheet #1

- | | |
|---|---------|
| A. Enter the child's qualified dividends | \$1,050 |
| B. Enter the child's net capital gain | 700 |
| C. Enter the amount from line 1 of the child's Form 8615 | 2,800 |
| D. Divide line A by line C (but do not enter more than 1) | .375 |
| E. Divide line B by line C (but do not enter more than 1) | .25 |
| F. Multiply \$1,500 by line D | 563 |
| G. Multiply \$1,500 by line E | 375 |

H. Qualified dividends on line 5.
 Subtract line F from line A (but do not enter less than zero or more than the amount on line 5 of Form 8615) 487

I. Net capital gain on line 5.
 Subtract line G from line B (but do not enter less than zero or more than the excess of Form 8615, line 5, over line H) 325

Therefore, line 8 of Sara's Form 8615 also includes net capital gain of \$325 and qualified dividends of \$487. John uses the *Qualified Dividends and Capital Gain Tax Worksheet* (in the Form 1040A instructions) and follows the instructions under *Using the Qualified Dividends and Capital Gain Tax Worksheet for line 9 tax*, earlier, to figure the tax to enter on line 9 of Sara's Form 8615. To figure the amount to enter on line 9 of that worksheet, he fills out the *Worksheet for Lines 11 and 19 of the Qualified Dividends and Capital Gain Tax worksheet (Line 9 Tax)*. He enters \$500 on line 1 of the worksheet because \$500 of Sara's capital gain distributions are post-May 5 capital gain distributions reported on line 10b of her Form 1040A. John and Laura do not have any post-May 5 gain, so John makes no entry on line 7. The filled-in worksheet is shown next.

Worksheet for Lines 11 and 19 of the Qualified Dividends and Capital Gain Tax Worksheet (lines 9 and 17 of the worksheet in the Form 1040A instructions) **(Line 9 Tax)**

1. Enter the amount, if any, from line 13b of the child's Form 1040 or line 10b of the child's Form 1040A \$ 500

If line 1 is zero or blank, skip lines 2 through 4, enter zero on line 5, and go to line 6.

2. Enter the amount from the last line of the child's completed *Line 5 Worksheet* (See the earlier discussion for line 8 of Form 8615.) 325

3. Enter the amount from line B of the child's completed *Line 5 Worksheet* 700

4. Divide line 2 by line 3. Enter the result as a decimal464

5. Multiply line 1 by line 4 232

6. If no other child has post-May 5 capital gain distributions, enter zero. Otherwise, repeat lines 1 through 5 above for each other child who has post-May 5 capital gain distributions and enter the total of the line 5 amounts for those other children -0-

7. Enter the amount, if any, from line 13b of the parent's Form 1040 or line 10b of the parent's Form 1040A _____

8. Enter the amount, if any, from line 2 of this *Qualified Dividends and Capital Gain Tax Worksheet* 487

9. Add lines 5, 6, 7, and 8. Also, enter this amount on lines 11 and 19 of this *Qualified Dividends and Capital Gain Tax Worksheet* (lines 9 and 17 if the *Worksheet* is from the Form 1040A instructions) . . . 719

John enters \$719 on line 9 of the *Qualified Dividends and Capital Gain Tax Worksheet*. That completed worksheet is shown later as *Filled-in Qualified Dividends and Capital Gain Tax Worksheet #1*.

He enters the tax from his and Laura's Form 1040 (\$6,504) on line 10 of Sara's Form 8615, subtracts that amount from the \$6,616 on line 9, and enters the \$112 remainder on line 11. Because line 7 is blank, John skips lines 12a and 12b and enters \$112 on line 13.

John subtracts line 5 (\$1,300) from line 4 (\$2,550) and enters the result, \$1,250 on line 14. Using the instructions for line 14 earlier, John subtracts the net capital gain included on line 5 (\$325) from Sara's net capital gain (\$700) to figure the \$375 net capital gain included on line 14. He also subtracts the qualified dividends included on line 5 (\$487) from Sara's qualified dividends (\$1,050) to figure the \$563 qualified dividends included on line 14. He uses another *Qualified Dividends and Capital Gain Tax Worksheet* and follows the instructions under *Using the Qualified Dividends and Capital Gain Tax Worksheet for line 15 tax*, earlier, to figure the \$84 tax to enter on Form 8615, line 15. He completes that worksheet as shown on *Filled-in Qualified Dividends and Capital Gain Tax Worksheet #2*.

John adds lines 13 and 15 of Form 8615 and enters the sum, \$196, on line 16. Then he uses another *Qualified Dividends and Capital Gain Tax Worksheet* to figure the \$179 tax on Sara's \$2,550 taxable income to enter on Form 8615, line 17. He completes that worksheet as shown on *Filled-in Qualified Dividends and Capital Gain Tax Worksheet #3*.

Finally, John compares lines 16 and 17 and enters the larger amount, \$196, on line 18 of Sara's Form 8615. He also enters that amount on line 28 of Sara's Form 1040A.

John also completes Schedule 1, Form 1040A (not shown) for Sara.

Label
(See page 19.)

Use the IRS label.
Otherwise, please print or type.

L A B E L H E R E	Your first name and initial Sara L	Last name Brown
	If a joint return, spouse's first name and initial	Last name
	Home address (number and street). If you have a P.O. box, see page 20. 1040A MAIN STREET	Apt. no.
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 20. HOMETOWN AZ 85240	

OMB No. 1545-0085

Your social security number
111 00 1111
Spouse's social security number

▲ Important! ▲
You must enter your SSN(s) above.

Presidential Election Campaign
(See page 20.)

Note. Checking "Yes" will not change your tax or reduce your refund.
Do you, or your spouse if filing a joint return, want \$3 to go to this fund? . . . ▶

You Spouse
 Yes No Yes No

Filing status
Check only one box.

- 1 Single
- 2 Married filing jointly (even if only one had income)
- 3 Married filing separately. Enter spouse's SSN above and full name here. ▶
- 4 Head of household (with qualifying person). (See page 20.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
- 5 Qualifying widow(er) with dependent child (See page 21.)

Exemptions

6a **Yourself.** If your parent (or someone else) can claim you as a dependent on his or her tax return, **do not** check box 6a.

b **Spouse**

c **Dependents:**

If more than six dependents, see page 21.

(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> if qualifying child for child tax credit (see page 23)
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

No. of boxes checked on 6a and 6b

No. of children on 6c who:

- lived with you
- did not live with you due to divorce or separation (see page 23)

Dependents on 6c not entered above

Add numbers on lines above

0

d Total number of exemptions claimed.

Income

Attach Form(s) W-2 here. Also attach Form(s) 1099-R if tax was withheld.

If you did not get a W-2, see page 24.

Enclose, but do not attach, any payment.

7	Wages, salaries, tips, etc. Attach Form(s) W-2.	7	1,550
8a	Taxable interest. Attach Schedule 1 if required.	8a	1,050
b	Tax-exempt interest. Do not include on line 8a.	8b	
9a	Ordinary dividends. Attach Schedule 1 if required.	9a	1,050
b	Qualified dividends (see page 25).	9b	1,050
10a	Capital gain distributions (see page 25).	10a	700
b	Post-May 5 capital gain distributions (see page 25).	10b	500
11a	IRA distributions.	11a	
11b	Taxable amount (see page 25).	11b	
12a	Pensions and annuities.	12a	
12b	Taxable amount (see page 26).	12b	
13	Unemployment compensation and Alaska Permanent Fund dividends.	13	
14a	Social security benefits.	14a	
14b	Taxable amount (see page 28).	14b	
15	Add lines 7 through 14b (far right column). This is your total income .	15	4,350
16	Educator expenses (see page 28).	16	
17	IRA deduction (see page 28).	17	
18	Student loan interest deduction (see page 31).	18	
19	Tuition and fees deduction (see page 31).	19	
20	Add lines 16 through 19. These are your total adjustments .	20	
21	Subtract line 20 from line 15. This is your adjusted gross income .	21	4,350

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 57.

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Form 1040A (2003)

Tax, credits, and payments	22 Enter the amount from line 21 (adjusted gross income). 22 4,350		
Standard Deduction for—	23a Check <input type="checkbox"/> You were born before January 2, 1939, <input type="checkbox"/> Blind } Total boxes if: <input type="checkbox"/> Spouse was born before January 2, 1939, <input type="checkbox"/> Blind } checked ▶ 23a <input type="checkbox"/>		
	b If you are married filing separately and your spouse itemizes deductions, see page 32 and check here ▶ 23b <input type="checkbox"/>		
<ul style="list-style-type: none"> • People who checked any box on line 23a or 23b or who can be claimed as a dependent, see page 32. • All others: Single or Married filing separately, \$4,750 Married filing jointly or Qualifying widow(er), \$9,500 Head of household, \$7,000 	24 Enter your standard deduction (see left margin). 24 1,800		
	25 Subtract line 24 from line 22. If line 24 is more than line 22, enter -0-.	25	2,550
	26 Multiply \$3,050 by the total number of exemptions claimed on line 6d.	26	
	27 Subtract line 26 from line 25. If line 26 is more than line 25, enter -0-.		
	This is your taxable income. ▶ 27 2,550	27	2,550
	28 Tax , including any alternative minimum tax (see page 33).	28	196
	29 Credit for child and dependent care expenses. Attach Schedule 2.	29	
	30 Credit for the elderly or the disabled. Attach Schedule 3.	30	
	31 Education credits. Attach Form 8863.	31	
	32 Retirement savings contributions credit. Attach Form 8880.	32	
	33 Child tax credit (see page 37).	33	
	34 Adoption credit. Attach Form 8839.	34	
	35 Add lines 29 through 34. These are your total credits.	35	
	36 Subtract line 35 from line 28. If line 35 is more than line 28, enter -0-.	36	196
	37 Advance earned income credit payments from Form(s) W-2.	37	
	38 Add lines 36 and 37. This is your total tax. ▶ 38 196	38	196
	39 Federal income tax withheld from Forms W-2 and 1099.	39	155
	40 2003 estimated tax payments and amount applied from 2002 return.	40	300
	41 Earned income credit (EIC).	41	
	42 Additional child tax credit. Attach Form 8812.	42	
	43 Add lines 39 through 42. These are your total payments. ▶ 43 455	43	455
	44 If line 43 is more than line 38, subtract line 38 from line 43. This is the amount you overpaid.	44	259
	45a Amount of line 44 you want refunded to you. ▶ 45a 259	45a	259
	▶ b Routing number <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
	▶ d Account number <input type="text"/>		
	46 Amount of line 44 you want applied to your 2004 estimated tax.	46	
Refund	47 Amount you owe. Subtract line 43 from line 38. For details on how to pay, see page 51. ▶ 47	47	
	48 Estimated tax penalty (see page 52).	48	
	Do you want to allow another person to discuss this return with the IRS (see page 52)? <input checked="" type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No		
Third party designee	Designee's name ▶ John Brown	Phone no. ▶ (800) 829-1040	Personal identification number (PIN) ▶ 5 6 7 8 9
Sign here	Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and accurately list all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.		
Joint return? See page 20. Keep a copy for your records.	Your signature Sara L. Brown	Date 2-15-04	Your occupation Student
	Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation
			Daytime phone number (800) 829-1040
Paid preparer's use only	Preparer's signature ▶	Date	Check if self-employed <input type="checkbox"/>
	Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Preparer's SSN or PTIN
		Phone no. ()	

**Tax for Children Under Age 14
With Investment Income of More Than \$1,500**

▶ Attach only to the child's Form 1040, Form 1040A, or Form 1040NR.
▶ See separate instructions.

Child's name shown on return

Sara L. Brown

Child's social security number

111 : 00 : 1111

Before you begin: If the child, the parent, or any of the parent's other children under age 14 received capital gains (including capital gain distributions), or qualified dividends, or farm income, see **Pub. 929**, Tax Rules for Children and Dependents. It explains how to figure the child's tax using the **Qualified Dividends and Capital Gain Tax Worksheet** in the Form 1040 or Form 1040A instructions, or **Schedule D or J** (Form 1040).

A Parent's name (first, initial, and last). **Caution:** See instructions before completing.

John J. Brown

B Parent's social security number

000 : 00 : 0001

C Parent's filing status (check one):

- Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Part I Child's Net Investment Income

1	Enter the child's investment income (see instructions)	1	2,800
2	If the child did not itemize deductions on Schedule A (Form 1040 or Form 1040NR), enter \$1,500. Otherwise, see instructions	2	1,500
3	Subtract line 2 from line 1. If zero or less, stop ; do not complete the rest of this form but do attach it to the child's return	3	1,300
4	Enter the child's taxable income from Form 1040, line 40; Form 1040A, line 27; or Form 1040NR, line 38	4	2,550
5	Enter the smaller of line 3 or line 4. If zero, stop ; do not complete the rest of this form but do attach it to the child's return	5	1,300

Part II Tentative Tax Based on the Tax Rate of the Parent

6	Enter the parent's taxable income from Form 1040, line 40; Form 1040A, line 27; Form 1040EZ, line 6; TeleFile Tax Record, line K(1); Form 1040NR, line 38; or Form 1040NR-EZ, line 14. If zero or less, enter -0-	6	48,000
7	Enter the total, if any, from Forms 8615, line 5, of all other children of the parent named above. Do not include the amount from line 5 above	7	
8	Add lines 5, 6, and 7	8	49,300
9	Enter the tax on the amount on line 8 based on the parent's filing status above (see instructions). If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used, check here <input checked="" type="checkbox"/>	9	6,616
10	Enter the parent's tax from Form 1040, line 41; Form 1040A, line 28, minus any alternative minimum tax; Form 1040EZ, line 10; TeleFile Tax Record, line K(2); Form 1040NR, line 39; or Form 1040NR-EZ, line 15. Do not include any tax from Form 4972 or 8814 . If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) was used to figure the tax, check here <input type="checkbox"/>	10	6,504
11	Subtract line 10 from line 9 and enter the result. If line 7 is blank, also enter this amount on line 13 and go to Part III	11	112
12a	Add lines 5 and 7	12a	
b	Divide line 5 by line 12a. Enter the result as a decimal (rounded to at least three places)	12b	× .
13	Multiply line 11 by line 12b	13	112

Part III Child's Tax—If lines 4 and 5 above are the same, enter -0- on line 15 and go to line 16.

14	Subtract line 5 from line 4	14	1,250
15	Enter the tax on the amount on line 14 based on the child's filing status (see instructions). If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used to figure the tax, check here <input checked="" type="checkbox"/>	15	84
16	Add lines 13 and 15	16	196
17	Enter the tax on the amount on line 4 based on the child's filing status (see instructions). If the Qualified Dividends and Capital Gain Tax Worksheet or Schedule D or J (Form 1040) is used to figure the tax, check here <input checked="" type="checkbox"/>	17	179
18	Enter the larger of line 16 or line 17 here and on the child's Form 1040, line 41; Form 1040A, line 28; or Form 1040NR, line 39	18	196

Before you begin:

✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, lines 10a and 10b, on page 25).



1. Enter the amount from Form 1040A, line 27	1.	<u>49,300*</u>	
2. Enter the amount from Form 1040A, line 9b	2.	<u>487*</u>	
3. Enter the amount from Form 1040A, line 10a	3.	<u>325*</u>	
4. Add lines 2 and 3	4.	<u>812</u>	
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	<u>48,488</u>	
6. Enter the smaller of:			
• The amount on line 1 or	}		
• \$56,800 if married filing jointly (or qualifying widow(er)),			
\$28,400 if single, or married filing separately, or \$38,050 if head of household.			
	6.	<u>49,300</u>	
7. Is the amount on line 5 equal to or more than the amount on line 6?			
<input type="checkbox"/> Yes. Skip lines 7 through 13; go to line 14 and check the "No" box.			
<input checked="" type="checkbox"/> No. Enter the amount from line 5	7.	<u>48,488</u>	
8. Subtract line 7 from line 6	8.	<u>812</u>	
9. Add Form 1040A, line 10b, and line 2 above	9.	<u>719*</u>	
10. Enter the smaller of line 8 or line 9	10.	<u>719</u>	
11. Multiply line 10 by 5% (.05).	11.	<u>36</u>	
12. Subtract line 10 from line 8. If zero or less, go to line 14	12.	<u>93</u>	
13. Multiply line 12 by 10% (.10)	13.	<u>9</u>	
14. Are the amounts on lines 4 and 8 the same?			
<input checked="" type="checkbox"/> Yes. Skip lines 14 through 23; go to line 24.			
<input type="checkbox"/> No. Enter the smaller of line 1 or line 4	14.		
15. Enter the amount from line 8 (if line 8 is blank, enter -0-)	15.		
16. Subtract line 15 from line 14	16.		
17. Add Form 1040A, line 10b, and line 2 above	17.		
18. Enter the amount from line 10 (if line 10 is blank, enter -0-)	18.		
19. Subtract line 18 from line 17	19.		
20. Enter the smaller of line 16 or line 19	20.		
21. Multiply line 20 by 15% (.15)	21.		
22. Subtract line 20 from line 16. If zero, go to line 24	22.		
23. Multiply line 22 by 20% (.20)	23.		
24. Figure the tax on the amount on line 5. Use the Tax Table on pages 58–63. Enter tax here	24.	<u>6,571</u>	
25. Add lines 11, 13, 21, 23, and 24	25.	<u>6,616</u>	
26. Figure the tax on the amount on line 1. Use the Tax Table on pages 58–63. Enter tax here	26.	<u>6,699</u>	
27. Tax on all taxable income. Enter the smaller of line 25 or line 26 here and on Form 1040A, line 28	27.	<u>6,616</u>	

* See the instructions under Using the Qualified Dividends and Capital Gain Tax Worksheet for line 9 tax.

Before you begin:

✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, lines 10a and 10b, on page 25).



1. Enter the amount from Form 1040A, line 27	1.	1,250*
2. Enter the amount from Form 1040A, line 9b	2.	563*
3. Enter the amount from Form 1040A, line 10a	3.	375*
4. Add lines 2 and 3	4.	938
5. Subtract line 4 from line 1. If zero or less, enter -0-	5.	312
6. Enter the smaller of:		
• The amount on line 1 or	}	6. 1,250
• \$56,800 if married filing jointly (or qualifying widow(er)),		
\$28,400 if single, or married filing separately, or \$38,050 if head of household.		
7. Is the amount on line 5 equal to or more than the amount on line 6?		
<input type="checkbox"/> Yes. Skip lines 7 through 13; go to line 14 and check the "No" box.		
<input checked="" type="checkbox"/> No. Enter the amount from line 5	7.	312
8. Subtract line 7 from line 6	8.	938
9. Add Form 1040A, line 10b, and line 2 above	9.	831*
10. Enter the smaller of line 8 or line 9	10.	831
11. Multiply line 10 by 5% (.05).	11.	42
12. Subtract line 10 from line 8. If zero or less, go to line 14	12.	107
13. Multiply line 12 by 10% (.10)	13.	11
14. Are the amounts on lines 4 and 8 the same?		
<input checked="" type="checkbox"/> Yes. Skip lines 14 through 23; go to line 24.		
<input type="checkbox"/> No. Enter the smaller of line 1 or line 4	14.	
15. Enter the amount from line 8 (if line 8 is blank, enter -0-)	15.	
16. Subtract line 15 from line 14	16.	
17. Add Form 1040A, line 10b, and line 2 above	17.	
18. Enter the amount from line 10 (if line 10 is blank, enter -0-)	18.	
19. Subtract line 18 from line 17	19.	
20. Enter the smaller of line 16 or line 19	20.	
21. Multiply line 20 by 15% (.15)	21.	
22. Subtract line 20 from line 16. If zero, go to line 24	22.	
23. Multiply line 22 by 20% (.20)	23.	
24. Figure the tax on the amount on line 5. Use the Tax Table on pages 58–63. Enter tax here	24.	31
25. Add lines 11, 13, 21, 23, and 24	25.	84
26. Figure the tax on the amount on line 1. Use the Tax Table on pages 58–63. Enter tax here	26.	126
27. Tax on all taxable income. Enter the smaller of line 25 or line 26 here and on Form 1040A, line 28	27.	84

* See the instructions under Using the Qualified Dividends and Capital Gain Tax Worksheet for line 15 tax.

Before you begin: ✓ Be sure you do not have to file Form 1040 (see the instructions for Form 1040A, lines 10a and 10b, on page 25).



1.	Enter the amount from Form 1040A, line 27	1.	<u>2,550</u>
2.	Enter the amount from Form 1040A, line 9b	2.	<u>1,050</u>
3.	Enter the amount from Form 1040A, line 10a	3.	<u>700</u>
4.	Add lines 2 and 3	4.	<u>1,750</u>
5.	Subtract line 4 from line 1. If zero or less, enter -0-	5.	<u>800</u>
6.	Enter the smaller of:	6.	<u>2,550</u>
	• The amount on line 1 or		
	• \$56,800 if married filing jointly (or qualifying widow(er)),		
	\$28,800 if single, or married filing separately, or		
	\$38,050 if head of household.		
7.	Is the amount on line 5 equal to or more than the amount on line 6?		
	<input type="checkbox"/> Yes. Skip lines 7 through 13; go to line 14 and check the "No" box.		
	<input checked="" type="checkbox"/> No. Enter the amount from line 5	7.	<u>800</u>
8.	Subtract line 7 from line 6	8.	<u>1,750</u>
9.	Add Form 1040A, line 10b, and line 2 above	9.	<u>1,550</u>
10.	Enter the smaller of line 8 or line 9	10.	<u>1,550</u>
11.	Multiply line 10 by 5% (.05)	11.	<u>78</u>
12.	Subtract line 10 from line 8. If zero or less, go to line 14	12.	<u>200</u>
13.	Multiply line 12 by 10% (.10)	13.	<u>20</u>
14.	Are the amounts on lines 4 and 8 the same?		
	<input checked="" type="checkbox"/> Yes. Skip lines 14 through 23; go to line 24.		
	<input type="checkbox"/> No. Enter the smaller of line 1 or line 4	14.	_____
15.	Enter the amount from line 8 (if line 8 is blank, enter -0-)	15.	_____
16.	Subtract line 15 from line 14	16.	_____
17.	Add Form 1040A, line 10b, and line 2 above	17.	_____
18.	Enter the amount from line 10 (if line 10 is blank, enter -0-)	18.	_____
19.	Subtract line 18 from line 17	19.	_____
20.	Enter the smaller of line 16 or line 19	20.	_____
21.	Multiply line 20 by 15% (.15)	21.	_____
22.	Subtract line 20 from line 16. If zero, go to line 24	22.	_____
23.	Multiply line 22 by 20% (.20)	23.	_____
24.	Figure the tax on the amount on line 5. Use the Tax Table on pages 58-63. Enter tax here	24.	<u>81</u>
25.	Add lines 11, 13, 21, 23, and 24	25.	<u>179</u>
26.	Figure the tax on the amount on line 1. Use the Tax Table on pages 58-63. Enter tax here	26.	<u>256</u>
27.	Tax on all taxable income. Enter the smaller of line 25 or line 26 here and on Form 1040A, line 28	27.	<u>179</u>

Glossary

The definitions in this glossary are the meanings of the terms as used in this publication. The same term used in another publication may have a slightly different meaning.

Adjusted gross income.

Gross income (defined later) minus adjustments to income (defined next).

Adjustments to income. Deductions that are subtracted from gross income in figuring adjusted gross income. They include deductions for moving expenses, alimony paid, a penalty on early withdrawal of savings, and contributions to an individual retirement arrangement (IRA). Adjustments to income can be taken even if itemized deductions (defined later) are not claimed.

Alternative minimum tax. A tax designed to collect at least a minimum amount of tax from taxpayers who benefit from the tax laws that give special treatment to certain kinds of income and allow deductions and credits for certain kinds of expenses.

Capital gain distribution. An allocated amount paid to, or treated as paid to, a shareholder by a mutual fund, regulated investment company, or real estate investment trust from its net realized long-term capital gains. This amount is in addition to any ordinary dividend paid to the shareholder. You will receive a statement from the payer if this applies to you.

Dependent. A person, other than the taxpayer or the taxpayer's spouse, for whom an exemption (defined later) can be claimed. You can generally claim an exemption for a dependent if the dependent:

- 1) Lives with or is related to you,

- 2) Is a U.S. citizen, a U.S. resident, or a resident of Canada or Mexico,

- 3) Does not file a joint return,

- 4) Does not have \$3,050 or more of gross (total) income (does not apply to your child if under age 19 or a student under age 24), and

- 5) Is supported (generally more than 50%) by you.

For more information, see *Exemptions for Dependents* in Publication 501.

Earned income. Salaries, wages, tips, professional fees, and other amounts received as pay for work actually done.

For purposes of determining a dependent's standard deduction, earned income also includes any part of a scholarship or fellowship grant that the dependent must include in his or her gross income.

Exemption. An amount (\$3,050 for 2003) that can be subtracted from income in figuring how much income will be taxed. Exemptions generally are allowed for the taxpayer, the taxpayer's spouse, and qualifying dependents.

Gross income. All income from all sources (other than tax-exempt income) that must be included on your tax return.

Investment income. See *Unearned income*, later, and *Investment income defined*, earlier, under *Step 1. Figuring the Child's Net Investment Income (Form 8615, Part I)*.

Itemized deductions. Deductions allowed on Schedule A (Form 1040) for medical and dental expenses, taxes, interest, charitable contributions, casualty and theft losses, and miscellaneous deductions. They are subtracted from ad-

justed gross income in figuring taxable income. Itemized deductions cannot be claimed if the standard deduction is chosen.

Net capital gain. The excess of net long-term capital gain over any net short-term capital loss. For 2003, this is the smaller of the gain on line 16 or the gain on line 17a of Schedule D (Form 1040), *Capital Gains and Losses*. If Schedule D is not required, net capital gain is the amount of capital gain distributions on Form 1040, line 13a, or Form 1040A, line 10a.

Net investment income. The total of all investment income (other than tax-exempt income) reduced by the sum of the following: adjustments to income related to the investment income, plus the larger of:

- 1) \$750 plus itemized deductions directly connected with producing the investment income, or
- 2) \$1,500.

Post-May 5 gain. Net capital gain from sales and other dispositions of property after May 5, 2003. However, it does not include 28% rate gain or unrecaptured section 1250 gain. Post-May 5 gain is the amount on line 17b of Schedule D (Form 1040). If Schedule D is not required, post-May 5 gain is the amount of capital gain distributions on Form 1040, line 13b, or Form 1040A, line 10b. Post-May 5 gain qualifies for a lower tax rate than other net capital gain. For details, see Publication 550, *Investment Income and Expenses*.

Qualified dividends. Dividends eligible for the lower tax rates that apply to a net capital gain. They are reported to you in box 1b of Form 1099-DIV. On your tax return, you report them on line 9b of Form

1040 or Form 1040A. For more information, see Publication 550.

Standard deduction. An amount (based on filing status, age, and blindness) that can be subtracted from adjusted gross income in figuring taxable income. The standard deduction of a dependent is subject to a limit based on earned income. The standard deduction is not used if itemized deductions are claimed.

Tax year. The time period covered by a tax return. Usually this is January 1 to December 31, a calendar year, but taxpayers can elect a fiscal tax year with different beginning and ending dates.

Taxable income. Gross income minus any adjustments to income, any allowable exemptions, and either itemized deductions or the standard deduction.

Unearned income. Income other than earned income. This is investment-type income and includes interest, dividends, and capital gains. Distributions of interest, dividends, capital gains, and other unearned income from a trust are also unearned income to a beneficiary of the trust.

Unrecaptured section 1250 gain. Generally, any part of your net capital gain from selling section 1250 property (real property) that is due to depreciation. For details, see Publication 550.

28% rate gain. Gain from the sale of collectibles and half of the gain from the sale of qualified small business stock held more than 5 years. For details, see the instructions for Schedule D (Form 1040).

How To Get Tax Help

You can get help with unresolved tax issues, order free publications and forms, ask tax questions, and get more information from the IRS in several ways. By selecting the method that is best for you, you will have quick and easy access to tax help.

Contacting your Taxpayer Advocate. If you have attempted to deal with an IRS problem unsuccessfully, you should contact your Taxpayer Advocate.

The Taxpayer Advocate independently represents your interests and concerns within the IRS by protecting your rights and resolving problems that have not

been fixed through normal channels. While Taxpayer Advocates cannot change the tax law or make a technical tax decision, they can clear up problems that resulted from previous contacts and ensure that your case is given a complete and impartial review.

To contact your Taxpayer Advocate:

- Call the Taxpayer Advocate toll free at **1-877-777-4778**.
- Call, write, or fax the Taxpayer Advocate office in your area.

- Call **1-800-829-4059** if you are a TTY/TDD user.
- Visit the web site at www.irs.gov/advocate.

For more information, see Publication 1546, *The Taxpayer Advocate Service of the IRS*.

Free tax services. To find out what services are available, get Publication 910, *Guide to Free Tax Services*. It contains a list of free tax publications and an index of tax topics. It also describes other free tax information services, including tax education and assistance programs and a list of TeleTax topics.



Internet. You can access the IRS web site 24 hours a day, 7 days a week at www.irs.gov to:

- **E-file.** Access commercial tax preparation and e-file services available for free to eligible taxpayers.
- Check the amount of advance child tax credit payments you received in 2003.
- Check the status of your 2003 refund. Click on "Where's My Refund" and then on "Go Get My Refund Status." Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.
- Download forms, instructions, and publications.
- Order IRS products on-line.
- See answers to frequently asked tax questions.
- Search publications on-line by topic or keyword.
- Figure your withholding allowances using our Form W-4 calculator.
- Send us comments or request help by e-mail.
- Sign up to receive local and national tax news by e-mail.
- Get information on starting and operating a small business.

You can also reach us using File Transfer Protocol at [ftp.irs.gov](ftp://ftp.irs.gov).



Fax. You can get over 100 of the most requested forms and instructions 24 hours a day, 7 days a week, by fax. Just call **703-368-9694** from your

fax machine. Follow the directions from the prompts. When you order forms, enter the catalog number for the form you need. The items you request will be faxed to you.

For help with transmission problems, call **703-487-4608**.

Long-distance charges may apply.



Phone. Many services are available by phone.

- **Ordering forms, instructions, and publications.** Call **1-800-829-3676** to order current-year forms, instructions, and publications and prior-year forms and instructions. You should receive your order within 10 days.
- **Asking tax questions.** Call the IRS with your tax questions at **1-800-829-1040**.
- **Solving problems.** You can get face-to-face help solving tax problems every business day in IRS Taxpayer Assistance Centers. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. Call your local Taxpayer Assistance Center for an appointment. To find the number, go to www.irs.gov or look in the phone book under "United States Government, Internal Revenue Service."
- **TTY/TDD equipment.** If you have access to TTY/TDD equipment, call **1-800-829-4059** to ask tax or account questions or to order forms and publications.
- **TeleTax topics.** Call **1-800-829-4477** to listen to pre-recorded messages covering various tax topics.
- **Refund information.** If you would like to check the status of your 2003 refund, call **1-800-829-4477** for automated refund information and follow the recorded instructions or call **1-800-829-1954**. Be sure to wait at least 6 weeks from the date you filed your return (3 weeks if you filed electronically) and have your 2003 tax return available because you will need to know your filing status and the exact whole dollar amount of your refund.

Evaluating the quality of our telephone services. To ensure that IRS representatives give accu-

rate, courteous, and professional answers, we use several methods to evaluate the quality of our telephone services. One method is for a second IRS representative to sometimes listen in on or record telephone calls. Another is to ask some callers to complete a short survey at the end of the call.



Walk-in. Many products and services are available on a walk-in basis.

- **Products.** You can walk in to many post offices, libraries, and IRS offices to pick up certain forms, instructions, and publications. Some IRS offices, libraries, grocery stores, copy centers, city and county government offices, credit unions, and office supply stores have a collection of products available to print from a CD-ROM or photocopy from reproducible proofs. Also, some IRS offices and libraries have the Internal Revenue Code, regulations, and Cumulative Bulletins available for research purposes.
- **Services.** You can walk in to your local Taxpayer Assistance Center every business day to ask tax questions or get help with a tax problem. An employee can explain IRS letters, request adjustments to your account, or help you set up a payment plan. You can set up an appointment by calling your local Center and, at the prompt, leaving a message requesting Everyday Tax Solutions help. A representative will call you back within 2 business days to schedule an in-person appointment at your convenience. To find the number, go to www.irs.gov or look in the phone book under "United States Government, Internal Revenue Service."



Mail. You can send your order for forms, instructions, and publications to the Distribution Center nearest to you and receive a response within 10 workdays after your request is received. Use the address that applies to your part of the country.

- **Western part of U.S.:** Western Area Distribution Center
Rancho Cordova, CA
95743-0001

- **Central part of U.S.:** Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8903
- **Eastern part of U.S. and foreign addresses:** Eastern Area Distribution Center
P.O. Box 85074
Richmond, VA 23261-5074



CD-ROM for tax products. You can order IRS Publication 1796, *Federal Tax Products on CD-ROM*, and obtain:

- Current-year forms, instructions, and publications.
- Prior-year forms and instructions.
- Frequently requested tax forms that may be filled in electronically, printed out for submission, and saved for recordkeeping.
- Internal Revenue Bulletins.

Buy the CD-ROM from National Technical Information Service (NTIS) on the Internet at www.irs.gov/cdorders for \$22 (no handling fee) or call **1-877-233-6767** toll free to buy the CD-ROM for \$22 (plus a \$5 handling fee). The first release is available in early January and the final release is available in late February.



CD-ROM for small businesses. IRS Publication 3207, *Small Business Resource Guide*, is a must for every small business owner or any taxpayer about to start a business. This handy, interactive CD contains all the business tax forms, instructions and publications needed to successfully manage a business. In addition, the CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. The design of the CD makes finding information easy and quick and incorporates file formats and browsers that can be run on virtually any desktop or laptop computer.

It is available in early April. You can get a free copy by calling **1-800-829-3676** or by visiting the web site at www.irs.gov/smallbiz.



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Tax Publications for Individual Taxpayers

See *How To Get Tax Help* for a variety of ways to get publications, including by computer, phone, and mail.

General Guides

- 1 Your Rights as a Taxpayer
- 17 Your Federal Income Tax (For Individuals)
- 334 Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
- 509 Tax Calendars for 2004
- 553 Highlights of 2003 Tax Changes
- 910 Guide to Free Tax Services

Specialized Publications

- 3 Armed Forces' Tax Guide
- 54 Tax Guide for U.S. Citizens and Residents Aliens Abroad
- 225 Farmer's Tax Guide
- 378 Fuel Tax Credits and Refunds
- 463 Travel, Entertainment, Gift, and Car Expenses
- 501 Exemptions, Standard Deduction, and Filing Information
- 502 Medical and Dental Expenses (Including the Health Coverage Tax Credit)
- 503 Child and Dependent Care Expenses
- 504 Divorced or Separated Individuals
- 505 Tax Withholding and Estimated Tax
- 514 Foreign Tax Credit for Individuals
- 516 U.S. Government Civilian Employees Stationed Abroad
- 517 Social Security and Other Information for Members of the Clergy and Religious Workers
- 519 U.S. Tax Guide for Aliens
- 521 Moving Expenses
- 523 Selling Your Home
- 524 Credit for the Elderly or the Disabled
- 525 Taxable and Nontaxable Income
- 526 Charitable Contributions
- 527 Residential Rental Property
- 529 Miscellaneous Deductions
- 530 Tax Information for First-Time Homeowners

- 531 Reporting Tip Income
- 533 Self-Employment Tax
- 536 Net Operating Losses (NOLs) for Individuals, Estates, and Trusts
- 537 Installment Sales
- 541 Partnerships
- 544 Sales and Other Dispositions of Assets
- 547 Casualties, Disasters, and Thefts
- 550 Investment Income and Expenses
- 551 Basis of Assets
- 552 Recordkeeping for Individuals
- 554 Older Americans' Tax Guide
- 555 Community Property
- 556 Examination of Returns, Appeal Rights, and Claims for Refund
- 559 Survivors, Executors, and Administrators
- 561 Determining the Value of Donated Property
- 564 Mutual Fund Distributions
- 570 Tax Guide for Individuals With Income From U.S. Possessions
- 571 Tax-Sheltered Annuity Plans (403(b) Plans)
- 575 Pension and Annuity Income
- 584 Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property)
- 587 Business Use of Your Home (Including Use by Daycare Providers)
- 590 Individual Retirement Arrangements (IRAs)
- 593 Tax Highlights for U.S. Citizens and Residents Going Abroad
- 594 What You Should Know About the IRS Collection Process
- 595 Tax Highlights for Commercial Fishermen
- 596 Earned Income Credit (EIC)
- 721 Tax Guide to U.S. Civil Service Retirement Benefits
- 901 U.S. Tax Treaties

- 907 Tax Highlights for Persons with Disabilities
- 908 Bankruptcy Tax Guide
- 911 Direct Sellers
- 915 Social Security and Equivalent Railroad Retirement Benefits
- 919 How Do I Adjust My Tax Withholding?
- 925 Passive Activity and At-Risk Rules
- 926 Household Employer's Tax Guide
- 929 Tax Rules for Children and Dependents
- 936 Home Mortgage Interest Deduction
- 946 How To Depreciate Property
- 947 Practice Before the IRS and Power of Attorney
- 950 Introduction to Estate and Gift Taxes
- 967 The IRS Will Figure Your Tax
- 968 Tax Benefits for Adoption
- 969 Medical Savings Accounts (MSAs)
- 970 Tax Benefits for Education
- 971 Innocent Spouse Relief
- 972 Child Tax Credit
- 1542 Per Diem Rates
- 1544 Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business)
- 1546 The Taxpayer Advocate Service of the IRS

Spanish Language Publications

- 1SP Derechos del Contribuyente
- 579SP Cómo Preparar la Declaración de Impuesto Federal
- 594SP Comprendiendo el Proceso de Cobro
- 596SP Crédito por Ingreso del Trabajo
- 850 English-Spanish Glossary of Words and Phrases Used in Publications Issued by the Internal Revenue Service
- 1544SP Informe de Pagos en Efectivo en Exceso de \$10,000 (Recibidos en una Ocupación o Negocio)

Commonly Used Tax Forms

See *How To Get Tax Help* for a variety of ways to get forms, including by computer, fax, phone, and mail. For fax orders only, use the catalog number when ordering.

Form Number and Title	Catalog Number	Form Number and Title	Catalog Number
1040 U.S. Individual Income Tax Return	11320	2106 Employee Business Expenses	11700
Sch A&B Itemized Deductions & Interest and Ordinary Dividends	11330	2106-EZ Unreimbursed Employee Business Expenses	20604
Sch C Profit or Loss From Business	11334	2210 Underpayment of Estimated Tax by Individuals, Estates, and Trusts	11744
Sch C-EZ Net Profit From Business	14374	2441 Child and Dependent Care Expenses	11862
Sch D Capital Gains and Losses	11338	2848 Power of Attorney and Declaration of Representative	11980
Sch D-1 Continuation Sheet for Schedule D	10424	3903 Moving Expenses	12490
Sch E Supplemental Income and Loss	11344	4562 Depreciation and Amortization	12906
Sch EIC Earned Income Credit	13339	4868 Application for Automatic Extension of Time To File U.S. Individual Income Tax Return	13141
Sch F Profit or Loss From Farming	11346	4952 Investment Interest Expense Deduction	13177
Sch H Household Employment Taxes	12187	5329 Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts	13329
Sch J Farm Income Averaging	25513	6251 Alternative Minimum Tax—Individuals	13600
Sch R Credit for the Elderly or the Disabled	11359	8283 Noncash Charitable Contributions	62299
Sch SE Self-Employment Tax	11358	8582 Passive Activity Loss Limitations	63704
1040A U.S. Individual Income Tax Return	11327	8606 Nondeductible IRAs	63966
Sch 1 Interest and Ordinary Dividends for Form 1040A Filers	12075	8812 Additional Child Tax Credit	10644
Sch 2 Child and Dependent Care Expenses for Form 1040A Filers	10749	8822 Change of Address	12081
Sch 3 Credit for the Elderly or the Disabled for Form 1040A Filers	12064	8829 Expenses for Business Use of Your Home	13232
1040EZ Income Tax Return for Single and Joint Filers With No Dependents	11329	8863 Education Credits	25379
1040-ES Estimated Tax for Individuals	11340	9465 Installment Agreement Request	14842
1040X Amended U.S. Individual Income Tax Return	11360		