



BEWARE THE EXPANDED KIDDIE TAX

Effective January 1, 2008, the "kiddie tax" will apply to children age 18 and younger, as well as dependent college students under the age of 24. Under the kiddie tax, any amount of a child's unearned income in excess of \$1,700 (as indexed for inflation in future years) is taxed at the parents' highest marginal tax rate.

If you have a child who is age 18 or older this year, it's important to be aware of the changes to the law and to plan accordingly. Although the kiddie tax does not apply to the child for 2007, it may apply for 2008 and beyond! Currently, only children under the age of 18 are affected by the kiddie tax.

Tax Planning Strategies

If your child holds appreciated securities, consider whether it makes sense for the child to sell them before year-end. By doing so, the child will pay capital gains taxes at his or her own tax rate (usually 5%) for 2007 instead of paying capital gains taxes at his or her parents' typically higher tax rate (15%) if the child waits to sell in 2008.

You might also consider giving appreciated assets to children 18 or older to sell before the end of the year, either to pay for college or to minimize your family's tax bill. An individual can give each recipient up to \$12,000 this year without triggering the gift tax. (Married couples can jointly give up to \$24,000 per recipient.) As an example, let's say you and your spouse give your child \$24,000 worth of appreciated stock, of which \$12,000 represents profit when sold. Shifting from your 15% capital-gains rate to your child's 5% rate will save \$1,200 in taxes.

Beginning in 2008, another way for children age 18-23 to minimize the kiddie tax is to limit their taxable unearned income. There are several investment vehicles that produce no taxable income and therefore are not subject to the kiddie tax. For example, consider investing your child's unearned income in tax-advantaged savings vehicles, such as traditional and Roth IRAs; qualified tuition programs (529 plans); or Coverdell education savings accounts.

For more information on the kiddie tax and assistance with year-end tax planning please contact Nancy Livingston at 312.845.4474 or nlivingston@schwartzcooper.com.