Individuals Taxpayer Issues
Chapter 8     pp. 305 - 343

2019 National Income
TAX Workbook™
1. Charitable Contributions
2. Gambling Winnings and Losses
3. Tax Credits
4. Taxation of Children's Income
Issue 1: Charitable Contributions  pp. 306

- TCJA – increased the deduction limitation from 50% to 60% of AGI
- TCJA – increased the Standard Deduction
- TCJA – Created SALT tax limitations ($10,000)

Results

- Many people no longer will itemize....... and
- Many charitable organizations have see a significant decrease in contributions
IRC 170 defines charitable contributions – gift to or for the use of a qualifying government entities or other qualifying nonprofit organizations.

Not – political candidates, parties, PACS, lobbying organizations, foreign organizations (exceptions), individuals or $$ earmarked for the benefit for a specific person or family

How does one verify? WWW.irs.gov/charities-non-profits/exempt-organizations-select-check
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Contributions to Donor Advised Funds  pp. 307

IRC 4966(d)(2)

1. A fund or account owned and controlled by a sponsoring organization,

2. That is separately identified by reference to contributions of the donor or donors, and

3. Where the donor (or a person appointed or designated by the donor) has or reasonably expects to have advisory privileges over the distribution or investments of the assets.
• A donor-advised fund is like a charitable investment account, for the sole purpose of supporting charitable organizations you care about.

• When you contribute cash, securities or other assets to a donor-advised fund at a public charity you are generally eligible to take an immediate tax deduction.

• Those funds can be invested for tax-free growth and you can recommend grants to virtually any IRS-qualified public charity.
What Can You Donate to A DAF?  NIB

• Stocks & other securities: Publicly traded stocks Mutual funds Bonds
• Privately held business interests (1120 C or S interests)
• Partnership interests
• Other non-publicly traded assets:
  • Life insurance
  • Bitcoin and other cryptocurrencies
  • Retirement assets
  • Oil & gas royalty interests
  • Real estate
Donations with a benefit  pp. 308

• Quid pro quo donations are reduced by any benefit received
• Organization must make a written disclosure if more than $75

• Amount of contribution that is deductible
• Provide a good faith estimate of FMV of any goods or services received
Example 8.3

- Sandra purchased a $50 ticket to the Fairy Godmother Ball. The ball was held to benefit the local orphanage. Everyone who attended the ball had to purchase a $50 ticket. The FMV of the ticket is therefore $50. Can Sandra deduct the cost of the ticket, even if she does not attend the ball?
Example 8.4

Martin purchased a $50 ticket to a symphony concert to benefit the local symphony.
The regular price of a symphony concert ticket is $20. Martin can deduct $30 ($50 – $20) as a charitable contribution.
Benefit may be disregarded  pp. 309

1. FMV is not more than 2% or $111 whichever is less; or
2. The payment is $55.50 or more and the only benefit is connected with the payment are low cost articles (key chain...costing $11.10 or less)

• Example 8.5 – Frank donates $100 to NPR and receives a T-shirt
Membership Benefits

- Generally disregarded if – annual membership fee is $75 or less
- Free or discounted admissions (not sporting events)
- Parking
- Preferred access, discounts
- Admission to member events (organization cost is < $11.11)
Merrill donated $50,000 to the University of South Dakota for the right to purchase football tickets. Merrill paid $200 for football tickets with a $200 FMV. Merrill cannot deduct any portion of the $50,000 donation as a charitable contribution. Effective after 12/31/2017
Non-Cash Contributions

- Property – must be the entire interest (exception)
- Clothing and household items – good use or better (exception)
- Cars, boats or airplane - $500 rule – deduction is the lesser of:
  1. Gross proceeds (if sold), or
  2. FMV on date of contribution
Example 8.8  

• Mario donated a used car to a qualified organization.
• Mario bought the car 5 years ago for $7,000, and the car’s FMV at the time of the donation was $3,000.
• The organization sold the car for $2,800 and gave Mario a Form 1098-C, “Contributions of Motor Vehicles, Boats, and Airplanes”
• What is Mario’s charitable contribution deduction?
Example - Donation of a Vehicle

• Mario donated a used car to a qualifying organization.
• His basis in the car was $7,000, and the FMV at the time of the donation was $3,000.
• The organization auctioned the car for $3,100 and gave Mario a Form 1098-C.
• What is Mario’s deduction?
Donations of Inventory/Food  pp. 310

• Non-food limited to lessor of basis or FMV
• Food – larger of FMV or basis
• Must be to a qualified organization
• Food must meet 9 standards/conditions listed in the regs.
• Patents and trademarks
• Limited to lesser of basis or FMV of donated property
• Additional deduction – if the donee receives net income related to the property
• Year 1 & 2 - 100% of generated income
• Year 3-11 – amount is reduced 10% each year
• Year 12 – 10%
• Directly connected with the services provided to the organization
• Incurred only because of the services provided; and
• Not personal, living, or family expenses
Meals & Lodging  pp. 311

- Reasonable expenses, while away from home while preforming donated services are deductible if:
  - Directly connected with the services provided
  - Incurred only due to the provided service; and
  - Not personal living or family expenses
• John volunteered for a qualified organization that was building a house for a low-income family.

• He drove his personal automobile 100 miles to the jobsite.

• He worked on the construction of the house for 3 days, slept at a volunteer’s house within walking distance of the construction site, and ate his meals in a local diner. At the end of the 3 days, John traveled 100 miles back to his home.

• John can deduct the cost of his meals because he was away from home overnight. Additionally, he may deduct $28 for travel (200 miles × $0.14)
The great majority of audit adjustments are a result of a lack of recordkeeping.

Other audit adjustments result from valuation issues.

For cash contributions:

- Cancelled checks, Credit card statements
- Receipt from donor(s) showing the donee name and contact information, amount, dates and year end schedule
- As the amount increases the level of documentation goes up
Cash Contribution of $250 or More   pg. 314

Separate contemporaneous written acknowledgement
   (get a signed receipt)

1. Amount of cash donated by the taxpayer (full name)

2. A statement of whether the donee organization provided any goods or services in consideration, in whole or in part, for any of the contributed cash or other property

3. A description and good-faith estimate of the value of any goods or services other than intangible religious benefits that the donee organization provided to the donor

4. A statement of any intangible religious benefits that the donee organization provided to the donor
Cash Contribution of $250 < $500  pg. 314

Separate contemporaneous written acknowledgement

(get a signed receipt)

• Amount of cash donated by the taxpayer (full name)

• A statement of whether the donee organization provided any goods or services in consideration, in whole or in part, for any of the contributed cash or other property

• A description and good-faith estimate of the value of any goods or services other than intangible religious benefits that the donee organization provided to the donor

• A statement of any intangible religious benefits that the donee organization provided to the donor
Noncash Contributions of less than $250  pg. 314

• The name of the donee organization
• The date and location of the contribution
• A reasonably detailed description of the property
• Contemporaneous written acknowledgment from the donee organization (including)
• A reasonably detailed description of the donated property
• Whether the taxpayer received any goods or services as a result of the donation, and if so, a good-faith estimate of the value of the goods or services received
• If the donee organization provides any intangible religious benefits, a statement to that effect
$500 or more but not More than $5,000

• Written acknowledgment and must maintain the reliable records discussed on the prior slide (more than $250)
• In addition, the taxpayer usually must obtain a qualified appraisal
• The $5,000 limit applies to the combined value of all similar items donated within a single tax year.
• If the value of the donation exceeds $500,000, the taxpayer must attach the appraisal to the tax return
Noncash Contribution of over $5,000 pg. 354

Same documentation as over $500 plus:

This limit applies to the combined value of all similar items

Qualified appraisal (attached to return > $500,000)

• Appraisal must not be more than 60 days old and not later than the due date of the return including extensions

• Qualified appraiser

• Regs. list out what a qualified appraisal is and who is a qualified appraiser

• Several exceptions to the appraisal requirement
Valuation Penalties

- 20% penalty for overstated valuation by 150% or more & tax due of greater than $5,000
- 40% penalty for overstated valuation of $200% and or tax due greater than $5,000
AGI Limitations (60%, 30%, 20%)  pg. 317

Depending of the type of organization and property donated 50% organizations

- Churches
- Educational organizations
- Hospitals and medical research organizations
- Federal government or State governments (not your income taxes)
- Public charities
- Agricultural research organizations
- Private operating foundations, and
- Certain private nonoperating foundations
- Qualified Conservation Property
30% & 20% AGI Limit (organizations and property)  
pg. 317

**Not 50% Organizations**

- Veterans’ groups
- Fraternal societies
- Certain private nonoperating foundations
- 30% limit applies to capital gain property donated to 50% limit organizations
- Unless the taxpayer reduces the basis of the property by the amount gain if it was sold (50% limit applies)
- 20% applies to capital gain property to non 50% organizations
4. Contributions of capital gain property subject to the limit based on 30% of AGI: Deduct the contributions that do not exceed the lesser of
   a. 30% of AGI, or
   b. 50% of AGI minus contributions subject to the limits based on 60% or 50% of AGI (other than QCCs).

5. Contributions of capital gain property subject to the limit based on 20% of AGI: Deduct the contributions that do not exceed the least of
   a. 20% of AGI
Generally, disallowed deductions carry forward 5 years.

A disallowed QCC can be carried forward for 15 years.

Contributions that are carried over are subject to the same percentage limits in the year to which they are carried.

For example, contributions subject to the 30% limit in the year in which they are made are 30%-limit contributions in the year to which they are carried.

If the taxpayer has carryovers from 2 or more prior years, he or she must use the carryover from the earlier year first.
Filing Requirements (Form 8282) pg. 322

• Qualifying donations are subject to different reporting requirements based on the type and amount of donation
• Taxpayers must also report noncash charitable contributions that exceed $500 on Form 8283, “Noncash Charitable Contributions”
• Over $5,000 – complete “Section B” (requires donee and qualified appraiser signature)
• Over $500,000 – attach appraisal to the tax return
Donee Organization Requirements  pg. 322

• Must File Form 8282 Donee Information Return
• If, within 3 years of receiving property for which it was required to sign a Form 8283, it sells, exchanges, consumes, or otherwise disposes of the property. The organization must also send the taxpayer a copy of Form 8282
• No Form 8282 if taxpayer signed “Section B” stating appraised value is $500 or less
• No Form 8282 if it consumed or distributed the item without consideration in fulfilling the organization’s purpose or function as a tax-exempt organization
Issue # 2
Gambling Winnings And Losses
• IRC 61 – provides that gross income is all income from whatever source derived
• Wagering gains – amount won in excess of the amount bet
• Wagering losses – amount of wager (basis) lost
• IRC 165(d) provides that gambling losses are allowed only to the extent of gains
• TCJA expanded the definition to include any deduction otherwise allowable under the IRC incurred in carrying on any wagering transaction
• Is gambling it a trade or business........
• If a gambling activity constitutes a trade or business, it may be eligible for the QBI deduction
• Supreme Court stated that if one’s gambling activity is pursued full-time, in good faith, and with regularity, for the production of income for a livelihood, and is not a mere hobby, it is a trade or business
<table>
<thead>
<tr>
<th></th>
<th>Casual gambler</th>
<th>Professional gambler</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reported as other income on Form 1040 and losing wagers on Schedule A, Itemized</td>
<td>Reported on Form 1040, Schedule C, Profit or Loss From Business</td>
</tr>
<tr>
<td></td>
<td>Deductions</td>
<td></td>
</tr>
<tr>
<td><strong>Tax year 2017</strong></td>
<td><strong>Gambling income:</strong> $ 10,000</td>
<td><strong>Gambling income:</strong> $10,000</td>
</tr>
<tr>
<td></td>
<td><strong>Gambling losses:</strong></td>
<td><strong>Gambling business expenses:</strong></td>
</tr>
<tr>
<td></td>
<td>Losing wagers ($12,000)</td>
<td>Losing wagers: ($12,000)</td>
</tr>
<tr>
<td></td>
<td>but subject to Sec. 165(d) limit:</td>
<td>but subject to Sec. 165(d) limit:</td>
</tr>
<tr>
<td></td>
<td><strong>Net income from gambling:</strong> $ 0</td>
<td>(10,000)</td>
</tr>
<tr>
<td><strong>Tax year 2018</strong></td>
<td>Same as tax year 2017</td>
<td><strong>Net operating loss from gambling:</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9,500)</td>
</tr>
<tr>
<td></td>
<td><strong>Gambling income:</strong></td>
<td><strong>Total gambling business expenses:</strong></td>
</tr>
<tr>
<td></td>
<td>Same as tax year 2017 $ (19,500), but subject to amended Sec. 165(d) limit:</td>
<td>(19,500)</td>
</tr>
<tr>
<td></td>
<td><strong>Net profit:</strong></td>
<td>$ 0</td>
</tr>
</tbody>
</table>
• Assume that G had the following expenses related to his gambling activities in both tax years 2017 and 2018:
  • Gambling winnings: $10,000
  • Losing wagers: $12,000
  • Transportation: $3,000
  • Meals and entertainment: $1,500
  • Legal and professional services: $1,000
  • Lodging: $2,500
  • Subscriptions and books: $900
  • Telephone and online charges: $600
Slot Machine Transactions

- Generally casual gamblers can’t net their year end gains and losses
- IRS Chief Counsel issued Notice 2015-21 establishing a safe harbor approach using “Sessions” of gambling
- Eliminates necessity to track each wager/transaction
- Applies where the gaming activity is tracked (players card)
Example 8.19

- Enters casino with $100
- Plays slots only (use our Players Card)
- Has winnings of $1,000
- Has losses of $700
- Under old rules he has $1,000
- Schedule “A” deduction of $700

New safe harbor rule - he has $200 net gain
Gaming Sessions

• Proposed Regulation provides a Safe Harbor
• Biggest gambling issue – good records
• Casino cards help only so much
• Professional gamblers use Schedule “C”
• Losses allowed up to winnings
• Casual gamblers report income as other income
• Losses are reported on Schedule A (limited to income)
• Not subject to 2% of AGI
Example 8.2

• TP visited casino (slots) 10 times in 2019
• Seven times she lost $610
• Three times she won $350
• Her yearly net loss was $260
• Her taxable gain/loss was ??????
• TP’s were recreational gamblers
• Withdrew $500 at casino ATM
• TP won $2,000 playing slots (put $1,600 away)
• Continued to gamble
• End of day TP’s deposited $1,600 back in ATM
• How much should the TP’s report and why?
• **Do not look at your book!!!**
• IRS - $XXXX ? v Tax Court - $XXXXX?
• $2,000 slot winnings
• ($500) beginning (ATM)
• ($400) lost
• $1,100 Taxable winnings
• Establishes a Safe Harbor for gambling gain or loss
• Applies only to electronic tracked slot machines
• Establishes a fixed Session bright line test
• 24 hour period
What is a Session pg. 325

• Begins when a patron places first wage
• Ends when last wage is placed
• Same type of game
• Within 1 calendar day (24 hr. period 12:00am – 11:59 pm)
• Electronically tracked
• If the taxpayer stops and then resumes playing electronically tracked slot machines in a single gaming establishment on the same day, it is part of the same session.

• If the taxpayer uses the proposed definition of a session one time at a particular gambling establishment, he or she must use it for all electronically tracked slot machine play during the tax year at that same establishment.
NIB

• Jodi went to casino to play slots
• Used Players Card to track play
• Played from 3:00 p.m. to 5:00 p.m.
  Left for dinner
• Returned & played from 8:00 p.m. to 11:00 p.m.

Q1  How many sessions?
Q2  If she continued to play until 1:00 a.m.?
Q3  If she played at 2 casinos (1 day)?
Example 7.6

• JJ played e-slots for 3 hours in a.m. ($500)
• Played 3 hours in the p.m. (same casino) +700
• Net gain (1 session) $200
• Session # 2 (300)
• Session #3 100
• Session #4 (600)

• How does JJ report this?
• 1/1/2019 DD played slots 8:00 a.m. – 10:10 a.m.
• Used her “Players Card” to track her slots activity
• DD left to go shopping and returned at 6:00 p.m.
• Continued to play until 11:59 p.m.
• All at same casino

• How many sessions does she have?
• Can she net her winnings and losses?
• If she did not use her “Players Card” what would your answer be?
Issue # 3  Tax Credits

• TCJA modified the Child tax credit (CTC) to $2,000 (2018 -2025)
• Increased the phase out levels for the CTC
• Qualifying child definition did not change
• MAGI MFJ $400,000 & $200,000 for all others
• Phase out - $50 for every $1,000
• MJF $440,000 & $240,000 (fully phased out)
Additional Child Tax Credit

• Increased to a max of $1,400
• 1-2 children (15% of earned income > $2,500)
• 3 or more children – alternative computation (optional)
• ACTC = amount of SS taxes > Earned Income Credit
Credit For Other Dependents

- Other Dependent Credit: $500 (non-refundable)
- Dependents who do not qualify for the CTC
- No SSN required but ITIN is required
- Must be a qualifying relative
1. A child or a descendant of a child
2. A brother, sister, stepbrother, or stepsister
3. The father or mother, or an ancestor of either
4. A stepfather or stepmother
5. A son or daughter of a brother or sister of the taxpayer
7. A brother or sister of the father or mother of the taxpayer. A son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law

8. An individual (other than an individual who at any time during the tax year was the spouse of the taxpayer) who had the same principal residence as the taxpayer and is a member of the taxpayer’s household
Earned Income Credit

• Refundable credit based on earned income
• There is a phase-out limit as earned income goes up
• Bell Curve (lower EI = lower EIC & higher EI = higher EIC)
• Some taxpayers seem to know just how much to earn
2019 Phaseout Limits

• $50,162 ($55,952 for MFJ) if three or more qualifying children
• $46,703 ($52,493 for MFJ) if two qualifying children
• $41,094 ($46,884 for MFJ) if one qualifying child, or
• $15,570 ($21,370 for MFJ) if no qualifying child
# Earned Income Credit Limits For 2019

**FIGURE 8.4 2019 Earned Income Amount and Maximum Credits**

<table>
<thead>
<tr>
<th></th>
<th>One Child</th>
<th>Two Children</th>
<th>Three or More Children</th>
<th>No Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earned income amount</td>
<td>$10,370</td>
<td>$14,570</td>
<td>$14,570</td>
<td>$6,920</td>
</tr>
<tr>
<td>Maximum amount of credit</td>
<td>$3,526</td>
<td>$5,828</td>
<td>$6,557</td>
<td>$529</td>
</tr>
</tbody>
</table>
Education Credits

- Taxpayer
- Taxpayer’s spouse
- Dependent
- Eligible education institution
- Based on qualifying education expenses paid in 2019 (for 2019 or up to first 3 months of 2020)
Eligible Educational Intuitions

• Offering higher education above high school
• Includes trade school
• Private (for profit) and public schools/universities
• Eligible to participate in a U.S. student aid program
No Education Credit

• The taxpayer is claimed as a dependent on another person’s tax return
• The taxpayer’s filing status is MFS
• The taxpayer (or spouse if filing MFJ) was a nonresident alien for any part of the year and did not elect to be treated as a resident alien for tax purposes
• The taxpayer and the student do not have a taxpayer identification number or
• The taxpayer’s MAGI exceeds the phaseout limitations for each credit
Qualified Expenses

- Tuition and fees
- Nonacademic fees
- Books (paper & e-books, audio books)
- Supplies & equipment (computers, printers, ink...)

pg. 335
Two Education Credits Available  pg. 335

• American Opportunity Credit (AOTC)
• Lifetime Learning Credit
• Only 1 credit per student may be claimed each year
• First 4 years of higher education
• $2,500 max each year
• Max of 40% each year is refundable ($1,000)
• 100% of first $2,000 + 25% of next $2,000 (of qualified expenses)
• Be pursuing a degree or other recognized education credential
• Be enrolled at least half time for at least one academic period beginning in the tax year
• Not have finished the first four years of higher education at the beginning of the tax year (no Masters or PHD programs)
• Not have claimed the AOTC or the former Hope credit for more than four tax years
• Not have a felony drug conviction before the end of the tax year
Maximum Income Limits (MAGI)  pg. 336

MAGI must be less than:

$160,000 or less (MFJ) - $180,000 phased-out
$80,000 or less (all others) - $90,000 phased-out

Not indexed for inflation
• Not limited to first 4 years
• Includes taxpayer, spouse and dependents
• 20% of adjusted qualified education expenses up to $10,000 (per return)
• Max $2,000 (20% X $10,000)
• Lower MAGI phase-out
• Phase-out starts at $116,000 (MFJ) & $58,000 (all others)
• Totally phased-out at $136,000 (MFJ) & $68,000 (all others)
Issue #4  Taxation of Children’s Income  pg. 338

- 2019 Standard deduction $12,200
- Filing threshold for unearned income $1,100
Child Filing Requirements

1. The child had only unearned income and the unearned income was over $1,100;
2. The child had only earned income and the earned income was over $12,200; or
3. The child had both earned and unearned income and gross income was more than the greater of a. $1,100, or
4. Earned income (up to $12,200) plus $350
Example 8.23

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enter dependent’s earned income plus $350</td>
<td>$ 3,100</td>
</tr>
<tr>
<td>2</td>
<td>Minimum amount for 2019</td>
<td>$ 1,100</td>
</tr>
<tr>
<td>3</td>
<td>Compare lines 1 and 2. Enter the <em>larger</em> amount</td>
<td>$ 3,100</td>
</tr>
<tr>
<td>4</td>
<td>Maximum amount for 2019</td>
<td>$12,200</td>
</tr>
<tr>
<td>5</td>
<td>Compare lines 3 and 4. Enter the <em>smaller</em> amount</td>
<td>$ 3,100</td>
</tr>
<tr>
<td>6</td>
<td>Enter the dependent’s gross income. If line 6 is <em>more than</em> line 5, the dependent must file an income tax return</td>
<td>$ 2,950</td>
</tr>
</tbody>
</table>
• Child is responsible
• Paying the tax
• Any penalties and interest
• Unless the child is unable to file
• Parent or guardian
• May also be libel for the tax, penalties and interest
• Same rules apply for signing the return
• “By (signature) parent or guardian for minor child”
Ordinary and capital gains rates for Trusts and Estates
Effective for tax years 2018 – 2025
Parents income does not effect child
Taxable interest
Ordinary dividends
Capital gains
Rents, royalties, SS benefits, pension and annuity, taxable scholarships and fellowship grants (not on a W-2) alimony, trust income....
1. The child has unearned income over $2,200 (in 2019).
2. The child meets one of the following age requirements:
   a. The child is under age 18 at the end of the year.
   b. The child is 18 at the end of the year and does not have earned income that is more than one-half of his or her support.
   c. The child was a full-time student, is at least age 19 and is under age 24 at the end of the year, and did not have earned income that is more than one-half of his or her support.
3. At least one parent is alive at the end of the year.
4. The child is required to file a tax return for the year.
5. The child does not file a joint tax return
Parent Election

- Form 8814
- Report child’s interest and dividends
- Seven requirements must be met
## Child Unearned Income Tax Rates

### Ordinary Income Rates

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0–$2,600</td>
<td>10%</td>
</tr>
<tr>
<td>$2,601–$9,300</td>
<td>24%</td>
</tr>
<tr>
<td>$9,301–$12,750</td>
<td>35%</td>
</tr>
<tr>
<td>$12,751 and above</td>
<td>37% (also potentially NIIT of 3.8%)</td>
</tr>
</tbody>
</table>

### Capital Gains Rate

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0–$2,650</td>
<td>0%</td>
</tr>
<tr>
<td>$2,651–$12,950</td>
<td>15%</td>
</tr>
<tr>
<td>$12,951 and above</td>
<td>20% (also potentially NIIT of 3.8%)</td>
</tr>
</tbody>
</table>
Example 8.24 (unearned income only)  pg. 341

• Jason 10 yrs. Old in 2019 (no election by parents on their return)
• $10,000 interest income
• NUI - $7,800 ($10,000 - $2,200)
• TI $8,900 ($10,000 - $1,100)
• ETI $1,100 ($8,900 - $7,800)
• ETI + $2,600 (upper limit of 10% trust rate) is tax at 10%
• $370 ($1,100 + $2,600 = $3,700) X 10%
• Remaining $5,200 is tax @ 24% = $1,248 ($8,900 - $3,700)
• Total tax is $1,618 ($370 + $1,248)
• Slightly more complicated
• Separate earned income from unearned income to apply different tax rates
• $5,000 W-2 & $6,600 interest
• Gross income is $11,600 (exceeds $11,000 threshold to include on parents return)
• Standard deduction of $5,350 (for a dependent)
• Taxable income $6,250
• Tax $877
### Part I: Net Unearned Income

<table>
<thead>
<tr>
<th></th>
<th>Net Unearned Income</th>
<th>1</th>
<th>6,600</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enter your unearned income (see instructions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>If you <strong>did not</strong> itemize deductions on <strong>Schedule A</strong> (Form 1040 or Form 1040NR), enter $2,100. Otherwise, see instructions. ($2,200 for 2019)</td>
<td>2</td>
<td>2,200</td>
</tr>
<tr>
<td>3</td>
<td>Subtract line 2 from line 1. If zero or less, <strong>stop</strong>; do not complete the rest of this form but <strong>do</strong> attach it to your return.</td>
<td>3</td>
<td>4,400</td>
</tr>
<tr>
<td>4</td>
<td>Enter your <strong>taxable income</strong> from Form 1040, line 10, or Form 1040NR, line 41. If you file Form 2555 or 2555-EZ, see the instructions.</td>
<td>4</td>
<td>6,250</td>
</tr>
<tr>
<td>5</td>
<td>Enter the <strong>smaller</strong> of line 3 or line 4. If zero, <strong>stop</strong>; do not complete the rest of this form but <strong>do</strong> attach it to your return.</td>
<td>5</td>
<td>4,400</td>
</tr>
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<tr>
<td>Part II Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Subtract line 5 from line 4</td>
<td>6  1,850</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7  Enter the tax on the amount on line 4 (see instructions). If the Qualified Dividends and Capital Gain Tax Worksheet, Schedule D Tax Worksheet, or Schedule J (Form 1040) is used to figure the tax, check here. If applicable, include this amount on your Form 1040, line 11, or Form 1040NR, line 42 (see instructions). If you file Form 2555 or 2555-EZ, see the instructions</td>
<td>7  877</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
• Convert ordinary income to capital gains or dividends to ensure that the child has up to $2,650 (for 2019) capital gains and can take advantage of the zero percent rate.

• Try to defer recognition of unearned income until the child is no longer subject to the kiddie tax.

• Contribute to a section 529 plan instead of making income earning gifts to the child for tuition.

• Adjust the child’s investment portfolio so it has growth investments instead of income producing assets or investments that increase the child’s unearned income.
• Employ the child in the family business so that child provides more than one-half of his or her own support (and can use or save the money for school tuition)

• Allow the child to claim education credits (particularly if the parents’ income is above the threshold for the credits)
The End

Questions ????????????????