
Certified Public Accountants

Tax Benefits of a Working Child

When school lets out, many students look to take a summer job. There are numerous obvious benefits to this, such as increased independence, financial responsibility and assistance with the age-old problem of having nothing to do. However, there are also additional considerations to keep in mind.

General rules for a working student:

- Many students will work at jobs in which they will receive tips. Tip income is taxable. You must keep a daily log so that you can report them. All cash tips of \$20 or more in one month must be reported to your employer and all yearly tips must be reported on your tax return.
- If you do work such as lawn mowing, construction, or the like, you may not receive a W-2. You may or may not receive a 1099. This income is nonetheless taxable. Keep good records of any expenses that you incur, as these might offset some of your income. This income is subject to self-employment tax, so it is a good idea to make estimated tax payments to ensure that you are not surprised come tax filing time.
- If you're in ROTC, your active duty pay, such as pay you get for summer camp is taxable. A subsistence allowance you get while in advanced training is not taxable.
- If you do not earn enough money from your summer and/or part-time job to be required to file a tax return, you may want to file anyway in order to claim a refund if you had any withholding taken out of your paycheck.

Students working for their parents:

- If the student is under age 18, the earnings are not subject to social security and medicare taxes if the payments are made from a sole proprietorship or partnership in which each partner is the parent of the student. Earnings from a corporation or a partnership in which all partners are not the parents of the child are subject to social security and medicare taxes.
- If the student is under age 21, the payments are also not subject to FUTA tax.
- All earnings are subject to income tax withholding.
- Earnings must be for legitimate work performed by the student. The rate of pay must be reasonable, meaning the rate that you would pay someone who is not your child to do the same or similar work.

The really good news:

You can make a Roth IRA contribution on behalf of your working child or grandchild. The amount of the contribution is up to \$5,500 or the amount the child earns, whichever is less. That Roth contribution has a life-time of growth and the withdrawals may not be taxable when the child retires.

It's not too late to take advantage of the opportunities outlined above and your child will probably enjoy the new experiences and broadened horizons. If you would like to discuss this or any of your tax concerns, do not hesitate to contact our office at (775) 882-3201.