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prepare his daughter's tax return, but was coming up with a huge tax bill. Why?

Eva Rosenberg • Feb. 23, 2014

A couple of years ago, a reader told me that he was very perplexed. He was trying to prepare his daughter's tax return, but was coming up with a huge tax bill. Why?

His dependent daughter had won about \$19,000 worth of money and prizes in a beauty contest. The software was taxing her winnings at his highest tax rate. Huh?

Well, as you know, since this is not dividend or interest, this kind of income must be reported on the child's own tax return. Along with her return, you must file [Form 8615](#) to pay tax on all unearned income. This form doesn't apply if the child just was wages or self-employment income.

Normally, you or I might think of unearned income as investment income. The question is, what does the IRS think is unearned income? Read the [instructions to Form 8615](#). (Do you have smelling salts handy?)

"For Form 8615, "unearned income" includes all taxable income other than earned income as defined later. (bullets and highlights are mine):

Unearned income includes *(stuff we always knew about)*

- taxable interest,
- ordinary dividends,
- capital gains (including capital gain distributions),
- rents, royalties, etc.

It also includes *(and here's where we go into shock!)*

- taxable social security benefits,

- pension and annuity income,

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tax rate? I hope your software has known it all these years. If not, are you going to look back at the last three years and amend? Or wait for the IRS to catch what is, obviously, an innocent error?

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Income Tax

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