

How to Avoid the Kiddie Tax

The Education Worksheet may show that there is taxable scholarship income for the student. This is because any amount of scholarships and grants that exceeds the amount of qualified education expenses is considered taxable to the student.

Taxable scholarship income is always reported on the tax return of the student, even if a parent or guardian is claiming the credit for a dependent student.

► **If the student is a dependent**, taxable scholarships or grants above \$2,500 (in 2023) make the tax return of the student **OUT OF SCOPE** for the Tax Help Program. (These amounts are \$2,300 for 2022 and \$2,200 for 2021 and 2020.)

Review [When Is Scholarship Income Out of Scope](#) for information about the Kiddie Tax and when it applies.

You may be able to use the Education Worksheet to limit the amount of scholarships/grants transferred to taxable income. This may be advantageous if you wish to avoid triggering the Kiddie Tax, although it will have a negative impact on the education credit value.

How to Avoid the Kiddie Tax for Dependent Students:

To **limit the amount of scholarship/grant to transfer to income** once you have entered all amounts and information on the education credit worksheet, navigate to the bottom section of the worksheet.

Take Note: You may not be able to use this method in cases where the scholarship/grant amounts in **Box 5** of **Form 1098-T** exceed **Box 1** amounts by the maximum credit amounts.

1. Make sure that you have entered all expenses and scholarship/grants information in the Worksheet. Verify that the amount of taxable scholarship/grant income is more than \$2500 (for 2023).
2. To limit the amount of scholarship/grant transferred to income, navigate to the **Outcome & Next Steps** section of the Education Worksheet.
3. Tick the checkbox to limit Kiddie Tax amounts and enter an amount that limits the scholarship income to \$2,500 for tax year 2023 | \$2,300 for tax year 2022 | \$2,200 for tax years 2021 and 2020.
4. Check the Education Worksheet calculations to be sure that you have limited transfer to the desired amount.

Remember: You may not be able to limit scholarship/grant transfer to less than \$2500 in cases where the scholarship/grant amounts in **Box 5** of **Form 1098-T** exceed **Box 1** amounts by the maximum credit amounts.