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**TO: Our Clients and Their Advisors**

**RE: Tax Planning for the "Kiddie Tax" Law Changes**

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There have been recent changes in the tax laws which govern the imposition of the "Kiddie Tax" in 2007 and 2008. These rules generally provide that the net non-wage income of a child in excess of an inflation adjusted threshold will be subject to the top marginal income tax bracket of the parents. The changes beginning in 2008 potentially restrict the ability of a child until age 24 to take advantage of a lower income tax bracket available for long term capital gains and qualified dividends received from securities transferred by a parent. These changes affect a child's ability to qualify for the 5% tax bracket in 2007 and the 0% tax bracket in 2008 for long term capital gains and qualified dividends.

**2007 Rules** - The Kiddie Tax rules are applicable for all net non-wage income received by a child under 18 years of age as of 12/31/07 in excess of $1,700. For those children with taxable income of less than $31,850 who do not fit within this definition, long term capital gains and qualified dividends will be taxed at 5%.

**2008 Rules** - The Kiddie Tax rules are applicable for all net non-wage income in excess of $1,800 (estimated inflation adjusted threshold) received by a child under 19 as of 12/31/08 or by a child between the ages of 19 - 23 who is a full time student and whose earned income from wages for the year does not exceed one-half of his or her "support". For those children with taxable income of less than $33,000 (estimated inflation adjustment), who do not fit within these definitions, long term capital gains and qualified dividends will be taxed at 0%.

## Strategies

- Gift and/or sell securities in the year that the child will not be subject to the Kiddie Tax. A child may not be subject to the Kiddie Tax in 2007 but may be subject in 2008.

- Gifts to 529 college savings plans. While after-tax dollars are used to fund the plan, the money is distributed income tax free for college purposes.

- Invest the assets of children in growth oriented securities and mutual funds or tax free municipal bond investments.

Our office is available to assist you or your clients in exploring these and other sophisticated gift and estate tax planning opportunities including family limited partnerships, qualified personal residence trusts and charitable scenarios which will assist in the preservation of wealth for future generations. Our other areas of specialization include real estate, tax dispute resolution, tax planning, business and employment law representation and retirement planning issues.