2026 NATIONAL INCOME TAX WORKBOOK

Chapter 3: Payroll and Estimated Tax

Land Grant University
Tax Education Foundation

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Major Topics P 89

Payroll Withholding	Tax Deposits	Payroll Reporting
Payroll Penalties	Estimated Tax	Estimated Tax Penalties

11/1/2026

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LEARNING OBJECTIVES P 89

- ✓ Use the new Form W-4 to determine employee's income tax withholding
- ✓ Calculate employment taxes
- ✓ Know when to deposit taxes
- ✓ Know how to complete payroll reports
- ✓ Understand the new reporting requirements for qualified tips and overtime
- ✓ Know when a taxpayer must pay estimated tax
- ✓ Calculate the amount of estimated tax
- ✓ Understand the penalty for failure to pay or timely pay estimated tax

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PAYROLL WITHHOLDING

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Employer Obligations

Employers that pay wages must **withhold**:

- Federal and state income tax (in states with an income tax)
- Social Security tax
- Medicare tax

Employer must also **pay**:

- Employer's share of Social Security tax
- Employer's share of Medicare tax
- State unemployment tax
- Federal unemployment tax (FUTA)

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Income Tax Withholding

Form W-4

2026: Form W-4 substantially revised to incorporate changes made by the OBBBA

Because of these changes, employers should encourage employees to check the accuracy of their withholding

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Employee's Form W-4

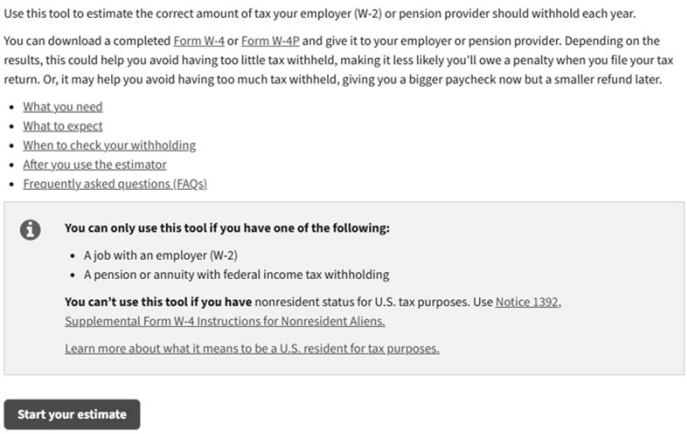
- **Step 1**: Filing Status
- **Step 2**: Multiple jobs or spouse also works (MFJ)
- **Step 3**: Expected credits for children, dependents, and other credits
- **Step 4(a)**: Other income (interest, dividends, retirement)
- **Step 4(b)**: Deductions
- **Step 4(c)**: Voluntary extra withholding
- **Below 4(c)**: Check box to claim **exemption from withholding**

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Practitioner Note: Tax Withholding Estimator

- www.irs.gov/W4App



Use this tool to estimate the correct amount of tax your employer (W-2) or pension provider should withhold each year.

You can download a completed Form W-4 or Form W-4P and give it to your employer or pension provider. Depending on the results, this could help you avoid having too little tax withheld, making it less likely you'll owe a penalty when you file your tax return. Or, it may help you avoid having too much tax withheld, giving you a bigger paycheck now but a smaller refund later.

- What you need
- What to expect
- When to check your withholding
- After you use the estimator
- Frequently asked questions (FAQs)

You can only use this tool if you have one of the following:

- A job with an employer (W-2)
- A pension or annuity with federal income tax withholding

You can't use this tool if you have nonresident status for U.S. tax purposes. Use Notice 1392, Supplemental Form W-4 Instructions for Nonresident Aliens.

Learn more about what it means to be a U.S. resident for tax purposes.

Start your estimate

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New Deductions

New deductions available beginning in 2025:

- Qualified Tips
- Qualified overtime compensation
- Qualified passenger vehicle loan interest
- Senior deduction

Eligible taxpayers should complete a **new Form W-4** to reduce their withholding

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W-4 & The New Deductions

W-4 Step 4(b)

Qualified TIP: Claimed on **Line 1a** of the Deductions Worksheet

Qualified OT: Claimed on Line 1b of the Deductions Worksheet

Qualified Vehicle Loan Interest: Claimed on Line 1c of the Deductions Worksheet

Enhanced Senior Deduction: Claimed on Line 3(a) & Report spouse's deduction on Line 3(b) of the Deductions Worksheet

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Example 3.1: Calculating Employee Withholding

- Manish works for Evergreen Power Company
- Received $15,000 Qualified OT in 2025; expects similar amount in 2026
- Plans to purchase a car in 2026 (expects QPVLI deduction)
- Filed a new 2026 Form W-4
- Evergreen uses a monthly payroll period
- Manish's taxable wages are $84,000/year ($7,000/month)

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Example 3.1: Calculating Employee Withholding

Form W-4 (2026) Page 4

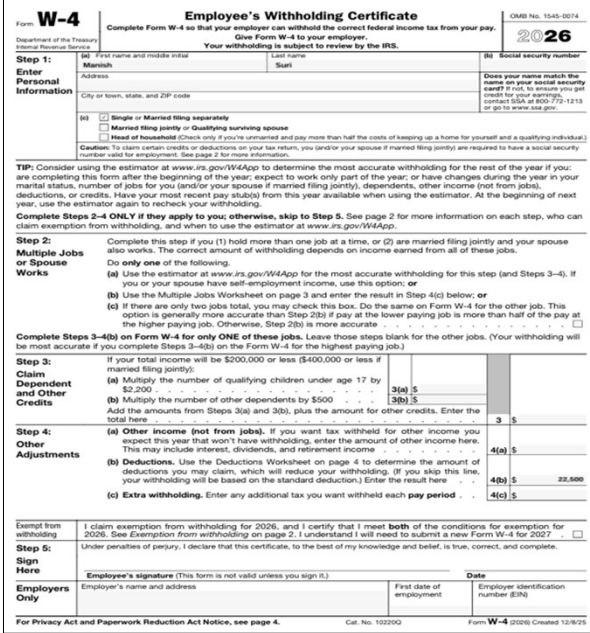
Step 4(b)—Deductions Worksheet *(Keep for your records.)*

See the Instructions for Schedule 1-A (Form 1040) for more information about whether you qualify for the deductions on lines 1a, 1b, 1c, 3a, and 3b.

1	Deductions for qualified tips, overtime compensation, and passenger vehicle loan interest.		
	a **Qualified tips.** If your total income is less than $150,000 ($300,000 if married filing jointly), enter an estimate of your qualified tips up to $25,000	1a	$
	b **Qualified overtime compensation.** If your total income is less than $150,000 ($300,000 if married filing jointly), enter an estimate of your qualified overtime compensation up to $12,500 ($25,000 if married filing jointly) of the "and-a-half" portion of time-and-a-half compensation	1b	$ 12,500
	c **Qualified passenger vehicle loan interest.** If your total income is less than $100,000 ($200,000 if married filing jointly), enter an estimate of your qualified passenger vehicle loan interest up to $10,000	1c	$ 10,000
2	Add lines 1a, 1b, and 1c. Enter the result here	2	$ 22,500
3	**Seniors age 65 or older.** If your total income is less than $75,000 ($150,000 if married filing jointly):		
	a Enter $6,000 if you are age 65 or older before the end of the year	3a	$
	b Enter $6,000 if your spouse is age 65 or older before the end of the year and has a social security number valid for employment	3b	$
4	Add lines 3a and 3b. Enter the result here	4	$
5	Enter an estimate of your student loan interest, deductible IRA contributions, educator expenses, alimony paid, and certain other adjustments from Schedule 1 (Form 1040), Part II. See Pub. 505 for more information	5	$
6	**Itemized deductions.** Enter an estimate of your 2026 itemized deductions from Schedule A (Form 1040). Such deductions may include qualifying:		
	a **Medical and dental expenses.** Enter expenses in excess of 7.5% (0.075) of your total income	6a	$
	b **State and local taxes.** If your total income is less than $505,000 ($252,500 if married filing separately), enter state and local taxes paid up to $40,400 ($20,200 if married filing separately)	6b	$
	c **Home mortgage interest.** If your home acquisition debt is less than $750,000 ($375,000 if married filing separately), enter your home mortgage interest expense (including mortgage insurance premiums)	6c	$
	d **Gifts to charities.** Enter contributions in excess of 0.5% (0.005) of your total income	6d	$
	e **Other itemized deductions.** Enter the amount for other itemized deductions	6e	$
7	Add lines 6a, 6b, 6c, 6d, and 6e. Enter the result here	7	$
8	**Limitation on itemized deductions.**		
	a Enter your total income	8a	$
	b Subtract line 4 from line 8a. If line 4 is greater than line 8a, enter -0- here and on line 10. Skip line 9	8b	$
9	Enter: • $768,700 if you're married filing jointly or a qualifying surviving spouse • $640,600 if you're single or head of household • $384,350 if you're married filing separately	9	$
10	If line 9 is greater than line 8b, enter the amount from line 7. Otherwise, multiply line 7 by 94% (0.94) and enter the result here	10	$
11	**Standard deduction.** Enter: • $32,200 if you're married filing jointly or a qualifying surviving spouse • $24,150 if you're head of household • $16,100 if you're single or married filing separately	11	$ 16,100
12	**Cash gifts to charities.** If you take the standard deduction, enter cash contributions up to $1,000 ($2,000 if married filing jointly)	12	$
13	Add lines 11 and 12. Enter the result here	13	$ 16,100
14	If line 10 is greater than line 13, subtract line 11 from line 10 and enter the result here. If line 13 is greater than line 10, enter the amount from line 12	14	$
15	Add lines 2, 4, 5, and 14. Enter the result here and in Step 4(b) of Form W-4	15	$ 22,500

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Form **W-4** — Employee's Withholding Certificate

Department of the Treasury, Internal Revenue Service

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Give Form W-4 to your employer. Your withholding is subject to review by the IRS.

OMB No. 1545-0074

2026

Step 1: Enter Personal Information

(a) First name and middle initial: Manish — Last name: Suri — (b) Social security number

Address

City or town, state, and ZIP code

Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☑ Single or Married filing separately
☐ Married filing jointly or Qualifying surviving spouse
☐ Head of household (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Caution: To claim certain credits or deductions on your tax return, you (and/or your spouse if married filing jointly) are required to have a social security number valid for employment. See page 2 for more information.

TIP: Consider using the estimator at *www.irs.gov/W4App* to determine the most accurate withholding for the rest of the year if you: are completing this form after the beginning of the year; expect to work only part of the year; or have changes during the year in your marital status, number of jobs for you (and/or your spouse if married filing jointly), dependents, other income (not from jobs), deductions, or credits. Have your most recent pay stub(s) from this year available when using the estimator. At the beginning of next year, use the estimator again to recheck your withholding.

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, and when to use the estimator at *www.irs.gov/W4App*.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Use the estimator at *www.irs.gov/W4App* for the most accurate withholding for this step (and Steps 3–4). If you or your spouse have self-employment income, use this option; **or**

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is generally more accurate than Step 2(b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, Step 2(b) is more accurate ☐

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependent and Other Credits

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

(a) Multiply the number of qualifying children under age 17 by $2,200 — 3(a) $

(b) Multiply the number of other dependents by $500 — 3(b) $

Add the amounts from Steps 3(a) and 3(b), plus the amount for other credits. Enter the total here — 3 $

Step 4: Other Adjustments

(a) **Other income (not from jobs).** If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income — 4(a) $

(b) **Deductions.** Use the Deductions Worksheet on page 4 to determine the amount of deductions you may claim, which will reduce your withholding. (If you skip this line, your withholding will be based on the standard deduction.) Enter the result here — 4(b) $ 22,500

(c) **Extra withholding.** Enter any additional tax you want withheld each **pay period** — 4(c) $

Exempt from withholding: I claim exemption from withholding for 2026, and I certify that I meet **both** of the conditions for exemption for 2026. See *Exemption from withholding* on page 2. I understand I will need to submit a new Form W-4 for 2027 ☐

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) — **Date**

Employers Only

Employer's name and address — First date of employment — Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 4. Cat. No. 10220Q Form **W-4** (2026) Created 12/8/25

Example 3.1: Calculating Employee Withholding

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Example 3.1: Calculating Employee Withholding

Result:

- Evergreen subtracts $1,875/month ($22,500 ÷ 12) from Manish's monthly wages
- Calculates monthly withholding using Wage Bracket Method Table

What is the REALITY of this SITUATION????

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Social Security and Medicare Tax

- Social Security Tax
  - **12.4%** (6.2% employee/6.2% employer)
  - **Wage Base**: $184,500
    - A taxpayer with multiple employers whose combined wages exceed wage base may claim **excess** withheld Social Security tax as an **income tax credit or refund**; the employer is not entitled to a refund of its share
- Medicare Tax
  - **2.9%** (1.45% employee/1.45% employer)
  - **No wage base limit**

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Cross Reference: Religious Exemption

I.R.C. § 1402(g)

- Members of a recognized religious sects or divisions who are opposed to public insurance
- **May elect out of SS & Medicare taxes on earnings from ministerial services ONLY**
- *See* page 69 in the *2025 National Income Tax Workbook*

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Additional Medicare Tax

- Applies to Medicare wages, self-employment income, and railroad retirement compensation **exceeding**: $250,000 (MFJ), $125,000 (MFS), or $200,000 (all other taxpayers)
- Employers must withhold the **additional 0.9%** once an employee's wages **exceed $200,000** in a calendar year, regardless of filing status
- Additional Medicare tax imposed on **employees only** – not employer share

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Successor Employer

Wages paid by **predecessor employer** may be treated as if paid by **successor employer** for purposes of Social Security wage base and additional Medicare tax threshold

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Successor Employer: 3 Tests Must be Met

- Successor acquired substantially property of the predecessor's trade or business during the calendar year;
- The employee worked for the predecessor immediately before the acquisition and for the successor immediately after; and
- The predecessor's wages were paid during the calendar year of acquisition and prior to the acquisition

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Example 3.2: Successor Employer Wages Included

- Jared purchased all assets of *In Sink Plumbing* February 2026
- Former employee Jaycee earned $8,000 from In Sink before the sale, then $220,000 from Jared after – qualifying Jared as the successor employer
- Social Security tax applies to the $8,000 paid by In Sink plus the first $176,500 paid by Jared
- All wages subject to Medicare tax
- Jared includes the $8,000 paid by In Sink when determining federal unemployment tax and the additional Medicare tax

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SUCCESSOR EMPLOYER: COMPLETING THE SS-4

Purchased going business. Check this box if you purchased an existing business. Don't use the former owner's EIN unless you became the "owner" of a corporation by acquiring its stock.



Form **SS-4** (Rev. December 2025) Department of the Treasury Internal Revenue Service

Application for Employer Identification Number
(For use by employers, corporations, partnerships, trusts, estates, churches, government agencies, Indian tribal entities, certain individuals, and others.)
See separate instructions for each line. Keep a copy for your records.
Go to www.irs.gov/FormSS4 for instructions and the latest information.

OMB No. 1545-0003

EIN

Type or print clearly.

1 Legal name of entity (or individual) for whom the EIN is being requested
2 Trade name of business (if different from name on line 1)
3 Executor, administrator, trustee, "care of" name
4a Mailing address (room, apt., suite no. and street, or P.O. box)
5a Street address (if different) (Don't enter a P.O. box.)
4b City, state, and ZIP code (if foreign, see instructions)
5b City, state, and ZIP code (if foreign, see instructions)
6 County and state where principal business is located
7a Name of responsible party
7b SSN, ITIN, or EIN
8a Is this application for a limited liability company (LLC) (or a foreign equivalent)? ☐ Yes ☐ No
8b If 8a is "Yes," enter the number of LLC members
8c If 8a is "Yes," was the LLC organized in the United States? ☐ Yes ☐ No
9a Type of entity (check only one box). Caution: If 8a is "Yes," see the instructions for the correct box to check.
☐ Sole proprietor (SSN)
☐ Partnership
☐ Corporation (enter form number to be filed)
☐ Personal service corporation
☐ Church or church-controlled organization
☐ Other nonprofit organization (specify)
☐ Other (specify)
☐ Estate (SSN of decedent)
☐ Plan administrator (TIN)
☐ Trust (TIN of grantor)
☐ Military/National Guard
☐ Farmers' cooperative
☐ REMIC
☐ State/local government
☐ Federal government
☐ Indian tribal governments/enterprises
Group Exemption Number (GEN) if any
9b If a corporation, name the state or foreign country (if applicable) where incorporated — State — Foreign country
10 Reason for applying (check only one box)
☐ Started new business (specify type)
☐ Banking purpose (specify purpose)
☐ Changed type of organization (specify new type)
☐ Purchased going business
☐ Hired employees (Check the box and see line 13.)
☐ Created a trust (specify type)
☐ Compliance with IRS withholding regulations
☐ Created a pension plan (specify type)
☐ Other (specify)
11 Date business started or acquired (month, day, year). See instructions.
12 Closing month of accounting year
13 Highest number of employees expected in the next 12 months (enter -0- if none). If no employees expected, skip line 14.
Agricultural | Household | Other
14 If you expect your employment tax liability to be $1,000 or less in a full calendar year and want to file Form 944 annually instead of Forms 941 quarterly, check here. (Your employment tax liability will generally be $1,000 or less if you expect to pay $5,000 or less, $6,536 or less if you're in a U.S. territory, in total wages.) If you don't check this box, you must file Form 941 for every quarter
15 First date wages or annuities were paid (month, day, year). Note: If applicant is a withholding agent, enter date income will first be paid to nonresident alien (month, day, year)
16 Check one box that best describes the principal activity of your business.
☐ Construction ☐ Rental & leasing ☐ Transportation & warehousing ☐ Health care & social assistance ☐ Accommodation & food service ☐ Wholesale—agent/broker ☐ Wholesale—other ☐ Retail ☐ Real estate ☐ Manufacturing ☐ Finance & insurance ☐ Other (specify)
17 Indicate principal line of merchandise sold, specific construction work done, products produced, or services provided.
18 Has the applicant entity shown on line 1 ever applied for and received an EIN? ☐ Yes ☐ No
If "Yes," write previous EIN here

Third Party Designee — Complete this section **only** if you want to authorize the named individual to receive the entity's EIN and answer questions about the completion of this form.
Designee's name — Designee's telephone number (include area code)
Address and ZIP code — Designee's fax number (include area code)

Under penalties of perjury, I declare that I have examined this application, and to the best of my knowledge and belief, it is true, correct, and complete. — Applicant's telephone number (include area code)
Name and title (type or print clearly) — Applicant's fax number (include area code)
Signature — Date

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 16055N — Form **SS-4** (Rev. 12-2025) Created 10/17/25

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Federal Unemployment Tax

Non-Farm, Non-Household employee with wages of **$1,500 or more** in any calendar quarter in 2025 or 2026

If the employer had **one or more employees** for at least part of a day in any **20 or more different weeks** in 2025 or 2026

FUTA – Tax Rate

- Only employers pay FUTA and state unemployment taxes
- **FUTA Rate**: 6% on the **first $7,000** of wages paid to each employee

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FUTA Tax: State Credit

Credit of up to 5.4% against FUTA tax for amounts paid into state unemployment funds if:

- FUTA rate effectively reduced to **0.6%**
- Employer paid state unemployment taxes in full, on time, and on all wages subject to FUTA tax
- **State is not a credit reduction state**

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Practitioner Note: Credit Reduction State

A credit reduction state is one that has borrowed from the federal government to meet unemployment benefit obligations and has not repaid the loans within the allowable time frame

Employers in credit reduction states receive a reduced credit against the full 6% FUTA rate, resulting in a higher effective FUTA tax liability

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Depositing and Reporting FUTA Tax

FUTA Tax Liability ≤ $500: Employer may carry it forward to the next quarter

FUTA Tax Liability > $500: (includes any carryforward) Employer must deposit tax via EFT by the last day of the first month following the end of the quarter

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Depositing and Reporting FUTA Tax

Employers report FUTA tax on **Form 940** (Employer's Annual Federal Unemployment Tax Return), due by **January 31** for the prior year

If all FUTA tax was deposited on time, the Form 940 filing deadline is extended to **February 10**

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Taxation of Sick Pay and Fringe Benefits

Sick pay = payment (under a plan) for an employee temporarily absent due to injury, disability, or sickness

DOES NOT include:

- disability retirement payments
- workers' compensation
- work related injury payments to public employees
- medical expense payments
- payments for permanent bodily loss or disfigurement

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Practitioner Note: Third Party Payer

Sick pay **paid by the employer** or its agent is subject to **mandatory** federal income tax withholding

Sick pay **paid by a third party** that is **not** the employer's agent is **not** subject to mandatory withholding

Employee may **elect** voluntary federal withholding from third-party sick pay by submitting **Form W-4S** (Request for Federal Income Tax Withholding From Sick Pay) **to the third party**

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Payments after Employee's Death

Sick pay paid to employee's estate or survivor after the calendar year of the employee's death is **not subject** to federal withholding, FICA, or FUTA taxes

Example 3.5:

- Sandra's last day of work was Nov. 17, 2025
- Sandra paid sick leave and died on Dec. 31, 2025
- Jan. 2, 2026: Sandra's employer paid Sandra's sick pay for period of Dec. 24 – Dec. 31 (2025)
- Payment **not subject** to federal withholding, FICA or FUTA

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Practitioner Note: Sick Pay Reporting and Deposit Requirements

- Employer-paid sick pay follows the same deposit and reporting rules as regular wages
- Employers file **Forms W-2, 940 and 941 (or Form 944)** under standard rules
- Sick pay may be combined with regular wages on a single W-2 or reported on a separate W-2
- Employer must file and furnish W-2 even if all sick pay is nontaxable
- Sick pay is reported with compensation in **Box 1** of W-2
- Third-party sick pay that is nontaxable is reported in **Box 12 with Code J**

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Accrued Sick Leave

Supplemental wages are all wages paid by an employer that are not regular wages (e.g., accumulated sick leave)

Employers may treat them as regular wage payments for withholding and reporting purposes

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Accrued Sick Leave

Supplemental wages of **$1 million or less** paid separately or separately stated → federal income tax withholding is determined using either the **aggregate method** (combined with regular wages) or the **flat-rate method (22%)**

Regardless of withholding method used, supplemental wages are subject to FICA and FUTA taxes

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Taxable Fringe Benefits

- Personal use of company vehicle
- Personal flights on employer aircraft
- Free or discounted commercial airline flight for personal purposes
- Vacations
- Property/service discounts
- Country club memberships
- Tickets to entertainment or sporting events

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Fringe Benefits

A taxable fringe benefit is included in the income of the person performing the services for which it was provided – even if that person did not actually receive the benefit

Employee must include in gross income the amount by which the **FMV** of the fringe benefit exceeds any amount paid by the employee; such amounts are subject to **withholding and employment** taxes in the same manner as wages

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Cross Reference: Excluded Fringe Benefits

- Qualified tuition reductions
- Meals or lodging furnished for the convenience of the employer
- Dependent care assistance program benefits
- No-additional-cost services
- Qualified employee discounts
- Working condition fringes
- De Minimis fringes

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Fringe Benefits

Employers must determine the value of noncash fringe benefits no later than **January 31** of the following year

Benefits may be treated as paid on a pay period, quarterly, semiannual, annual, or another basis – but no less frequently than annually

- For investment or real property, the actual transfer date must be used

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Taxable Fringe Benefits

For withholding:

- Employers may add fringe benefit value to regular wages and withhold on the total, **or**
- Withhold at the **flat supplemental wage rate**.

Income and FICA taxes must be withheld on the date(s) the benefits are treated as paid

The taxes withheld must be deposited in the same manner as regular wage compensation

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TAX DEPOSITS

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Form 941 Deposit Schedule

- Quarterly if employment taxes reported for either current quarter or prior quarter is less than $2,500
- Monthly if employment taxes reported $ 50,000 of less
- Semi-weekly if employment taxes reported greater than $ 50,000
- Next-day if employment taxes on any day are $100,000

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SEMIWEEKLY DEPOSITS: FIGURE 3.5

Payment Dates	Deposit Date
Wednesday, Thursday and/or Friday	On or before the following Wednesday
Saturday, Sunday, Monday, and/or Tuesday	On or before the following Friday

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Deposit Schedule: Form 941 Filers

2026 Lookback Period

- **Q1**: July 1, 2024 – September 30, 2024
- **Q2**: October 1, 2024 – December 31, 2024
- **Q3**: January 1, 2025 – March 31, 2025
- **Q4**: April 1, 2025 – June 30, 2025

Form 944 filers use the second preceding calendar year as their lookback period

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Deposit Schedule: Form 944 Filers

Total tax liability for the year is **less than $2,500; or**

Employers with annual tax liability of **$2,500 or more** may still deposit taxes with Form 944 if:

- Taxes for Q1-Q3 were already deposited
- Net tax for Q4 **less than $2,500**
- Q4 balance is paid in full with timely filed Form 944

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Practitioner Note: Agricultural Employers

Agricultural employers use **Form 943**

Form 943 required for any year the employer pays **$2,500 or more** for farmwork **or** pays any single employee **$150 or more** in cash wages for agricultural labor

Due Date: January 31 (or February 10 if all taxes were timely deposited)

Lookback Period: Second calendar year preceding the current year

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Example 3.7: Deposit Period Spanning Two Quarters

LBL Company pays employees on Wednesday September 30, 2026 (**Q3**) and on Friday October 2, 2026 (**Q4**)

LBL must make two separate deposits

Both deposits are due on Wednesday October 7, 2026

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Example 3.8: Becoming a Semiweekly Depositor

Elm, Inc. began business May 4, 2026

Classified as a **monthly depositor** (zero lookback liability)

Accumulated $40,000 in tax liability on Wednesday May 6 and an additional $60,000 on Friday May 8

$100,000 accumulated on Friday May 8 → Elm, Inc. must deposit the full $100,000 by next business day (Monday May 11)

Elm, Inc. now a semiweekly depositor for remainder of 2026 and all of 2027

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When to Deposit: Accuracy of Deposits Rule

Penalties will not apply for depositing **less than 100%** of employment taxes due if:

- The shortfall does not exceed the greater of **$100 or 2%** of the required deposit amount; **and**
- The deposit shortfall is paid or deposited by the **shortfall makeup date**

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When to Deposit: Accuracy of Deposits Rule

Shortfall Makeup Date:

- **Monthly Depositors**: must deposit shortfall or pay it with their return by the **due date of the return** for the period in which the shortfall occurred (even if the amount is $2,500 or more)
- **Semiweekly Depositors:** Must deposit shortfall by the earlier of:
  - The first **Wednesday or Friday** on or after the **15th day of the month following** the shortfall; or
  - The **due date of the return** for the applicable period

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Example 3.9: Semiweekly Depositor Shortfall Makeup Date

Pacific Manufacturing (semiweekly depositor) had a shortfall in April 2026

Shortfall Makeup Date → Friday, May 15, 2026

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Example 3.9: Semiweekly Depositor Shortfall Makeup Date

What if:

- Pacific had a pay date on **Friday, June 26, 2026**
- But had a shortfall on **Wednesday July 1, 2026** → the required deposit due date for the previous pay date
- Normally, the shortfall makeup date would fall on **Wednesday, August 19, 2026** (the first Wednesday or Friday on or after the 15th day of the month following the shortfall)
- However, the Form 941 due date for the June 26, 2026, pay date is **July 31, 2026**
- **Pacific must deposit the shortfall on/by July 31 (the earlier of the two dates)**

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When to Deposit: Making Electronic Payments

With limited exceptions, all federal employment tax deposits must be made **via EFTPS** (EFTPS.gov)

Same-day payments of **$1 million or less** must be submitted by **8:00 p.m. EST**

Payments **exceeding $1 million** must be submitted by **8:00 p.m. EST the day before** the deposit due date

EFTPS deposit is missed, the taxpayer may use the **Federal Tax Collection Service (FTCS)** to make a same-day wire payment,

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PAYROLL REPORTING

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Payroll Reporting: Form 944

- Form 944 is for small employers with an annual employment tax liability of **$1,000 or less**
- Employers notified by the IRS must file Form 944, OR
- Employers request filing Form 944 from the IRS
- Employers preferring to file Form 941 may request a change during the **first calendar quarter of tax year**
- **Form 944 Due Date**: January 31
  - Employers who made timely deposits in full payment of all taxes due → **receive an additional 10 days** to file

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Practitioner Note: Household Employers

Household employment taxes must be reported on **Schedule H (Form 1040)**, Household Employment Taxes

If a household employer already files Form 941, 943, or 944 for business employees, it may include household employee taxes on those same returns

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Payroll Reporting: Form 941

Form 941 Due Date: on the last day of month following end of quarter

- **Q1** (Jan-March) → April 30
- **Q2** (April – June) → July 31
- **Q3** (July – Sept.) → October 31
- **Q4** (Oct. – Dec.) → January 31

Timely depositors: full payment of all taxes for the quarter may file by the **10th day of the second month** following the end of the quarter

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EXAMPLE 3.10: PAYROLL REPORTING ON FORM 941

Pages 108–111



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Practitioner Note: Seasonal Employers

Not required to file Form 941 for quarters in which no wages were paid and no tax liability was incurred

Check the **"Seasonal employer" box on Form 941, line 18** on every return filed

Generally, the IRS will not inquire about unfiled quarterly returns as long as at least one return is filed per year

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Payroll Reporting: Fraction of Cents Adjustment

- The employee share of Social Security and Medicare taxes reported on Form 941 (lines 5a–5d, column 2) may differ slightly from amounts actually withheld due to rounding based on statutory rates
- Employers must report any rounding differences on **Form 941, line 7** as a fractions-of-cents adjustment
  - May be a **positive or negative** adjustment

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Payroll Reporting: Adjustments for Tips

If insufficient funds exist to collect all taxes on tips, the employer withholds in the following order:

- All taxes on wages exclusive of tips;
- Social Security, Medicare, and Additional Medicare tax on reported tips;
- Federal, state, and local income taxes on reported tips

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Payroll Reporting: Adjustments for Tips

Uncollected Social Security and Medicare taxes on tips

- Collect by the **10th day of the month following** the month the tips were reported
- If unable to collect by the due date, they don't have to collect

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Payroll Reporting: Adjustments for Tips

Uncollected share of employee's Social Security and Medicare taxes

- Reported as a **negative adjustment on Form 941, line 9 (or Form 944, line 6)**
- Reported on the employee's **Form W-2, Box 12** using **code "A"** for uncollected Social Security tax and **code "B"** for uncollected Medicare tax
- Uncollected Additional Medicare tax **is not** reported on the W-2

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Payroll Reporting: Qualified Tips

OBBBA added I.R.C. § 224

Qualified tips may be reported either on:

- **Employer-furnished statements** (e.g., Form W-2); or
- **Form 4137** (Social Security and Medicare Tax on Unreported Tip Income)

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Qualified Tips: New Information Return Reporting Requirements

Filed Information Returns: Payer must include a **separate accounting of cash tips** and the **occupation** of the recipient

Payments to Nonemployees: Payer must include (on the written statement furnished to payee) the portion of payments **designated as cash tips** and the **occupation** of the payee

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Qualified Tips: New Information Return Reporting Requirements

Payments for Services and Direct Sales:

- **Filed Information Return**: Payer must include a separate accounting of amounts designated as cash tips and occupation of Payee
- **Written Statement to Payee**: Payer must indicate portion of payments designated as cash tips and occupation of Payee

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Qualified Tips: New Information Return Reporting Requirements

Third-party Settlement Organizations (TPSOs):

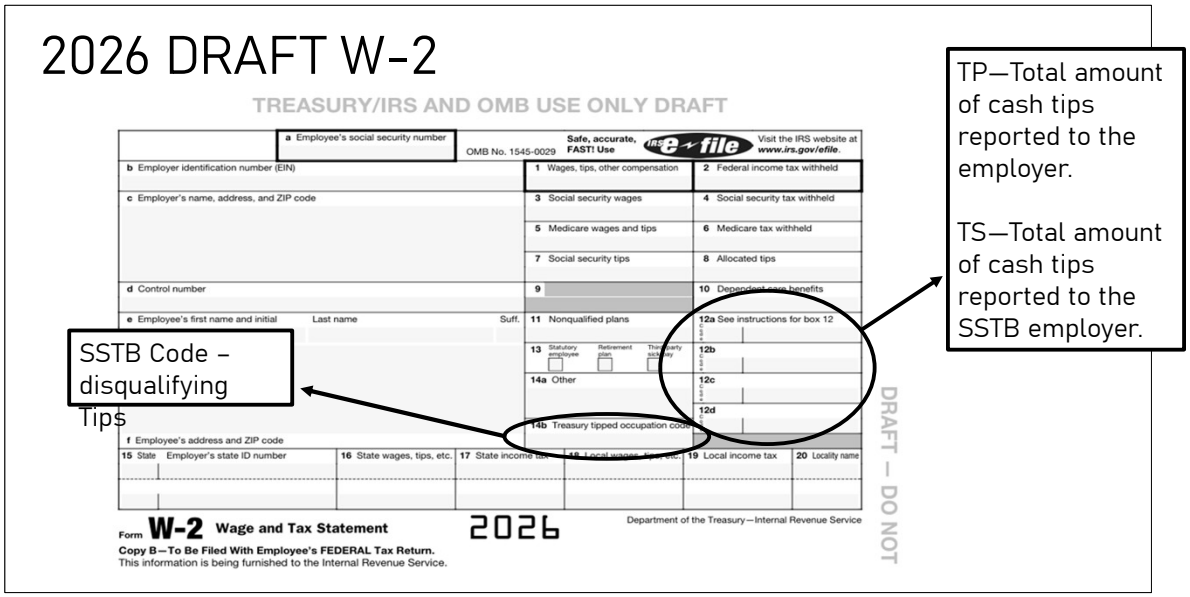
- **Form 1099-K and Written Statements to Payees**: TPSOs must include the portion of reportable payment transactions designated as cash tips and the recipient's occupation

W-2 Furnished to Employee:

- Employers must include the total amount of cash tips reported by the employee and the occupation of the employee

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2026 DRAFT W-2



TP—Total amount of cash tips reported to the employer.

TS—Total amount of cash tips reported to the SSTB employer.

SSTB Code – disqualifying Tips

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Payroll Reporting: Reporting Occupations

FIGURE 3.11
Occupations that Customarily Received Tips

Treasury Tipped Occupation Code (TTOC)	TTOC occupation title	TTOC occupation description	TTOC illustrative examples	Related Standard Occupational Classification (SOC) system code(s)[1]
		Beverage and Food Service		
101	Bartenders	Mix and serve drinks to patrons, directly or through waitstaff.	Barkeep, mixologist, taproom attendant, sommelier	35-3011
102	Wait Staff	Take orders and serve food and beverages to patrons at tables in dining establishment.	Cocktail waitress, dining car server	35-3031
103	Food Servers, Non-restaurant	Serve food to individuals outside of a restaurant environment, such as in hotel rooms, residential care facilities, or cars.	Room service food server, boat hop, beer cart server	35-3041
104	Dining Room and Cafeteria Attendants and	Facilitate food service; clean tables; remove dirty dishes; set tables; replenish supply of clean	Bar back, bar helper, busser	35-9011

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Payroll Reporting: Qualified Overtime

Qualified Overtime: The compensation required under the Fair Labor Standards Act (FLSA) § 7

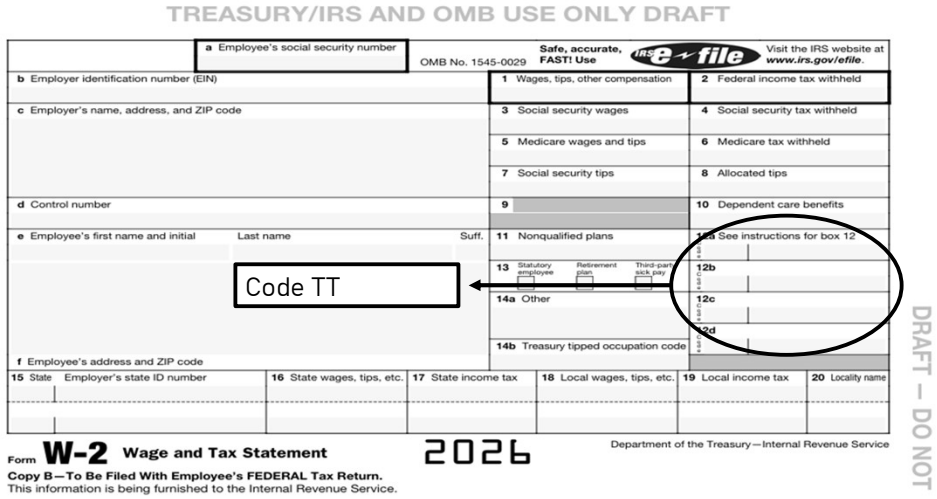
Only the "half" portion of time-and-a-half pay is reported with code TT

Overtime compensation remains subject to federal income tax withholding and both shares of FICA taxes

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Payroll Reporting: Qualified Overtime



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Example 3.12: Reporting Qualified OT

- Starla earns **$26/hour**
- Week of March 16, 2026, Starla worked 52 hours earning **$39/hour** (time-and-a-half) for the 12 hours exceeding 40
- Only the **excess half** ($13/hour x 12 hours = **$156**) constitutes qualified overtime compensation
- The employer reports the **$156** on **Form W-2, box 12, code TT**

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Practitioner Note: Matching Annual and Quarterly Reports

Amounts reported on Forms W-2/W-3 and Forms 941/944 may not always match

- **Example**: When Additional Medicare Tax was withheld, the Medicare tax on Form 941 (line 5c) or Form 944 (line 4c) will not equal twice the Medicare tax withheld reported in Form W-2, box 6

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Practitioner Note: Matching Annual and Quarterly Reports

The IRS uses data analytics to compare payroll filings with other tax returns to identify discrepancies

Employers should maintain a **reconciliation** to explain any discrepancy to the IRS or Social Security Administration

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Payroll Reporting: Trump Accounts

Employers may contribute up to **$2,500 per year per employee**

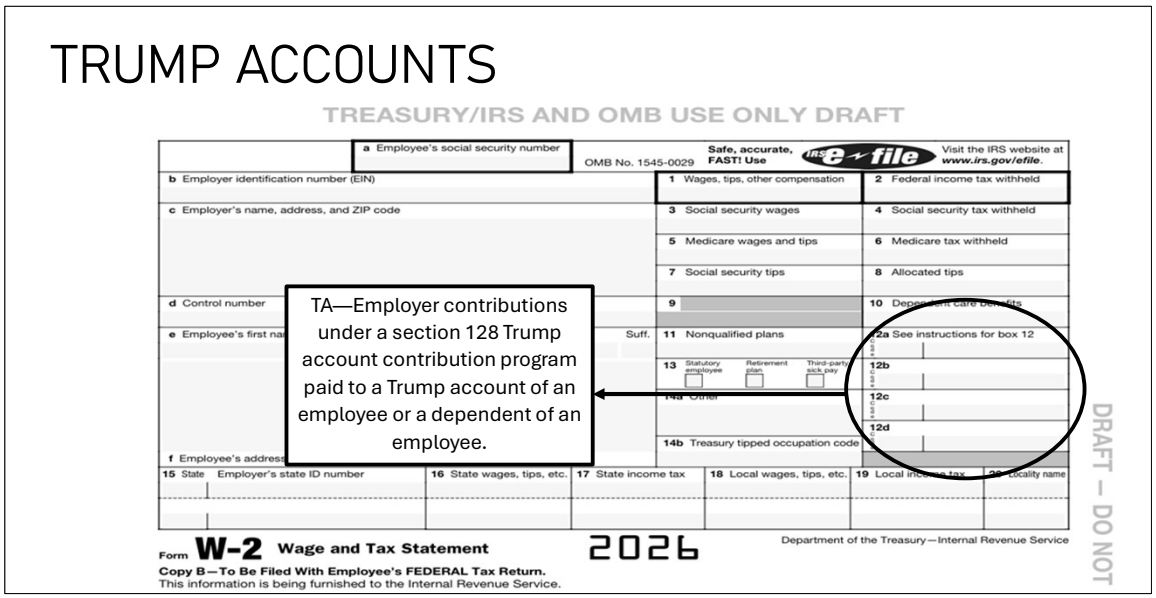
Contributions may be made to accounts of an employee or a dependent of an employee

Contributed amounts are **excluded from the employee's gross income, non-taxable fringe**

→ Reported on **Form W-2, box 12, code TA**

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TRUMP ACCOUNTS



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PAYROLL PENALTIES

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Payroll Penalties

Employers may face penalties for **failure to file a correct information return**

Employers may also face penalties for **failure to make timely tax deposits**

The IRS can hold **officers, directors, or other responsible persons** personally liable for unpaid withholding taxes

This section covers **when penalties may be waived or abated**

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Payroll Penalties: Failure to File Correct Information Returns

Failure to file correct information returns penalized under I.R.C. § 6721

Applies to failures to:

- File by the required filing date
- Include all required information
- Report correct information

Penalty amount depends on **when the correct form is filed** and is indexed for inflation

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Payroll Penalties: Failure to File Correct Information Returns

Penalty Exceptions – penalty does not apply if:

- Failure was due to **reasonable cause** and not willful neglect
- The error or omission was **inconsequential**
- The **de minimis safe harbor** applies

De minimis safe harbor generally applies when:

- No single amount in error differs by more than **$100**
- No single amount for **tax withheld** differs by more than **$25**

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Practitioner Note: Transition Penalty Relief

The **OBBBA** added new information return reporting requirements

- Reporting tips
- Reporting the employee's occupation
- Separately reporting overtime compensation

Notice 2025-62 provided penalty relief for the **2025 tax year**

Employers and payers who failed to report this new information may be granted relief from:

- **Failure-to-file penalties**
- **Failure-to-furnish penalties**

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Cross-Reference: Reasonable Cause Relief

IRS may waive information return penalties if failure was due to reasonable cause and not willful neglect

No first-time abatement relief is available for information return penalties

Reasonable cause waiver generally available when:

- Filer acted in a **responsible manner** both before and after the failure **and** significant **mitigating factors exist**; or
- Failure resulted from **circumstances beyond the filer's control**

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PP. 118-119

Payroll Penalties: Failure to Furnish Correct Payee Statements

I.R.C. § 6722

Applies to failures to:

- Furnish a payee statement (e.g., W-2) **by the due date**
- Include all **required information** on the statement
- Report **correct information**

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PP. 118-119

Payroll Penalties: Failure to Furnish Correct Payee Statements

Penalty amount based on when the correct payee statement is furnished

Inconsequential error exception – penalty does not apply if the error or omission:

- Does not prevent **timely receipt of correct information**; or
- Does not prevent the payee from **using the information for its intended purpose**

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Payroll Penalties: Failure to Deposit

Failure-to-deposit (FTD) penalties may be assessed if a deposit is not:

- Made **on time**
- Made in the **correct amount**
- Made in the **correct manner**

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Payroll Penalties: Failure to Deposit

The penalty rates are tiered by number of days late

Days Late	Penalty Rate
≤ 5 days late	**2%**
6 days to 15 days late	**5%**
> 15 days late (or payments within 10 days of IRS notice)	**10%**
Unpaid more than 10 days after first IRS notice	**15%**

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Payroll Penalties: Reasonable Cause Waiver

Reasonable Cause Waiver available if FTD was due to **reasonable cause**

- *NOT* due to willful neglect

Taxpayer statement must address **each specific tax liability amount** for each penalty proposed

- *If dates or explanations do not correspond with the penalized tax liability amounts, the taxpayer **has not established a valid reason to waive the penalty***

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PP. 119-120

FTD First-Time Abatement

Depositing entity meets net worth requirements:

- **Individuals**: net worth does not exceed **$2 million**
- **Unincorporated businesses, corporations, partnerships**: net worth does not exceed **$7 million**

Failure to deposit occurred:

- During the **first calendar quarter** the entity was required to deposit employment taxes; or
- On the **first payment following a deposit schedule change**

Employment tax return was filed on or before the due date

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Practitioner Note: Third-Party Payers

Generally, use of third-party payers **does not** relieve an employer from:

- Ensuring all **tax returns are filed**
- Ensuring all **taxes are paid or deposited**

Exception: Use of Certified Professional Employer Organization (CPEO) may relieve the employer from responsibility

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PP. 120-121

Trust Fund Recovery Penalty (TFRP)

Responsible persons can be held **personally liable** for willful failure to collect, account for, and pay employment taxes

Withheld taxes are called **trust fund taxes** – employer holds employee funds in trust until deposited

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PP. 120-121

Trust Fund Recovery Penalty (TFRP)

A **responsible person** is any person with the **duty and power** to direct trust fund tax collection and payment

Can be:

- Officers or employees of a corporation
- Members or employees of a partnership
- Corporate directors or shareholders
- Members of a board of trustees of a nonprofit
- Any person with authority and control over funds and their disbursement

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PP. 120-121

Trust Fund Recovery Penalty (TFRP)

Willfulness exists when the responsible person:

- **Was or should have been aware** of outstanding taxes; **and**
- **Intentionally disregarded** the law or was **indifferent** to its requirements

Paying net wages to employees when funds are insufficient to cover withholding taxes constitutes willful failure to collect and pay

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Trust Fund Recovery Penalty (TFRP)

TFRP Penalty Amount equals:

- The employee's portion of FICA taxes; **plus**
- All income taxes withheld for the period

IRS **does not divide** the penalty between multiple responsible persons

Can collect the full amount from any one responsible person

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Trust Fund Recovery Penalty (TFRP)

Before assessing a TFRP, the IRS must provide a **60-day notice** of the proposed TFRP

- **Letter 1153** – advises taxpayer of proposed penalty and appeal rights

Taxpayer options:

- **Agree** to the penalty by signing Form 2751
- **Appeal** the proposed penalty by filing a protest

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Trust Fund Recovery Penalty (TFRP)

Timely protest requirements:

- Must be postmarked or mailed by certified or registered mail
- On or before the 60th day after Letter 1153 was mailed or personally delivered
  - *75th day if Letter 1153 was addressed outside of the U.S.*

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ESTIMATED TAX

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Who Must Pay Estimated Tax

Taxpayer expects to owe **at least $1,000** in tax after subtracting any withholding and refundable credits

Taxpayer expects withholding and refundable credits to be **less than the smaller of**:

- **90%** of tax on the **current-year** tax return; or
- **100%** of the tax on the **prior-year** tax return
- **110%** if prior-year AGI exceeded **$150,000** (or $75,000 MFS)
- Prior-year return must have covered **all 12 months**

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Practitioner Note: Farmers and Fisherman

Special rules apply if at least **two-thirds of gross income** is from **farming or fishing**

Estimated owed if current-year withholding and refundable credits are less than the smaller of:

- **66%** of the tax on the **current-year** return, or
- **100%** of the tax on the **prior-year** return

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Practitioner Note: Farmers and Fisherman

Only one estimated tax payment required

Alternative option – farmers and fisherman may skip estimated tax payments entirely if they file their returns and pay the full amount of tax due by **March 1**

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Example 3.14: Requirement to Make Estimated Tax Payments

Sofia (HOH):

- **2025 tax liability**: $6,188
- **Estimated 2026 tax liability**: $6,989
- **Estimated 2026 withholding**: $5,500
  - Less than prior-year liability
  - Less than **90%** of current-year liability ($6,290)

Result: Sofia must make estimated tax payments for 2026

Alternative: Submit a new Form W-4 to request additional withholding

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Example 3.15: Calculating Estimated Tax

Gail Friedman (Single Taxpayer):

- **2025 tax liability**: $9,327
- **2026 AGI**: $74,550
- **2026 Itemized Deductions**: $18,000
- **2026 Taxable Income**: $56,550
- **Estimated 2026 tax liability**: $7,153
- **Employer withholding**: $4,801

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Example 3.15: Calculating Estimated Tax

Gail Friedman (cont'd):

- Estimated payments based on **90% of 2026 estimated liability** because 2026 estimated liability ($7,153) is **less than** 100% of 2025 liability ($9,327)

Result: Using worksheet in Form 1040-ES (Figure 3.12)

- Quarterly estimated tax payment: **$409**
- Annual estimated tax payment: **$1,637**

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When to Make Estimated Payments

For the Period	Due Date
Jan 1 – March 31	April 15, 2026
April 1 – May 31	June 15, 2026
June 1 – August 31	Sept. 15, 2026
Sept. 1 – Dec. 31	January 15, 2027*

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How Payments Are Applied

P. 125

- If an estimated tax payment is **missed**:
  - Subsequent payments are applied to the **earliest unpaid liability first**
  - Earliest liability must be **fully paid** before payments are applied to later installments

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How Payments Are Applied

P. 125

- **Withholding and excess Social Security tax** is applied evenly among all required installments by default
- **Exception** – taxpayers may apply withholding against the specific income it is connected to by:
  - Completing **Form 2210**, Underpayment of Estimated Tax by Individuals, Estates, and Trusts
  - Checking **Box D in Part II**

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How Payments Are Applied

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- Estimated payments for **spouses filing separate returns** may be:
  - Credited to just one spouse, or
  - Divided in any way the spouses mutually agree
- If spouses **cannot agree** on an allocation:
  - IRS allocates payments based on each spouse's separate tax liabilities

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Example 3.16: Joint Estimated Tax Payments

Harold and Wanda Whitcomb:

- Joint estimated tax payment for 2026: **$19,500**
- Filed separate returns and could not agree on allocation
- Individual Tax liabilities:
  - Harold (**$12,000**): $11,500 (Income Tax) + $500 (SE Tax)
  - Wanda (**$8,000**): $8,000 (Income Tax)
- Total tax liability: **$20,000**

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Example 3.16: Joint Estimated Tax Payments

Harold and Wanda Whitcomb:

- **Result**: IRS allocation based on **proportionate share** of total liability
  - **Harold:** $12,000 ÷ $20,000 = **60%** → **$11,700** ($19,500 x 60%)
  - **Wanda**: remainder → $7,800 ($19,500 – $11,700)

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PP. 125-126

How to Pay Estimated Tax

Credit a prior-year overpayment to current-year estimated tax

Electronic Federal Tax Payment System (EFTPS)

Phone or mobile device

Cash, Check or money order with a Form 1040-ES payment voucher

See Executive Order 14247, Modernizing Payments To and From America's Bank Account

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Pay Online

Online Account: payments made through the IRS Individual Online Account **[www.irs.gov/payments/online-account-for-individuals]**

IRS Direct Pay: online transfers directly from a checking or savings account **[www.irs.gov/payments/direct-pay-with-bank-account]**

Debit Card, Credit Card, or Digital Wallet: processing fees apply **[www.irs.gov/payments/pay-your-taxes-by-debit-or-credit-card]**

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Pay by Phone or Mobile Device

Phone (fees vary):

Link2GOV Corporation

- 888.729.1040
- www.PAY1040.com

ACI Payments, Inc.

- 888.872.9829
- fed.acipayonline.com

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Pay by Phone or Mobile Device

Mobile Device using the IRS2GO app:

- www.irs.gov/help/irs2goapp

Payment options through the app:

- IRS Direct Pay
- Credit or debit card

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ESTIMATED TAX PENALTIES

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Estimated Tax Penalties

Underpayment penalty may be assessed for:

- Insufficient payments throughout the year
- Untimely payments – even if a refund is due at filing

Penalty calculation – based on the **underpayment rate**

- **Underpayment Rate**: Federal short-term interest rate + 3%
- Different rates are used for corporations

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Estimated Tax Penalties

Underpayment Rate (cont'd):

- Rate is determined quarterly – different rates may apply to different quarters
- Example: 2026 underpayment rates – Q1=7%, Q2=6%

Estimated tax penalty is **calculated separately for each payment** based on the number of days between due date and payment date

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FORM 2210, UNDERPAYMENT OF ESTIMATED TAX BY INDIVIDUALS, ESTATES, AND TRUSTS

- Determine if **penalty is owed**
- **Calculate** the penalty
- **Request a reduction** in the penalty
- Apply **excess withholding** to specific income
- If taxpayer does **not** check Box B, C, or D in Part II:
  - IRS calculates the penalty and sends a notice
  - If return is **timely filed** and penalty is **paid by the notice due date** → no interest charged

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Estimated Tax Penalties

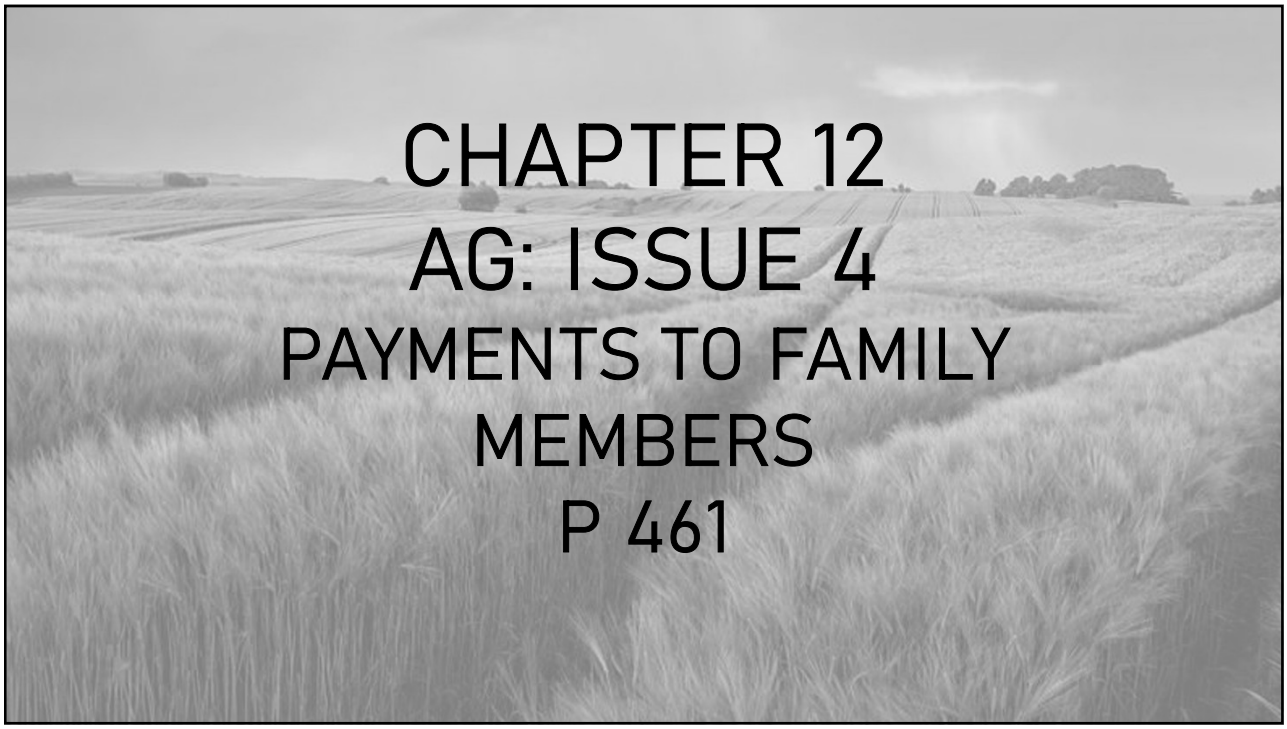
Penalty waiver available if:

- A **casualty or unusual circumstance** occurred and imposing the penalty would be inequitable
- Taxpayer **retired after age 62** or became **disabled** in either of the 2 preceding tax years, with reasonable cause and no willful neglect

To request a waiver:

- Check Box A or B in Part II of Form 2210
- Attach an explanation with supporting documentation

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Deduction for Compensation Paid

If a family member must be a **bona fide employee**

These are **ordinary and necessary** business expenses under **I.R.C. § 162**

These **reduce proprietorship income and SE taxes** (computed on net income)

Family wages are generally **subject to employment taxes**

- **Exceptions for a child, spouse, or parent**

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Reasonable for Compensation

Amounts **exceeding what is reasonable** for the services performed are **not deductible**

Reasonableness:

- **qualifications and experience**
- The **nature, extent, and scope of duties**
- The **time devoted**, and
- **Amounts paid by similar businesses** for similar services

See **Figure 12.5**, Pg 462 for IRS Factors

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Payment for Services Rendered

Make sure payments are not **nondeductible gifts or support**

Keep records showing the **duties performed** by family member employees and the **hours worked**

Prepare forms **W4** and **I-9** for **all** employees, **including family members**

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Pg 462-463

Child Employed by Parent

Wages are subject to **income tax withholding, social security, Medicare, FUTA & Mich UIA**(regardless of age) if the child works for:

- A **corporation**, even if controlled by the parent
- A **partnership**, even with a parent partner, **unless every partner is a parent** of the child
- An **estate**, even a deceased parent's estate

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Child Employees: The Age Rules

Age 21 or older: wages **subject** to social security, Medicare, FUTA, & Mich UIA

Under 21: not subject to FUTA or Mich UIA

Under 18: not subject to social security, Medicare, FUTA, or Mich UIA

All ages: Federal & Michigan **income tax withholding** applies

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Examples 12.17-12.18: The Age Rules Applied

- Ex. 12.17: Marc (age 22) works for sole-proprietor family business – parents withhold social security, Medicare, and income tax, and pay FUTA & Mich UIA if otherwise required
- Ex. 12.18: Liam (age 19), works for sole-proprietor family business – withhold social security, Medicare, and income tax; no FUTA nor Mich UIA

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Example 12.19: The Age Rules Applied

- Ex. 12.19: April (age 16), works for her mother's sole proprietorship business – exempt from social security and Medicare and no FUTA nor Mich UIA, but income tax withholding applies

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Spouse as Employee

Payments for a **spouse's services** are subject to **social security, Medicare, and income tax withholding**, but **not FUTA nor Mich UIA**

FUTA does apply if the spouse works for a **corporation** (even if controlled by spouse) or a **partnership** (even if spouse is a partner)

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Spouse as Employee

- A spouse is an **employee** if there is an **employer/employee relationship**: the **first spouse substantially controls** the business and the **second is under their direction and control**
- A **partnership** relationship exists instead if the second spouse has an **equal say**, provides **substantially equal services**, and **contributes capital**

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Parent Employed by Child

Wages for a **parent** working for a **child** are subject to **social security, Medicare, and income tax withholding**, but **not FUTA nor Mich UIA** – unless the business is a **corporation, partnership, or estate**

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Parent Employed by Child

Example 12.21:

- Amadi Okafor's sole proprietorship employs his father **Tobi** to supervise operations
- Paid **$2,500** biweekly
- Subject to **social security, Medicare, and income tax withholding**, but **exempt from FUTA & Mich UIA**

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Tax on Children's Earned Income

Earned income (wages, tips, pay for services) is included in the **child's** gross income, **not the parent's**

Deductions for payments from a child's earnings are the **child's**, even if the parent makes them

The child may claim the **dependent's standard deduction**

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Tax on Children's Earned Income

A dependent typically must file if:

- **Unearned income only**, and it **exceeds $1,350**
- **Earned income only**, and it **exceeds $16,100**
- **Both**, and **gross income exceeds** the greater of **$1,350** or **$450 plus earned income** (capped at $16,100)

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Unearned Income: The Kiddie Tax

The **kiddie tax** applies to a child's **unearned income** (taxable interest, ordinary dividends, capital gains)

It **prevents parents** from **shifting unearned income** to children to avoid higher rates

It can apply to **children under 24**

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Unearned Income: The Kiddie Tax

A child files **Form 8615** if the following 5 conditions apply:

- **Unearned income over $2,700** in 2026
- The child is **required to file** a return
- The child **meets an age test** (next slide)
- **At least one parent was alive** at year-end
- The child does **not file jointly**

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Unearned Income: The Kiddie Tax

The child meets the age requirement if:

- **Under 18** at year-end, **or**
- **Age 18** at year-end **and** did not have **earned income over one-half of their support**, **or**
- A **full-time student, 19 to 23** at year-end, **and** did not have **earned income over one-half of their support** (excluding scholarships)

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Cross-Reference: Kiddie Tax Election

A **parent may elect** to report the child's **interest, ordinary dividends, and capital gain distributions** on the **parent's return**

If so, the **child does not need to file**

See **pages 389-399** of the ***2025 National Income Tax Workbook***

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QUESTIONS?



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