How to Avoid the Kiddie Tax

The Education Worksheet will show that there is taxable scholarship income for the student if the amount of scholarships and grants is larger than the amount of qualified education expenses.

➤ **If the student is a dependent** and they have taxable scholarships or grants above the limit below for the tax years being prepared, the tax return of the student **OUT OF SCOPE** for the Tax Help Program.

- 2026: $2,700
- 2025: $2,700
- 2024: $2,600
- 2023: $2,500
- 2022: $2,300
- 2021: $2,200

Review **When Is Scholarship Income Out of Scope?** for information about the Kiddie Tax and when it applies and how it impacts tax return preparation.

In certain circumstances, you may be able to limit the amount of scholarships/grants that are transferred to taxable income by the Education Worksheet. This may be advantageous if you wish to avoid triggering the Kiddie Tax, but it will have a negative impact on the amount of the education credit.

How to Avoid the Kiddie Tax for a Dependent Student:

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

To limit the amount of scholarship/grants that is transferred to taxable income:

1. Make sure that you have entered **Form 1098-T Box 1** expense amounts and scholarship/grants amounts in the Worksheet.

2. Verify that the amount of taxable scholarship income listed in **Outcome A** is not already more than the Kiddie Tax limit for the tax year you are preparing. (See the table above.)

   ➤ If the amount of taxable scholarship income listed in **Outcome A** is already more than the Kiddie Tax limit for the tax year you are preparing, **STOP**. You cannot restrict scholarship income to avoid Kiddie Tax rules.

3. Verify that the amount of taxable scholarship income listed in **Outcome B** is more than **Option A** and more than the Kiddie Tax limit for the tax year you are preparing.

4. Navigate to the end of the **Outcome & Next Steps** section of the Education Worksheet.

5. Click the checkbox to the right of **Maximum additional scholarship income to transfer to the student.**

6. Enter an amount that equals the maximum amount of scholarship income for the tax year you are preparing minus the amount of taxable scholarship income listed in

Outcome A.

> For example, for a 2026 tax return if **Outcome A** lists $500.00 in taxable scholarship income, click the checkbox and enter $2200 as the additional amount to transfer.
>
> **2700 (Kiddie Tax Limit) - 500 (Outcome A scholarship income) = 2200**

7. Check the Education Worksheet calculations to be sure that you have limited transfer to the desired amount.

Take Note: You cannot limit scholarship/grant transfer to less than the Kiddie Tax limit in cases where the taxable scholarship income listed in **Outcome A** already exceeds the maximum amount.

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.