

TAX TIPS FOR YOUR TEEN'S SUMMER JOB

Is your teenager planning to get a job this summer? About one-third of kids between 16 and 19 work during their summer break, according to the Pew Research Center. But what do they need to know about the financial side of life in the workforce? The OSCPAs offers teen workers and their parents tips on taxes and summer employment.

- 1. Plan for taxes.** Students may hear a lot about taxes in the news or at the dinner table, but a summer job is likely their first experience in actually paying taxes. As a result, they may be surprised when they receive their first paycheck and find that it's not quite as much as they expected. If they have big dreams for using or saving the money they'll earn, it's important to know how much money they'll actually take home and how much will be withheld so their plans remain on course.
- 2. Get the information you need.** Employers generally ask every worker—including temporary summer help—to fill out a federal Form W-4 and a state Form W-4 (if applicable), which gathers information about them and is used to calculate the amount of federal and state income taxes that should be withheld from every paycheck. Even if the employee doesn't earn enough to owe federal and state income taxes, employers typically must withhold Social Security and Medicare taxes. An employee's first paycheck, which should detail how much is being withheld for various taxes, will provide a great deal of information and make it easier to budget for the rest of the summer. If your child is expecting to earn enough to need to file their own tax return, it is very important to make sure they fill out the Form W-4 as accurately as possible. They should also check their paystub to make sure that at least some amount is being withheld for Federal and State income tax or they could end up owing more money when they file their tax return.
- 3. Tips are taxable too.** When teens' summer jobs include tips, they should be sure to keep daily records of all cash tips received and report total cash tip income of \$20 or more in any month to their employers. All the tips they earn in a year must be reported on their tax returns, as well.
- 4. Expect taxes even if you're self-employed.** Self-employed entrepreneurs who spend the summer doing things like running a landscaping business, selling products online or doing tech consulting may need to make quarterly, estimated tax payments based on their earnings. They should be sure to keep thorough records and receipts so they can track income and estimate quarterly tax bills, as well as qualify for deductions that might lower their total taxable income and the taxes they owe. (Note: Net self-employment income of \$400 or more is subject to self-employment taxes, see #5.)
- 5. Know whether to file or not.** If a teenager can be claimed as a dependent on someone else's tax return, they generally don't have to file a return if his or her total income for tax year 2020 was less than \$12,550. That may be more than many summer workers make, but there may be some situations in which filing a return is a good idea. One clear situation is if taxes were withheld from the summer employee's pay and he or she is now due a tax refund. Even if your child can be claimed as a dependent on your tax return, they are required to file a tax return if they have earnings from self-employment of \$400 or more.
- 6. Look for a W-2.** By the end of January following the summer when the student worked, he or she will receive a Form W-2 from his or her employer. This form includes important information to be used when filing a tax return. If they have not received this form by January 31, they should contact any employers they worked for and ask for a copy.
- 7. It's never too early to discuss retirement.** The power of compound interest works greatly in your kid's financial favor if he or she starts saving early for retirement. Consider a Roth IRA contribution on earned income.

A summer job is a great way to build up savings for college or other goals and to gain experience in the workforce. If your family has questions about taxes or any other financial topic, be sure to contact your CPA with all your financial questions. If you don't have one, get a free referral and free 30-minute consultation in Oklahoma at www.FindYourCPA.com.