

Your Teen's First Job: Tax Tips and a Smart Roth IRA Strategy for Parents

If your child is working a summer job, it's more than just a paycheck — it's an opportunity to teach good money habits and set them up for long-term financial success. Here's what you need to know about their taxes, your tax return, and how to start building wealth early with a **Roth IRA**.

Basic Facts for This Hypothetical Scenario

- ◆ **Child:** 16 years old, earning ~\$5,000 from a summer job
- ◆ **Parents:** \$300,000 W-2 income, Maryland residents
- ◆ **Filing Status:** Child is still a dependent on the parents' return

What Parents Should Know About Their Child's Taxes

Federal Income Taxes

- ◆ For 2025, a dependent child gets a standard deduction of \$15,750.
- ◆ If the child's income is under \$15,750 from wages, they will owe no federal income tax.
- ◆ If any federal income tax is withheld, they can file a return to get it fully refunded.

Avoiding Unnecessary Withholding

- ◆ On their **W-4 form**, your child can write "**Exempt**" on Line 4(c) if:
 - They had no tax liability last year, and
 - They expect none this year
- ◆ This prevents unnecessary federal tax withholding from small paychecks.

Filing Requirements for Your Child

- ◆ Your child **does not need to file a federal tax return** if:
 - They only have earned income under \$15,750
 - No federal taxes were withheld
- ◆ But they **should file a return** if:
 - Any federal taxes were withheld (to claim a refund)
 - They receive 1099 income (like from freelancing or side gigs)
 - They have unearned income (like investment earnings) over \$1,300

Best Practice: File a simple tax return even if not required — it builds good habits and ensures no refunds are left behind.



Maryland State Taxes

- ◆ Maryland does not provide an exemption from income tax based solely on age — minors are subject to state income tax.
- ◆ With approximately \$5,000 in earnings, a child's Maryland taxable income will likely be low, but some tax may still be owed, depending on withholding.
- ◆ For 2025, Maryland offers a \$3,350 standard deduction (single filer) and a \$3,200 personal exemption for individuals with federal AGI below \$100,000.
- ◆ A Maryland tax return should be filed if state tax was withheld or if total income exceeds the filing threshold.

Does This Impact Your Tax Return?

- No — your child's income doesn't affect your return.
- As long as you're providing over half their support and they're under 19 (or 24 if full-time student), you can still claim them as a dependent.
- On their own return, your child must indicate that they're being claimed by someone else.

💡 The Real Opportunity: A Roth IRA for Your Teen

One of the **smartest financial moves you can make** as a parent?

Fund a Roth IRA for your working teen.

Here's why:

- You can contribute up to 100% of earned income, up to \$7,000 in 2025.
- If your child earns \$5,000 this summer, they are **eligible to contribute up to \$5,000** to a Roth IRA.
- That contribution can come from you, as long as the child had earned income to justify it.
- The Roth IRA must be opened as a **custodial Roth IRA** in the child's name, with a parent as custodian.

Why this is powerful:

- Growth is **tax-free** forever if used in retirement.**
- Contributions can be withdrawn tax-free at any time.
- Money can also be used (with limits) for **education or a first-time home purchase**.

What Parents Should Track

- Save **pay stubs, W-2s**, and any **tax forms**.
- If helping with taxes, keep **digital and paper copies** of all documentation.
- For Roth IRAs, keep records of **contributions** and **earned income proof** in case of IRS inquiries.



Quick Summary for Parents

Topic	Summary
Federal Tax Owed	None if income < \$15,750 (earned income only)
Federal Filing Required?	Only if taxes were withheld or to build good habits
Withholding	Can claim "Exempt" if no tax liability expected
State Tax Rules	Varies by state – file if taxes were withheld or income exceeds state threshold
Parental Tax Impact	None – still claim child as dependent
Planning Opportunity	Open and fund a Roth IRA using child's earned income

Final Thoughts

Your teen's summer job is more than just a paycheck – it's a moment to **increase financial awareness, demystify taxes, and kickstart their future**. With just a few simple steps, you can help them build habits and assets that could benefit them for decades to come.

Have questions about setting up a Roth IRA or coordinating your child's first tax season? Let's talk – we're here to help.



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***Contributions to a Roth IRA may generally be withdrawn at any time without tax consequences. Earnings may generally be withdrawn tax-free if the account is held at least 5 years and withdrawals are made after the account owner reaches age 59 ½. If earnings withdrawals are made before the 5-year period or age 59 ½, income taxes are due, and a 10% federal tax penalty may apply.*