

Tax Tips for Students with a Summer Job

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Many students hold a summer job during their time off from school. Here are some tax issues that should be considered when working a summer job.

- 1. Completing Form W-4 When Starting a New Job** – This form is used by employers to determine the income taxes that will be withheld from your paycheck. Taxpayers with multiple summer jobs will want to make sure all of their employers are withholding an adequate amount of taxes to cover their total income tax liability. Generally, a student who is claimed as a dependent of another with income only from summer and part-time employment can earn as much as \$6,300 (the standard deduction amount) without being liable for income tax. However, if the student is a dependent and has investment income, the tax determination becomes more complicated and subject to special rules.
- 2. Tips** – If the student works as a waiter, camp counselor, or some other common summer jobs, the student may receive tips as part of the summer income. All tip income received is taxable income and is therefore subject to federal income tax. Employees are required to report tips of \$20 or more received while working with any one employer in any given month. The reporting should be made in writing to the employer by the tenth day of the month following the receipt of tips. The IRS provides publication 1244 that can be used to record tips for a month on a daily basis. The employer withholds FICA (Social Security and Medicare) and income taxes on these reported tips and then includes the tips and wages on the employee's W-2.
- 3. Cash Jobs** – Many students do odd jobs over the summer and are paid in cash. Just because the job is paid in cash does not mean that it is tax-free. Unfortunately, the income is taxable and may be subject to self-employment taxes (see below). These earnings include income from odd jobs like babysitting and lawn mowing.
- 4. Self-Employment Tax** – When an individual works for an employer, the employer withholds Social Security and Medicare taxes from the employee's pay, matches the amount dollar for dollar, and remits the combined amount to the government. Self-employed workers are required to pay the combined employee and employer amounts themselves (referred to as self-employment tax) if their net earnings are \$400 or more. This tax pays for their future benefits under the Social Security system. Even if a worker is not liable for income tax, this 15.3% tax may apply. Even though skirting the law, some employers prefer to treat their workers as "independent contractors" who receive their pay with no taxes withheld, because the employers avoid paying their share of the employment taxes. While the employees may like getting a larger check each pay day, they may find themselves owing income tax and possibly the self-employment tax on their earnings when they file their tax returns for the year. If the worker is offered a job on an independent contractor basis, and that job would normally be filled by an employee, the worker should seriously consider if this arrangement is suitable under the circumstances.

- 5. Employed in a Family business** - If the family business is unincorporated, and pays wages to a child under age 18, the child is not subject to payroll taxes (FICA) since they do not apply to a child under the age of 18 while employed by a parent. Thus, the child will not be required to pay the employee's share of the FICA taxes, and the parent's business will not have to pay its half either. In addition, paying the child, and thus reducing the business's net income, can reduce the parent's self-employment tax. However, the wages must be reasonable for the services performed.
- 6. ROTC Students** – Subsistence allowances paid to ROTC students participating in advanced training are not taxable. However, active duty pay—such as pay received during summer advanced camp—is taxable.
- 7. Newspaper Carrier or Distributor** – Special rules apply to services performed as a newspaper carrier or distributor. An individual is a direct seller and treated as self-employed for federal tax purposes under the following conditions:
- The person is in the business of delivering newspapers;
 - All of the pay for these services directly relates to sales rather than to the number of hours worked; and
 - A written contract controls the delivery services and states that the distributor will not be treated as an employee for federal tax purposes.
- 8. Newspaper Carriers or Distributors Under Age 18** – Generally, newspaper carriers or distributors under age 18 are not subject to self-employment tax.

Please call this office if you have additional questions related to a child's employment.