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a. Who must report the income?
    i. Kiddie Tax
        1. Child must be under 14
        2. Tax rate is the higher of the child's rate or the parent's rate (if parents are divorced, use the rate of custodial parent)
        3. Applies to net unearned income or unearned income in excess of $1,500
        4. Does not apply if both parents are dead
    ii. Compensation
        1. Earned income is taxed to the person who earned it
        2. Exception: Exclude if:
            a. Option 1
                i. Renounce before earned, and
                ii. Do not direct disposition
                    1. If TP makes a legally valid transfer of property, but retains exclusive control over how the property is managed and who gets the income from it, TP will be taxed on the income
            b. Option 2
                i. Acting solely as agent
                    1. Professor at a law school clinic.
    iii. Income from property

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1. Taxed to person who controls the income (fruit)

    a. Since TP controls the interest income from the lottery winnings, the full $4K is included in her income

2. Substance v. Form

    a. When substance of transaction differs from form, the tax consequences will follow the substance of the transaction

    b. Reasoning: In substance, petitioner made an anticipatory assignment to her children of ½ of the income from the sale of the property. Petitioner's subsequent conveyance of an undivided ½ interest in the property to her children was merely an intermediate step in the transfer of legal title from petitioner to Texaco. Petitioner's children were only conduits through which to pass title. Her tax liability cannot be altered by a rearrangement of the legal title after she had already contracted to sell the property to Texaco

    c. If she wanted gain to be taxed to her children, she could simply have deeded ½ of the property to her children prior to agreeing (accepting) to sell service station to Texaco. Gov't won't be able to link it to Mrs. S's motive to reduce her tax liability stemming from her already accepting the offer to sell the station to Texaco.