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May 23, 2006

Tax Reconciliation: Increasing Taxes on Teenagers?

Dear Colleague:

The Tax Increase Prevention and Reconciliation Act of 2005, which was recently signed into law by President Bush, included many important tax cuts. However, it is not widely known that this bill also included a tax **increase** on teenagers.

Previous to this legislation, children under the age of 14, who could be claimed as a dependent on their parents' tax return, were subject to a tiered tax structure for their unearned income. This unearned income could be interest earned on bank accounts or bonds in a Uniform Gift to Minor Account, or dividends paid on stock. The first \$800 of income was tax free, the second \$800 of income was subject to a lower child's tax rate, and anything above \$1,600 was subject to the parents' tax rate.

The initial motivation for this structure was to discourage parents from putting assets in their children's names to avoid higher tax rates. However, once a child turned 14 all income was taxed according to the child's tax bracket. Not so anymore!

The recent tax reconciliation bill, by changing the age limit to 18, has effectively raised tax rates on unearned income for children aged 14-17.

To restore the tax benefits of these teenagers, **I am introducing a bill to repeal the age-changing provision in the Tax Increase Prevention and Reconciliation Act of 2005.**

To become a co-sponsor of this common sense legislation, or for more information, please contact Kristen Glenn (5-4676).

Sincerely,



Marilyn Musgrave (CO-04)
Member of Congress

The New York Times

Despite Pledge, Taxes Increase for Teenagers

By DAVID CAY JOHNSTON

(May 21) - The \$69 billion tax cut bill that President Bush signed this week tripled tax rates for teenagers with college savings funds, despite Mr. Bush's 1999 pledge to veto any tax increase.

Under the new law, teenagers age 14 to 17 with investment income will now be taxed at the same rate as their parents, not at their own rates. Long-term capital gains and dividends that had been taxed at 5 percent will now be taxed at 15 percent. Interest that had been taxed at 10 percent will now be taxed at as much as 35 percent.

The increases, which are retroactive to the first day of the year, are expected to generate nearly \$2.2 billion over 10 years, according to the Congressional Joint Committee on Taxation, which issues the official estimates.

Over all, the tax bill that Mr. Bush signed Wednesday reduces taxes by \$69 billion.

Mr. Bush pledged in 1999 to veto any bill that raised taxes. In response to a question about the tax increase on teenagers in the new legislation, the White House issued a statement Friday that made no reference to the tax increase, but recounted the tax cuts the administration has sponsored and stated that President Bush had "reduced taxes on all people who pay income taxes."

Challenged on that point, the White House modified its statement 21 minutes later to say that Mr. Bush had "reduced taxes on virtually all people who pay income taxes."

The deputy White House press secretary, Kenneth A. Lisaius, declined to discuss the reasons Mr. Bush broke his pledge or anything else beyond the modified statement, which emphasized the \$880 billion in tax reductions from tax laws Mr. Bush signed in 2001 and 2003.

Americans for Tax Reform, an influential lobbying group that seeks to reduce taxes, had led the drive to press politicians to pledge no new taxes. The pledge has been signed by 256 members of the House and the Senate, nearly all of them Republicans, and by thousands of candidates for state and local office.

The pledge commits signers to "oppose any and all efforts to increase the marginal tax rates for individuals and businesses." Mr. Bush went beyond the pledge when he was seeking the Republican nomination for president.

"If elected president, I will oppose and veto any increase in individual or corporate marginal income tax rates or individual or corporate income tax hikes," he wrote in June 1999 to Grover Norquist, president of the Americans for Tax Reform.

Mr. Norquist, in an interview Thursday, said he was unaware that the bill raised taxes and tax rates on teenagers with college savings funds because "no one here noticed" the provisions. But Mr. Norquist called the bill raising taxes on teenagers with investment income "a technical violation of the pledge" and noted that his group opposes all retroactive tax increases. He pledged to immediately begin a campaign to have the tax increases rescinded.