**Kiddie Tax Application - Technical Fix**

**Summary:**
- 26 U.S.C. § 1(g) of the Internal Revenue Code was designed to prevent income shifting between wealthy parents and their children, i.e. the *kiddie tax*. It provides a higher tax rate of unearned income based on the parent’s tax bracket.
- The tax is applicable to tribal distributions to minors and college students up to the age of 24. These distributions, often from minors trusts, have no intent of intergenerational income shifting, but rather for a government purpose or remedy.
- Provide a technical correction by amending 26 U.S.C. § 1(g) to exempt tribal government distributions from the *kiddie tax*.

**Background Information:**
Currently, 26 U.S.C. § 1(g) of the Internal Revenue Code, otherwise known as the *kiddie tax*, was designed to prevent income shifting between wealthy parents and their children. However, it currently applies to a wide variety of types of income distributed to children and certain young adults. In general, the kiddie tax applies to any income that is not earned income as described in 26 U.S.C. § 911(d)(2). Earned income includes only wages, salaries, professional fees or other amounts received as compensation for personal services rendered, and thus income that is not compensation for services is treated as unearned income. The *kiddie tax* subjects such unearned income to the parent's higher tax rates. Under the *kiddie tax* rules, unearned income exceeding $1,900 of children under age 19, or of young adults age 19-24 who are full-time students, is taxed at the parent's highest marginal rate, if that rate is higher than what the child would otherwise pay.

The kiddie tax not only burdens minors and young adults with an inappropriately high tax rate, it also imposes compliance burdens on large numbers of taxpayers receiving relatively small amounts of government support. Ironically, tribal members who choose to attend college full-time are burdened by these higher tax rates well into young adulthood, which creates a perverse incentive with respect to higher education. From a tax policy perspective, it is inappropriate to treat these government distributions as inter-generational income shifting.

**Recommendation:**
Amend 26 U.S.C. § 1(g) to exempt tribal government distributions from the *kiddie tax*. Such income would still be subject to the present law income tax, reporting, and withholding rules. The proposal would make taxes fair for those unintended to fall under the kiddie tax umbrella.