The Marriage Penalty

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Tax Foundation

Many elements of the tax code vary with marital status, including the amount of the standard deduction, the earned income tax credit, and the tax rate schedule. All of these differences can cause a married couple to have a different tax liability than two similarly situated single people.

A married couple filing jointly incurs a "marriage penalty" if their tax bill is higher than the combined tax bills that they would have paid if each could have filed singly. Similarly, a married couple receives a "marriage bonus" when the sum of the individual tax liabilities had they filed singly is greater than their tax liability under a joint return.

Marriage penalties result from the conflict between three mutually exclusive goals of the tax system:
- Taxes should be progressive (specifically, the progressive marginal tax rate structure);
- The tax code should be neutral with respect to marriage; and
- The tax code should treat families equally (families with equal incomes should have equal tax bills).

Different balances have been struck with regard to these goals over time. Currently, the tax code is not neutral with respect to marriage.

The Congressional Budget Office estimated that 42 percent of married couples incurred marriage penalties and 51 percent received bonuses in 1996. According to the study, the average size of a marriage penalty was $1,400 and the average size of a marriage bonus was $1,300. ¹

A Brief History of the Marriage Penalty in the Federal Income Tax

The income tax expanded rapidly in the 1940s to finance World War II. As a result of the increasing number of families subject to the income tax and higher marginal tax rates, more states began to enact community property laws that allowed couples to split their income in half and, as a result, pay lower

Figure 1
Distribution of Marriage Penalties and Bonuses by Size of Adjusted Gross Income, 1996

Source: Congressional Budget Office.
Sources of Marriage Penalties and Bonuses

The size of marriage penalties and bonuses under current law depends on individual income and how the income is split between the couple, the number of dependents, and the amount of itemized and standard deductions. In general, married couples with highly disparate incomes receive marriage bonuses. Couples whose incomes are more equal tend to incur penalties.

Changes in the tax code are not solely responsible for the greater incidence of marriage penalties. Demographic changes have caused a significant increase in the number of couples who incur marriage penalties. In the last twenty years, there has been a rapid increase in the number of married couples with two incomes and, in addition, there has been growing equality of income between men and women.

Within the tax code, the standard deduction and the different widths of tax brackets for different types of filers are the primary sources of marriage penalties and bonuses. The standard deduction of a single filer is 60 percent of the standard deduction of a married couple. The tax bracket breakpoints for the 15, 28, and 31 percent tax brackets for single filers are also 60 percent of the breakpoints for married couples filing jointly. The EITC can impose marriage penalties or give marriage bonuses to low-income filers because the size of the credit does not depend on filing status but varies with the number of children. Combining the incomes and children of a couple on a joint return can increase or reduce the credit they receive relative to the credit they could obtain if each could file separately as single or as a head of household. In 1993, the size and scope of the Earned Income Tax Credit was expanded, further increasing the potential of the EITC to create marriage penalties and bonuses.

Finally, there are more than 60 separate provisions in the tax code that vary with marital status and most can produce marriage penalties or bonuses. These include the taxation of Social Security, limitations on capital losses and the home mortgage interest deduction. The Taxpayer Relief Act of 1997 added new sources of marriage penalties and bonuses, including phasing out eligibility for child credits and education credits differentially for married couples and singles.
Table 1
A Marriage Penalty

<table>
<thead>
<tr>
<th>Income</th>
<th>Paul</th>
<th>Lisa</th>
<th>Couple Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td>$40,000</td>
<td>$80,000</td>
<td></td>
</tr>
<tr>
<td>Less Personal Exemption(s)</td>
<td>$2,700</td>
<td>$2,700</td>
<td>$5,400</td>
</tr>
<tr>
<td>Less Standard Deduction</td>
<td>$4,250</td>
<td>$4,250</td>
<td>$7,100</td>
</tr>
<tr>
<td>Equals Taxable Income</td>
<td>$33,050</td>
<td>$33,050</td>
<td>$67,500</td>
</tr>
<tr>
<td>Taxed at 15%</td>
<td>$25,350</td>
<td>$25,350</td>
<td>$42,350</td>
</tr>
<tr>
<td>Taxed at 28%</td>
<td>$7,700</td>
<td>$7,700</td>
<td>$25,150</td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>$33,050</td>
<td>$33,050</td>
<td>$67,500</td>
</tr>
<tr>
<td>Marriage Penalty</td>
<td>$1,478</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2
A Marriage Bonus

<table>
<thead>
<tr>
<th>Income</th>
<th>Bob</th>
<th>Mary</th>
<th>Couple Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0</td>
<td>$80,000</td>
<td>$80,000</td>
<td></td>
</tr>
<tr>
<td>Less Personal Exemption(s)</td>
<td>$0</td>
<td>$2,700</td>
<td>$5,400</td>
</tr>
<tr>
<td>Less Standard Deduction</td>
<td>$0</td>
<td>$4,250</td>
<td>$7,100</td>
</tr>
<tr>
<td>Equals Taxable Income</td>
<td>$0</td>
<td>$23,050</td>
<td>$67,500</td>
</tr>
<tr>
<td>Taxed at 15%</td>
<td>$0</td>
<td>$25,350</td>
<td>$42,350</td>
</tr>
<tr>
<td>Taxed at 28%</td>
<td>$0</td>
<td>$36,050</td>
<td>$25,150</td>
</tr>
<tr>
<td>Taxed at 31%</td>
<td>$0</td>
<td>$11,650</td>
<td></td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>$0</td>
<td>$17,508</td>
<td>$13,395</td>
</tr>
<tr>
<td>Marriage Bonus</td>
<td>$0</td>
<td>$4,114</td>
<td></td>
</tr>
</tbody>
</table>

deduction that they would receive as a married couple filing a joint return. In addition, because of the differential size of the tax brackets, joint filers may (especially if their incomes are nearly equal) have a portion of their income pushed into a higher tax bracket than if they were unmarried.

Example 1: A Marriage Penalty

Paul and Lisa, each earning $40,000, would owe $11,918 in taxes if they could file singly instead of filing jointly. They incur a marriage penalty of $1,478. (See Table 1, left.)

The difference in the tax liability is due to two factors:

- The standard deduction for married couples is not twice that of a single filer. Filing jointly, Paul and Lisa have a standard deduction that is $1,400 less than the two single standard deductions that they could claim if they were not married. At the 28 percent marginal tax bracket this smaller deduction costs them $392.
- The difference in the breakpoints of the tax brackets for single filers and married couples is the second source of the marriage penalty for Paul and Lisa. Filing singly, the breakpoint for moving from the 15 percent rate to the 28 percent rate is $25,350. For a married couple filing jointly, this breakpoint is $42,350. Because the tax brackets of married couples are not twice as wide as those for single filers, $8,350 of their income that would be taxed at 15 percent if they could file as singles gets taxed at 28 percent, resulting in an additional cost of $1,086.

Example 2: A Marriage Bonus

Mary is a newly minted attorney earning $80,000. Her husband, Bob, is currently unemployed and has no income. Since they are married and can file jointly, Mary and Bob receive a marriage bonus of $4,114 relative to Mary filing as single. (See Table 2, left.)

Here, three factors generate the different tax liabilities:

- Since Bob had no income and did not file a tax return, he could not use his personal exemption. Bob and Mary filing jointly can use Bob's personal exemption and the result is a tax benefit of $837 ($2,700 X .31);
- They also qualify for a greater standard deduction as a couple than Mary could claim for herself. This benefit is worth an additional $884 ($2,850 X .31); and
- They benefit from the fact that the brackets for married couples filing jointly are wider than those for single filers. In their case this
means that $17,000 of their joint income was taxed at 15 percent instead of 28 percent, for a tax savings of $2,210. Further, again because of the wider brackets available to married couples, $6,100 was taxed at 28 percent instead of 31 percent, for a tax saving of $183.

**Example 3: The Earned Income Tax Credit**

The Earned Income Tax Credit, intended to help low-income working families, can cause these families to incur large marriage penalties because the size of the credit does not depend on the taxpayer's filing status but rather depends on the number of children in the family.

Anita, a single mother with one child, earns $18,000 a year. Her fiancé, Michael, has two children and earns $21,000 a year. (See Table 3.)

Two factors generate a marriage penalty in this example:

- Combined, Michael and Anita's income exceeds the phase-out limit for the EITC. To them, this represents a marriage penalty of $3,269; and
- In addition, if they do not marry, each gets a standard deduction of $6,250 since they are each the head of a household. After they marry, their standard deduction is $7,100. This represents an additional marriage penalty of $810 ($5,400 x .15)

**Example 4: Additional Sources of Penalties and Bonuses**

In addition to the primary sources of marriage penalties and bonuses illustrated above, there are more than 60 additional provisions in the tax code that treat married couples differently from single filers. For example: the overall limitation on itemized deductions, limitations on capital losses, exemption levels for the alternative minimum tax and phase-outs on personal exemptions all affect married couples differently than single filers. Most of these provisions, depending on the circumstances of the couple, can create marriage penalties or bonus.

For example, the new HOPE scholarship is a credit of up to $1,500 against federal income taxes for qualified education expenses in a student's first two years of post-secondary education. The HOPE scholarship is phased-out for married couples with adjusted gross incomes between $80,000 and $100,000. For single filers it is phased-out between $40,000 and $50,000.

**Table 3**

*The Earned Income Tax Credit*

<table>
<thead>
<tr>
<th></th>
<th>Michael</th>
<th>Anita</th>
<th>Couple Filing Jointly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$21,000</td>
<td>$18,000</td>
<td>$39,000</td>
</tr>
<tr>
<td>Less Personal Exemption(s)</td>
<td>$8,100</td>
<td>$5,400</td>
<td>$13,500</td>
</tr>
<tr>
<td>Less Standard Deduction</td>
<td>$6,250</td>
<td>$6,250</td>
<td>$7,100</td>
</tr>
<tr>
<td>Equals Taxable Income</td>
<td>$6,650</td>
<td>$6,350</td>
<td>$18,400</td>
</tr>
<tr>
<td>Tax Liability Before Credits</td>
<td>$998</td>
<td>$953</td>
<td>$2,760</td>
</tr>
<tr>
<td>Per Child Tax Credit ($400)</td>
<td>$800</td>
<td>$400</td>
<td>$1,200</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>$1,915</td>
<td>$1,354</td>
<td>$0</td>
</tr>
<tr>
<td>Total Tax Liability After Credits</td>
<td>-$1,717</td>
<td>-$801</td>
<td>$1,560</td>
</tr>
<tr>
<td>Marriage Bonus</td>
<td></td>
<td></td>
<td>$4,079</td>
</tr>
</tbody>
</table>
Scott earns $75,000. His wife, Wendy, earns $30,000 and goes to college full-time at night. On her own, as a single filer, Wendy would be able to reduce her tax bill by $1,500. Since her income combined with Scott’s exceeds the phase-out threshold they are unable to use the credit.

The Major Marriage Penalty Bills

Because of the 1990 and 1993 tax changes that increased marriage penalties with the addition of two new tax brackets and the expansion of the Earned Income Tax Credit, there is again pressure to change the balance of the tax code and shift it in favor of married couples.

There are two primary bills aimed at eliminating the major causes of the marriage penalty. Both bills would give couples the option of filing a joint return with each spouse being taxed using the individual schedules and rates. The second bill gives couples the option of splitting their combined income evenly between them regardless of who earned it. A side-by-side comparison of the two bills is presented below in Table 4.

Couples should not have to pay more taxes simply because they are married. The version of the bill sponsored by Reps. Jerry Weller (R-III.) and David McIntosh (R-Ind.) restores marriage neutrality in this sense but it thereby ends equal treatment of married couples.

Married couples with the same total incomes but different distributions between spouses will have different tax bills. The couple in Example 1 will choose to file a combined return where each is taxed individually and they will pay a total combined tax bill of $11,918. The couple in Example 2, with the same total income as the first couple, will continue to file jointly and will have a tax bill of $13,395. This legislation also leaves all marriage bonuses intact.

To an extent, the marriage penalty arises out of the complexity of the tax code. Unfortunately to address the penalty, the Weller/McIntosh bill also creates new layers of complexity. It would require that the couple calculate its tax bill under two alternative structures and then choose the one that results in the smaller tax liability. In addition, new rules will have to be created to determine how

Table 4
Comparison of Provisions of Primary Bills Aimed at Eliminating Marriage Penalty

<table>
<thead>
<tr>
<th>“The Marriage Tax Elimination Act”</th>
<th>“Marriage Protection &amp; Fairness Act”</th>
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</thead>
<tbody>
<tr>
<td>Weller (R-III.)/McIntosh (R-Ind.): H.R. 2456</td>
<td>Income Splitting: Riley (R-Ala.), H.R. 3104</td>
</tr>
</tbody>
</table>

- Couples can choose to file a combined return under which each spouse is taxed using the individual schedules and rate.
- Taxable income for each spouse is one half of the taxable income computed as if the spouses were filing a joint return.
- Wage and salary income is apportioned according to earner.
- Income from property is apportioned according to ownership rights.
- Deductions are allocated to the spouse to whom the deductions relate.
- Deductions for retirement savings, alimony, and medical savings accounts are allowed to the spouse who has the income to which the deductions relate.
- Each spouse claims one personal exemption.
- Each spouse claims one individual standard deduction.
- All other deductions are divided in proportion to the spouse’s share of total joint income.
- Credits are determined and applied as if the spouses had filed a joint return.
- The standard deduction for a married couple is increased to equal twice the standard deduction of a single individual.
- Credits are determined and applied as if the spouses had filed a joint return.
taxpayers must allocate deductions and exemptions. The redeeming aspects of this new complexity are that the calculations are purely voluntary and that it can lead to substantial tax relief.

The Income Splitting approach to marriage penalty relief is more simple: All income, assets, deductions, and credits are split down the middle. The income splitting approach eliminates marriage penalties due to differences in the width of tax brackets and standard deductions and delivers a tax cut to all married couples. Under income splitting, all married couples that have the same income will have the same tax bill, regardless of which spouse earned the income. The income-splitting bill is a subsidy for all married couples relative to single filers, taking the tax code further from neutrality with respect to marriage.

Other Marriage Penalty Bills

There are two other less ambitious and less well-known bills aimed at redressing the marriage penalty. H.R. 2593, sponsored by Representative Wally Herger (R-Cal.), would restore the two-earner deduction for married couples that was repealed in 1986.

This legislation would allow a couple to deduct ten percent of the lower earning spouse’s income (up to $30,000) from their adjusted gross income. The maximum deduction is $3,000 and could reduce a couple’s taxes by up to $1,198 (if they were in the highest tax bracket). This tax reduction would go to both couples who currently incur penalties as well as those who receive bonuses. As written, this may be an inefficient way to deliver tax relief to those couples who pay penalties. However, if the exclusion is applied solely to couples in penalty situations, this could be a relatively simple and cost-effective way to deliver some tax relief to these couples.

The second bill, H.R. 2718, sponsored by Representative Joe Knollenberg (R-Mich.), would eliminate one source of the marriage penalty by increasing the standard deduction for married couples to twice that of single filers. This legislation would allow couples to exclude $1,400 more from their taxable income than they currently can. It would slightly increase the marriage bonuses of couples with only one earner by increasing the benefit of the difference between the value of the deduction available to a single filer and that available to a married couple.

Conclusions

As long as the tax code must struggle with the balance between a progressive rate structure, marriage neutrality and equal treatment of families, there will be tension between married couples and single filers.

Although they deliver tax relief to married couples, all of the proposed solutions to the marriage penalty leave marriage bonuses intact (thereby setting the stage for future demands for relief by single filers) and none addresses the complex list of other deductions, credits (including the EITC) and phase-outs that can affect tax liability (and create bonuses or penalties) based on marital status.

Completely eliminating all marriage penalties and bonuses would require that the more than 60 provisions of the tax code that affect single filers and married couples differently be altered or eliminated. This is probably only possible in the context of fundamental tax reform.

Endnotes

2 In general, a split of income that is greater than 70/30 will produce a marriage bonus.
3 A breakpoint is the dividing point between marginal tax brackets. For example, for single filers the 15 percent tax bracket applies to the first $25,350 of the filers taxable income. Therefore, the breakpoint between the 15 and 28 percent tax brackets for single filers is $25,350. For married couples filing jointly, the 15 percent tax bracket applies to the first $42,350 of taxable income. The breakpoint for the 36 percent bracket for single filers is 82 percent of the breakpoint for married couples. The threshold for the 39.6 percent bracket is the same for all filers.
4 All examples use 1998 tax rates, deductions and exemptions. The numbers in these examples have been rounded up to the nearest dollar.