The “Tax on Marriage”

We can get rid of it without giveaways to the rich

By Robert S. McIntyre

It’s one of life’s little annoyances, at least for the majority of adults who are married. The couple next door, with exactly the same income as you and your spouse, pays less in taxes than you do. Your neighbors may be retirees living on Social Security and other things that are taxed much more lightly than your wages. Or they may get more of their income from tax-preferred investments on which income tax rates are considerably lower and payroll taxes are nonexistent. Or they may have a bigger mortgage than you or be more generous to charity.

Or your taxes could be higher simply because you’re married and they aren’t.

The current congressional majority, not to mention the President, has generally been enthusiastic about creating disparities among taxpayers, especially when it comes to treating investment income more favorably than wages. But now some Republicans have found a tax inequity they don’t like: the unfair tax differentials between married and unmarried couples. Unfortunately, the GOP solution to the “marriage tax” turns out to be their same tired answer to almost everything: slash taxes on the best-off people.

That’s too bad, because the marriage penalty truly is an unnecessary, antiquated defect in our tax laws. We ought to reduce or get rid of it, but to do so will require Congress to stop conflating solutions to the marriage penalty with big tax cuts for the rich.

For a majority of couples (those making up to about $60,000 a year), the most commonly perceived “marriage penalty” stems from the fact that the standard deduction for a couple is less than the standard deduction for two unmarried individuals—$1,400 less for childless couples and $3,400 for couples with children.

For example, if two roommates each earn $20,000, they will pay taxes on $27,500 of their combined income if they are married, but only on a total of $26,100 if they choose to divorce (or not to marry in the first place). The marriage penalty caused by this increase in taxable income is $210.

For higher income couples who typically itemize deductions, marriage penalties mainly reflect the differing rate schedules for singles and marrieds, which can impose higher taxes on a married person’s share of the family income than would apply if the couple were living without the benefit of legal matrimony. If two partners earn $40,000 each, their income subject to tax would probably not change much by marriage, but they would pay a higher marginal tax rate on part of their income, leading to an apparent marriage penalty of more than a thousand dollars.

On its face, it seems like almost every couple now paying income taxes could cut its taxes, often noticeably, by getting divorced (you don’t even need two earners for this to work, just a well-crafted separation agreement).

But the size of this “divorce bonus” is often wildly exaggerated. Rep. Jerry Weller and other Republicans, for example, assert that a childless two-earner couple

The Biggest Marriage Tax Is the Hardest One to Solve

Not as often discussed, but clearly the biggest “marriage penalty” of all stems from the “earned-income tax credit.” This tax rebate for lower-income working families is computed and phased out exactly the same for single parents as for couples with children. For example, two cohabiting single parents each making $15,000 can get as much as $2,870 apiece in tax rebates. But if they marry, their tax rebates are eliminated. As a result, in the worst cases, two-earner couples with four children and a joint income of $20-35,000 can face marriage penalties exceeding $5,000. Other EITC marriage penalties are less gigantic, but they can hit some two-job married couples with children making up to $50,000 with thousands of dollars in added taxes just for being married.

Eliminating EITC marriage penalties could be prohibitively costly—$20-25 billion a year—unless offset by some pretty hefty tax hikes on a lot of the modest-income single parents the program is mainly intended to help, and would probably make the EITC program even harder to administer. It’s worth noting, however, that Congressional Republicans who want to spend even larger sums—with no offset—to reduce marriage penalties on the highest-income married people, haven’t entertained the idea of targeting marriage penalty relief to couples in the middle of the income scale.

This article does not attempt to address the EITC marriage penalty issue, but it deserves a lot more attention than it currently receives.

making $61,000 pays almost $1,400 more in taxes because of the marriage penalty. These calculations are faulty even on their own terms, since the typical "marriage penalty" for the couple cited is actually only about $267. (Among other errors, Weller oddly ignores the fact that most couples at this income level itemize deductions.) More important, however, Weller and his cohorts are guilty of a much more fundamental arithmetic error. They're comparing what married couples pay now compared to what they'd pay if overall federal taxes were substantially reduced.

In reality, if Congress were to address the "divorce bonus" problem by cutting taxes on married couples, the balanced budget act (not to mention fiscal responsibility) would require it to make up the lost revenue somehow—generally by offsetting tax hikes. Since married couples pay about three-quarters of all income taxes, it's plausible that about three-quarters of the offsetting tax *increases* would have to be paid by married people.

Suppose, for instance, that the cost of marriage penalty relief is covered by simply imposing a six or 7 percent surtax on all taxpayers. Then what might start off as a $42 billion a year gross tax cut for marrieds would end up as only about a $13 billion net cut for them—accompanied by a $13 billion tax increase on unmarried taxpayers. Under a slightly more sophistical revenue-neutral solution to the marriage penalty (discussed below), when all the dust has cleared, the typical married couple making $50,000 a year would pay about $117 less in taxes, while the typical single taxpayer would pay about $67 a year more.

In other words, it's not logical to compare what married couples pay now to what they'd pay if overall federal taxes were a lot lower. Saying that taxes would be lower if taxes were lower is true, but not edifying. The correct comparison is to a revised tax system that raises as much as current law.

Although the "tax on marriage" is much less significant than is often claimed, it is still annoying and unfair. So how did we get in this fix, and what should we do about it? A little history can help put things in perspective.

Prior to 1948, wealthy couples with lots of investment income could divide their income and file separate tax returns to take advantage of lower tax brackets, as could residents of a handful of states that by law treated each spouse as the owner of half the family income. But most wage-earning couples (almost all one-earner in those days) had no way to divvy up the family income for tax purposes.

The Republican Congress replaced this crazy-quilt system in 1948 with a marriage-penalty-free approach. For the next two decades, the tax code's treatment of married and single taxpayers was straightforward. Each member of a married couple was considered to enjoy exactly half the total couple's income, and each was taxed on that income at the same rates as single people.

In 1969, however, Congress changed course again. A new, more favorable singles rate table was adopted in response to protests that the system of splitting income between spouses discriminated against singles. This claim of discrimination grew out of a comparison between the tax paid by a married *couple* and the tax on a single *person* with the same income. Since the tax on a single person was higher than the sum of the taxes on the two married persons, the tax system was said to impose a "tax on remaining single."

Those complaining about a "tax on remaining single" apparently considered a married couple as one taxpayer instead of two, treating one spouse as the real taxpayer and the other, typically the wife, as the "tax shelter." Whether this outlook was ultimately based on outrageous sexism, unabashed self-interest on the part of singles or mere logical error is unclear. But it is clear that the philosophical position that formed the

"The Tax Penalty for Being Able to See"

For the typical single person, current law's favorable singles' tax brackets are worth only about $67 a year in lower taxes compared to what they'd owe if the tax system were more neutral between married and unmarried people.

How did a tax break worth only $67 to the typical single taxpayer turn into such a supposedly gigantic penalty on married people? The answer, of course, is that the marriage penalty is really much smaller than many claim. To illustrate:

Blind taxpayers are allowed a larger standard deduction than sighted people get ($1,050 more if single; $1,700 more for blind couples). This tax break costs a piddling $30 million a year, or about 24 cents per non-blind taxpayer. But if we tally up what sighted people *don't* get because their standard deduction is smaller than blind people's, we could discover a huge "tax penalty for being able to see"—one that costs 54 million Americans an average of $208 a year in higher taxes. Silly? Well, yes, but it's the same kind of gross overstatement that many complainers about the "marriage penalty" frequently make.

basis for the 1969 attack on marital income splitting was bankrupt both then and now, and Congress ought to admit its mistake and fix the problem.

The good news is that the leading GOP proposal to reduce the marriage penalty is based on a partial return to the pre-1969 system of taxing married couples as if each spouse were a single person earning half the total family income. Its sponsors, Reps. Jerry Weller (R-Ill.), David McIntosh (R-Ind.), Wally Herger (R-Cal.) and Bob Riley (R-Ind.), should be commended for that—and for rejecting foolish so-called solutions like optional separate filing that create more problems than they solve. The Weller bill respects both married and unmarried persons as individuals while preserving the important principle that couples with equivalent incomes should pay the same amount in taxes.

The bad news is that these GOP advocates for reducing the marriage penalty have a second, unrelated agenda. They've muddied the waters by proposing to use marriage penalty relief as an excuse to cut taxes a lot, mainly on the rich.

Thus, their bill would simply cut taxes on married couples without any offsets. Two-thirds of their proposed $31 billion a year tax cut would go to the best-off fifth of married couples, with average incomes of $184,000 each.

But whether we need further tax cuts—and if so for whom—is a controversial issue that can and should be debated separately. Many tax-cut opponents, for example, argue that the budget surpluses our strong economy is currently generating have created an opportunity to address Social Security's long-term problems, avoid further shrinkage in public services or reduce our bloated national debt. Others point to the big upper-income tax cuts enacted last year and strongly oppose a repeat of that exercise.

In contrast, curbing the marriage penalty—which simply involves adjusting the *relative* tax burdens of singles and marrieds—is a good idea on its own. And it can be accomplished without changing the current level or overall distribution of tax revenues.

If we think that couples are paying too much compared to singles, then the answer is to cut taxes on those who are paying too much and raise taxes on those who are paying too little. It's not hard to devise a plan that minimizes the tax shifts. For instance, I've worked out an approach that wipes out the marriage penalty with an average tax cut of $117 for the typical married couple and an average tax increase of $67 for the typical single.

Under this neutral approach, the tax cuts for middle-income married couples would be similar to those

Reducing the Marriage Penalty: Two Approaches

Marginal Tax Bracket	Brackets Start at Taxable Income Of: Current Law (1998) Married	Current Law (1998) Single	Weller, McIntosh, Herger, Riley Plan Married	Weller, McIntosh, Herger, Riley Plan Single	Revenue & Distributionally Neutral Married	Revenue & Distributionally Neutral Single
15%	$ —	$ —	$ —	$ —	$ —	$ —
28%	42,350	25,350	50,700	25,350	46,000	23,000
31%	102,300	61,400	122,800	61,400	102,000	51,000
36%	155,950	128,100	256,200	128,100	155,000	77,500
39.6%	278,450	278,450	556,900	278,450	280,000	140,000
Std Ded.	$ 7,100	$ 4,250	$ 8,500	$ 4,250	$ 8,200	$ 4,100

Note: The neutral plan amends a number of other marriage-penalty-causing provisions of the the tax code in addition to the changes shown here.

Effects of Eliminating the "Marriage Penalty"
Average Married Tax Cuts Under Two Approaches

Married Income Group	Income Range			Average Income	Costly GOP Plan	Revenue-Neutral Plan
Lowest 20%	Less than		$26,000	$ 17,300	$ –44	$ –36
Second 20%	$26,000	–	42,000	33,700	–143	–116
Middle 20%	$42,000	–	60,000	50,100	–144	–117
Fourth 20%	$60,000	–	85,000	70,500	–685	–400
Next 15%	$85,000	–	163,000	110,500	–1,047	–493
Next 4%	$163,000	–	409,000	236,400	–2,259	–659
Top 1%	$409,000	or more		1,086,000	–10,884	–613

Notes: Tax cuts under the GOP plan are not offset, and therefore entail a $31 billion dollar a year reduction in government revenues. The smaller net tax cuts for marrieds under the revenue-neutral plan are offset by higher taxes on unmarried taxpayers, typically $67 more each.

under the Weller-McIntosh bill, but the reductions for richer couples would be far less. (High income singles would face tax increases equal to about one percent of their income to balance the tax cuts for high-income couples and keep the plan distributionally neutral overall. Because almost all very high income people are married, the starting points for the top tax brackets for singles have to be lowered quite a lot to balance even small tax cuts for high-income couples.)

Furthermore, if the marriage penalty were eliminated as part of a program of real tax reform, the shifts in tax burdens could be even less, since many tax preferences (other than for investment income) tend to benefit married people more than singles. Rep. Dick Gephardt (D-Mo.), for example, has introduced a tax overhaul plan that closes loopholes, puts three-quarters of all taxpayers in the 10 percent or less tax bracket and along the way, eliminates the marriage penalty by returning to full income splitting. Because of his reforms, Gephardt is able to reduce personal income taxes for all but the very highest-income groups —marrieds and singles alike—and yet raise just as much in total revenue as does current law.

The Overall Distributional Effects of a Neutral Plan to Eliminate the Marriage Penalty

Income Group	Average tax change	% of all income taxes	
		Currently	Revised
<$10,000	$ +5	–0.6%	–0.6%
$10-20,000	+26	–0.4%	–0.3%
$20-30,000	+26	3.3%	3.4%
$30-40,000	+83	4.7%	4.9%
$40-50,000	+140	6.8%	7.1%
$50-75,000	–36	16.4%	16.3%
$75-100,000	–297	12.4%	12.1%
$100-200,000	–218	18.6%	18.4%
$200,000+	+93	38.8%	38.8%
ALL	$ —	**100.0%**	**100.0%**

Effects on all taxpayers of a revenue-neutral plan with no marriage penalty.

Congress will be debating a number of ways to change our tax system over the next few years. Some of the proposals—such as a high rate national sales tax or a flat-rate wage tax—are technically, fiscally and distributionally disastrous. Others such as the Gephardt plan have more promise. But whatever happens, the debate could provide a good opportunity to eliminate marriage-based inequities from our tax laws. It's critical, however, that Republicans separate their professed desire for a solution to the marriage penalty from their perennial zeal for big tax cuts for the best-off Americans. **!**