A
CBO
STUDY

FOR BETTER OR FOR WORSE: MARRIAGE AND THE FEDERAL INCOME TAX

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NOTES

Because numbers are often rounded, their sums may not equal totals shown in tables, figures, and text.

For simplicity of exposition, this paper sometimes uses the term "families" to refer to both families and individuals.

Values for earnings are sometimes negative. People can have negative earnings if they lose money in self-employment and the losses exceed incomes from wages or salaries.

Preface

This study examines the ways in which federal tax law affects the income taxes that married couples pay and how demographic and labor market changes over the last two decades have altered those effects. It also discusses a variety of possible changes in the federal tax code that would reduce the higher tax liabilities that married couples often incur because they cannot file individual tax returns. The Congressional Budget Office (CBO) prepared the study at the request of Representative Barbara Kennelly of the Committee on Ways and Means.

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Summary

Marriage affects the income taxes people pay, sometimes causing married couples to pay more than they would if they were single and sometimes causing them to pay less. That is because the household—the married couple or the single individual—is the basic tax-paying unit in the U.S. system. Differences in the tax liabilities of households reflect attempts by the Congress to maintain balance in tax treatment among different kinds of families. On the one hand, the tax code seeks to levy the same tax on couples with the same income, regardless of who earns the income. On the other hand, the code tries to minimize the effect of marriage on a couple's tax liability. A tax structure with progressive rates, however, cannot attain both goals. The incompatibility of those three goals—progressive rates, equal treatment of married couples, and marriage neutrality—results in a continuing tension within the tax code. The third goal, marriage neutrality, has proven to be the most elusive in our system.

The balance among the goals has shifted over time, partly in response to complaints of unfair treatment and partly in reaction to changing demographic patterns. Growing numbers of single taxpayers, the greater likelihood that husbands and wives both work, increasing parity of earnings for husbands and wives who do work, and changes in tax rate brackets have all contributed to the pressures on the balance.

Differences in income tax liabilities caused by marital status are embodied in a number of tax code provisions, beginning with separate rate schedules for married couples and single individuals. The most important other differences are those in the standard deduction and the earned income tax credit (EITC). Those factors cause most two-earner couples in which husband and wife have roughly equal incomes to pay more tax than they would if they could file individual tax returns, incurring what has become known as a "marriage penalty." At the same time, couples with just one earner or in which husband and wife have quite different incomes generally pay lower taxes as joint tax filers than they would if they could file as single taxpayers. Those couples receive what analysts have termed "marriage bonuses."

Marriage penalties also exist outside the federal income tax in the form of transfer program rules that limit married couples' benefits to amounts below what they would receive as single individuals. For example, a low-income single mother might qualify for welfare assistance, food stamps, and Medicaid, benefits that she would lose if she obtained a good-paying job or married a man who had a moderate income. That loss of benefits can offset much of the income gains from work or marriage, thus providing disincentives for each. Although such marriage penalties outside the tax code can be substantial—and often are larger than those created by the tax code—this study addresses only the different income taxes paid by joint and individual filers.

If marriage penalties and bonuses were small, they would be of little consequence. Taxpayers would not perceive as unfair the small differences in taxes created by marriage. Perhaps more important, those differences would not lead people to change their behavior toward work or marriage itself. But the penalties and bonuses can be large. Empirical evidence indicates that they may affect work patterns, particularly for a cou-

ple's second earner. Joint tax filing often imposes a substantially higher rate on a couple's second earner than does individual filing. The higher rates reduce the after-tax wage and may cause second earners to work fewer hours or not to work at all, thus reducing economic efficiency. Furthermore, large differences in tax liabilities between otherwise similar couples lead to perceptions of unfairness and calls for changes in the tax code that would reduce those differences.

The size and imposition of marriage penalties and bonuses depend on which components of the tax code are included in their measurement. In general, the more components of the code that are included in the yardstick, the more couples incur marriage penalties and the fewer couples receive bonuses. The components included depend on which taxpaying circumstances are assumed. The measure used in this study includes the code components that account for the bulk of the penalty and bonus amounts. The estimates of those penalties and bonuses, however, assume no induced changes in labor supply or marriage and thus underestimate the economic costs involved.

To be more specific, marriage penalties and bonuses occur because the tax code allows different standard deductions in determining the taxable incomes of couples and single taxpayers, has different tax rates for given levels of taxable income for the two groups, and provides the EITC without regard to marital status. Couples in which spouses have similar incomes generally can claim smaller deductions, face higher marginal tax rates, and lose some or all of the EITC they would have if they filed individual tax returns and thus incurred marriage penalties. Couples in which one spouse earns much less than the other or does not work face the opposite situation. They may qualify for larger deductions, incur lower tax rates, and receive more EITC than under individual filing and thus receive marriage bonuses.

Distribution of Marriage Penalties And Bonuses

An estimated 42 percent of couples incurred marriage penalties in 1996, 51 percent received bonuses, and 6 percent paid taxes unaffected by their marital status (see Summary Table 1). That distribution varies markedly across the income distribution. Only 12 percent of couples with incomes below $20,000 had penalties and 63 percent received bonuses. Couples with incomes between $20,000 and $50,000 were somewhat more likely to receive bonuses than to incur penalties, whereas couples with incomes above $50,000 were somewhat more likely to incur penalties than to receive bonuses.

Measured as a percentage of income, marriage penalties and bonuses are largest for low-income families and least for high-income families (see Summary Table 1). Couples with incomes below $20,000 who bear penalties are estimated to pay nearly 8 percent

Summary Table 1.
Distribution of Joint Tax Returns and Marriage Penalty or Bonus as a Percentage of Adjusted Gross Income, by Adjusted Gross Income of Couple and Penalty or Bonus Status, Projected 1996

	Less Than $20,000	$20,000-$50,000	More Than $50,000	All Incomes
Returns in Income Category (Percent)				
With Penalties	12	44	54	42
Unaffected	25	1	3	6
With Bonuses	63	55	44	51
All Returns	100	100	100	100
Penalty or Bonus as a Percentage of Adjusted Gross Income				
Penalties	7.6	3.2	1.6	2.0
Bonuses	5.0	2.6	2.0	2.3
Total Penalties and Bonuses (Billions of dollars)				
Penalties	0.9	9.6	18.3	28.8
Bonuses	3.9	8.7	20.3	32.9
Net Effect on Tax Liability[a]	-3.0	0.9	-2.0	-4.1

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

a. Positive values indicate net penalties; negative values indicate net bonuses.

more of their income in taxes measured at 1996 income levels than they would pay if they could file individual tax returns. For their counterparts who received them, however, bonuses averaged 5 percent of income. Because bonus recipients in that income category far outnumber those incurring penalties, low-income married couples received a net bonus of $3 billion. Both penalties and bonuses for middle-income couples averaged roughly 3 percent of the incomes of affected families. Slightly higher average penalties offset a slightly lower proportion of couples with penalties, yielding a net penalty of nearly $1 billion. Couples with incomes over $50,000 received a total net bonus of $2 billion. Couples with bonuses saved 2 percent of their incomes by filing jointly, more than offsetting the added taxes—equal to 1.6 percent of income—paid by penalized couples.

Couples with a more equal division of incomes between husband and wife are more likely to incur marriage penalties and less likely to receive bonuses than couples in which one spouse has significantly less income than the other or does not work at all. One-earner couples received seven-eighths of the total value of bonuses in 1996 but represented less than one-half of all couples (see Summary Table 2). On net, their income tax liabilities were nearly $29 billion lower than if they were required to file individual tax returns. By contrast, the one-quarter of all couples in which husband and wife both earn at least one-third of the cou-

Summary Table 2.
Joint Tax Returns by Penalty or Bonus Status and Division of Earnings Between Spouses, Projected 1996

	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings[a]	All Couples
Joint Returns in Penalty or Bonus Category (Percent)				
With Penalties	52	48	0	100
Unaffected	21	5	75	100
With Bonuses	2	21	77	100
All Joint Tax Returns	25	31	44	100
Total Penalty or Bonus (Billions of dollars)				
Penalties	15.2	13.6	0	28.8
Bonuses	0.1	4.4	28.5	32.9
Net Effect on Tax Liability[b]	15.1	9.2	-28.5	-4.1

SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

a. Couples with no earners and those with one earner incur similar marriage penalties and bonuses and are thus combined in the analysis. For simplicity of exposition, the text refers to both types of couples as having one earner.

b. Positive values indicate net penalties; negative values indicate net bonuses.

ple's income filed one-half of all joint returns incurring marriage penalties but only 2 percent of those receiving bonuses. As a result, those couples paid $15 billion more in taxes than they would have if they could have filed as individuals. Those estimates are based on observed earnings under current tax laws, however, and do not take account of the costs of couples altering their work and marriage patterns in response to the tax code.

Although the prevalence of marriage penalties and bonuses indicates that the tax code fails to provide marriage neutrality, it is more successful in achieving equal treatment of married couples with similar incomes. If couples were required to file individual tax returns, those with one earner would face substantially higher tax rates than those with two earners who have roughly equal incomes (see Summary Table 3). Because the tax code generally requires couples to file jointly, those with different divisions of earnings between spouses incur more nearly equal tax rates. Marriage penalties and bonuses arise from this equalization of tax rates for couples with different divisions of earnings.

Summary Table 3.
Effective Individual Income Tax Rates of Married Couples Filing Individual or Joint Returns, Projected 1996 (In percent)

Tax Filing Status	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings[a]
Joint	13.2	15.2	15.0
Individual	11.2	14.3	17.6

SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

NOTE: Effective tax rates equal federal individual income tax liability as a percentage of adjusted gross income.

a. Couples with no earners and those with one earner incur similar marriage penalties and bonuses and are thus combined in the analysis. For simplicity of exposition, the text refers to both types of couples as having one earner.

Demographic Changes Affecting Marriage Penalties and Bonuses

In the last two decades, a sharp rise in the share of married couples with two earners has taken place, accompanied by increasing equality of the earnings of husbands and wives, particularly among couples with higher incomes. Those changes, occurring for couples with and without children, have contributed to a rise in the share of couples incurring marriage penalties.

Between 1969 and 1995, the proportion of working-age married couples with two workers grew from 48 percent to 72 percent. By itself, that shift tended to increase marriage penalties and reduce bonuses. Offsetting that trend, however, was a decline in married couples as a share of all families and individuals: couples made up two-thirds of all such tax units in 1969, but only one-half by 1995. Thus, a smaller fraction of tax returns are now joint (and hence may be subject to marriage penalties and bonuses) than was the case a generation ago.

The shift toward two-earner couples has been accompanied by increasing equality of the incomes of husbands and wives. Between 1969 and 1995, the fraction of working-age couples in which both husband and wife earned at least one-third of the couple's income doubled from 17 percent to 34 percent. The greater equality of spouses' earnings increased both the share of couples incurring marriage penalties and the size of those penalties.

Those changes in earnings patterns for married couples occurred for all subgroups defined by earnings, age, and presence and number of children. However, the changes were largest among couples with the highest incomes, those with both spouses under age 55, and those with children.

If the demographic characteristics of married couples had not changed between 1969 and 1996, more couples would have received bonuses under 1996 tax law and fewer would have incurred penalties. Simulations indicate that without the demographic change of the last quarter century, two-thirds of couples would get bonuses and less than one-third would pay penalties

under joint filing, compared with the nearly even split between the two categories in 1996.

Reducing Marriage Penalties

Recent growth in the number of married couples who incur marriage penalties and the increasing size of those penalties have focused attention on the effects of marriage on taxes and on alternative ways to alleviate them. One approach involves relatively minor alterations of the current tax code such as changes in tax brackets and standard deductions, restoration of the two-earner deduction, or credits to offset penalties. More significant changes would allow couples to file either joint or single returns or require that all taxpayers file individual returns. Finally, comprehensive tax reform, replacing the current income tax with either a simpler tax on incomes or some form of consumption tax, would entail some pattern of penalties and bonuses unless individual filing was incorporated into the new system.

Changes in the tax code that reduce or eliminate marriage penalties face an inevitable trade-off: cutting penalties means lower taxes for some couples and either reduced federal tax revenues or higher taxes on other taxpayers. Revenue-neutral options require a redistribution of taxes from those now incurring penalties to other taxpayers, either couples now receiving bonuses or single people.

Six basic approaches address the problem of marriage penalties directly (see Summary Table 4). Combining options would generate interactions in ways not analyzed in this study.

- *Widen Tax Brackets and Raise the Standard Deduction for Joint Filers.* Increasing tax bracket widths and standard deductions for joint filers to twice those for single people would reduce total marriage penalties by nearly one-half at an estimated revenue cost of about $25 billion measured at 1996 income levels. Nearly 90 percent of tax reductions would accrue to couples with incomes above $50,000. Half would go to those receiving bonuses under current law.

- *Exempt from Taxes Some Income of the Lower-Earning Spouse.* Exempting some earnings of lower-earning spouses would ease the high marginal tax rates they may face on even low amounts of earnings. For example, restoring the 10 percent deduction for up to $30,000 of earnings would reduce total marriage penalties by one-third at an estimated cost of about $9 billion in lost revenues measured at 1996 income levels. Principal beneficiaries would be couples with incomes between $50,000 and $100,000, for whom penalties would fall by more than one-half. Couples with lower incomes would see their penalties decline by about one-tenth.

- *Modify the EITC to Reflect Number of Adult Earners.* A significant share of the marriage penalties incurred by low-income couples is caused by the loss of EITC when individual incomes are combined. Providing two-earner couples with EITC parameters double those for single-earner tax units would reduce marriage penalties for low-income couples by about one-fourth, producing an estimated revenue loss of about $4 billion measured at 1996 income levels. Virtually all of the benefits would go to couples with incomes below $50,000, and less than 1 percent would go to those now receiving bonuses because of the EITC. Nearly 3.7 million couples would become newly eligible for the EITC.

- *Require Spouses to File Individual Tax Returns.* Requiring all taxpayers to file single returns would eliminate all marriage penalties and bonuses, but would redistribute roughly $30 billion in tax liabilities from couples now receiving bonuses to those incurring penalties. Marriage would no longer affect a couple's tax bill. Although revenue gains from lost bonuses would outweigh revenue lost in eliminated penalties, yielding an estimated $4 billion in net additional revenue in 1996, changes in the tax liabilities of couples would be enormous. The 25 million couples now receiving bonuses would pay an average of $1,300 in added taxes, and 21 million couples now incurring penalties would find their taxes down an average of nearly $1,400.

- *Allow Couples to Choose Filing Status.* Allowing couples to choose to file either jointly or as individuals would eliminate all marriage penalties at an esti-

mated cost of about $29 billion in lost revenues measured in 1996 income levels. All existing marriage bonuses would continue.

A less extreme version of that approach would allow couples a tax credit based on a simplified calculation of the marriage penalty they now pay. If that calculation was limited to earnings, standard deductions, and a single personal exemption for each spouse, the resulting credits would cut total marriage penalties by about one-third, producing an estimated revenue loss of about $10 billion measured at 1996 income levels. Couples with incomes above $50,000 would have their penalties cut by one-half, whereas low-income couples would be relieved of just one-tenth of their current penalties, largely because the credit would ignore the EITC.

- *Fundamental Radical Tax Reform.* Fundamental changes in the federal tax system such as those dis-

Summary Table 4.
Alternative Approaches to Reducing Marriage Penalties

Approach	Revenue Loss[a] (Billions of dollars)	Share of Penalty Removed[b] (Percent)	Share to Tax Units (Percent): With Incomes Below $20,000[c]	With Incomes Above $50,000[c]	Currently Receiving Bonuses[d]
Set Standard Deduction and Width of Tax Brackets for Joint Filers Equal to Double Those for Single Filers	25	44	6	87	51
Restore Two-Earner Deduction	9	32	1	82	10
Double Earned Income Tax Credit Parameters for Two-Earner Couples	4	12	41	1	1
Require Spouses to File Individual Returns	-4	100	e	e	e
Allow Couples to Choose Filing Status	29	100	3	64	0
Replace Income Tax with Consumption Tax	f	f	f	f	f

SOURCE: Congressional Budget Office simulations.

NOTE: See text for complete description of approaches.

a. Negative value indicates revenue gain because tax increases for some taxpayers exceed tax reductions for others.

b. Total tax reduction for couples currently incurring tax penalty as a percentage of current total tax penalty.

c. Percentage of revenue loss going to couples with income in given range. Share includes tax reductions for couples getting either penalties or bonuses.

d. Fraction of total revenue loss going to couples currently receiving marriage bonuses.

e. All couples incurring penalties get tax reductions equal to penalties. All couples receiving bonuses incur tax increases equal to bonuses. Shares going to each income group and to those receiving bonuses are misleading and therefore not shown.

f. Revenue loss depends on formulation of consumption tax. Distribution among income groups and to those now receiving bonuses cannot be determined.

cussed during the 104th Congress could markedly reduce marriage penalties. Moving to a flat (single-rate) tax, for example, would eliminate all penalties (and bonuses) resulting from tax brackets. If reform also eliminated other tax features such as standard deductions and the EITC, penalties and bonuses arising from those features would also disappear. Alternatively, switching from a tax on income to a tax on consumption would wipe out all marriage penalties and bonuses if exemptions from the tax were independent of marital status and marriage did not affect a couple's combined consumption.

Chapter One

Marriage Penalties and Bonuses

Federal income tax laws generally require that a married couple file a joint tax return based on the combined income of husband and wife. As a result, husbands and wives with similar incomes usually incur a larger combined tax liability than they would if they could file individually. At the same time, spouses who have markedly different incomes but file as a couple generally face smaller tax bills than they would if they were single. Those two possibilities, often referred to as marriage "penalties" and "bonuses," result from conflicting goals of a tax system that attempts to balance fairness between married and unmarried couples, among married couples, and among taxpayers with differing incomes.

Under 1996 tax law, a married couple could face a federal tax bill that was more than $20,000 higher than the amount they would pay if they were not married and could file individual tax returns, whereas other couples may find that filing a joint tax return reduces their tax bill by more than $4,000.[1] Although there are various ways of defining marriage penalties and bonuses, one broad measure indicates that more than 21 million married couples paid an average of nearly $1,400 in additional taxes in 1996 because they must file jointly, whereas another 25 million found that the benefits of filing jointly decrease their tax bills by an average of about $1,300. Marriage penalties totaled about $29 billion in 1996, and bonuses added up to roughly $33 billion.

Marriage penalties are a relatively recent aspect of federal income taxes, the result of changes made in the tax code in 1969 to redress what some individuals viewed as unfairly high taxes paid by single people. Although the impact and size of marriage penalties and bonuses have changed over the years with changes in the tax code, recent tax increases in the form of additional tax brackets, and shifts in the work patterns of married couples have combined to expand the proportion of couples subject to penalties and boost the magnitude of those payments. Those movements have raised interest in policies that would reduce the impact of marriage penalties in the tax code.

Marriage penalties and bonuses are not deliberately intended to punish or reward marriage. Rather they are the result of a delicate balance among disparate goals of the federal income tax system. Largely for historical reasons, the United States imposes income taxes not on individuals as do most other industrialized nations, but on couples, regardless of the division of incomes between spouses. Under a progressive structure of tax rates, treating families equally generally means that a couple's taxes will differ depending on their marital status. Over time, the ebb and flow of political pressures have shifted the equilibrium between marriage penalties and bonuses as the Congress has attempted to balance the competing demands of married and unmarried taxpayers. Shifting demographics, particularly the

1. Federal income taxes are only one source of marriage penalties. Others include state and local income taxes and federal transfer programs such as Social Security, in which benefits depend in part on both marital status and resources. This study does not consider any effects of marriage beyond those affecting a couple's federal individual income tax liability. Two recent studies that examine the broader question of marriage penalties and bonuses are Linda Giannarelli and Eugene Steuerle, *The Twice-Poverty Trap: Tax Rates Faced by AFDC Recipients* (Washington, D.C.: Urban Institute, April 1995), and Stacy Dickert-Conlin and Scott Houser, *Taxes and Transfers: A New Look at the Marriage Penalty* (unpublished working paper, Lexington: University of Kentucky, July 1996).

growing proportion of couples with two earners, have exerted further pressures on that fragile equilibrium.

Whether a couple incurs a penalty or receives a bonus in their taxes depends on the level of their income, the division of earnings between husband and wife, and how many children they have. Over the last quarter century, as more wives have entered the labor force and their wages have risen in relation to men's, earnings of spouses have grown more equal. The change increases the likelihood that a couple will incur a tax penalty, as compared with two single people whose earnings are the same. Changes in demographics and earnings alone appear to have increased by one-half the proportion of couples incurring marriage penalties.

In 1995, the House of Representatives passed legislation that would slightly lower the tax penalty imposed on married couples, which would have cost $2 billion annually in reduced government revenues. That same year the Senate included in its budget reconciliation bill a provision that would, over a 10-year period, raise the standard deduction for married couples filing jointly to twice that of single filers. When fully phased in, that change would reduce the marriage penalty for many couples and increase the marriage bonus for others at an annual cost of roughly $5 billion in lower revenues. Other options that would further reduce or eliminate marriage penalties could have significantly higher revenue costs.

Defining Marriage Penalties and Bonuses

Marriage penalties and bonuses in the federal individual income tax are defined as the increase or decrease in taxes that some married couples incur because they pay taxes as couples rather than as individuals. Penalties and bonuses result from the tax code's pursuit of three conflicting goals: equal treatment of married couples, marriage neutrality, and progressive taxation.

Equal Treatment of Married Couples

According to the principle of equal treatment, married couples who have equal incomes should pay the same income taxes, regardless of the way earnings are divided between spouses. Thus, a couple in which each spouse earns half the income should pay the same taxes as a couple with the same income but in which only one spouse works. That concept runs afoul of equity principles when married couples with equal incomes have different abilities to pay. A prime example involves one- and two-earner families with the same total income. Because the nonearning spouse has time to perform household tasks, the one-earner couple is better off than the couple with two workers, which often has to pay for such services as child care and household chores. It thus has a greater ability to pay and, by some standards of equity, should pay higher taxes. But determining the difference in ability to pay is difficult, if not impossible, and the government has shied away from imposing different taxes on that basis.

Marriage Neutrality

Under the principle of marriage neutrality, a couple's income tax bill should not depend on their marital status. Without neutrality, the tax code would provide an incentive, even though it is small, for couples either to marry—if marriage would lower their tax bill—or to remain single—if marriage increases their taxes. The concept of marriage neutrality may violate principles of equity, however, if marriage (or divorce) either increases or decreases couples' combined ability to pay. If, for example, marriage enables couples to reduce their housing costs because they live together, marriage would increase their ability to pay, and in fact some standards of equity would dictate that they pay higher taxes than they did before they married.

Progressive Taxation

The principle of progressive taxation holds that taxpayers who have higher incomes should pay a larger percentage of their incomes in taxes than do those with lower incomes. The federal income tax, for example, imposes no tax on families and individuals who have the lowest incomes, and taxes income above various thresholds according to a series of graduated rates ranging from 15 percent to 39.6 percent. Graduated tax rates, however, are not necessary to achieve progressivity. Combining a single rate and a low-income deduction or credit would also be progressive.

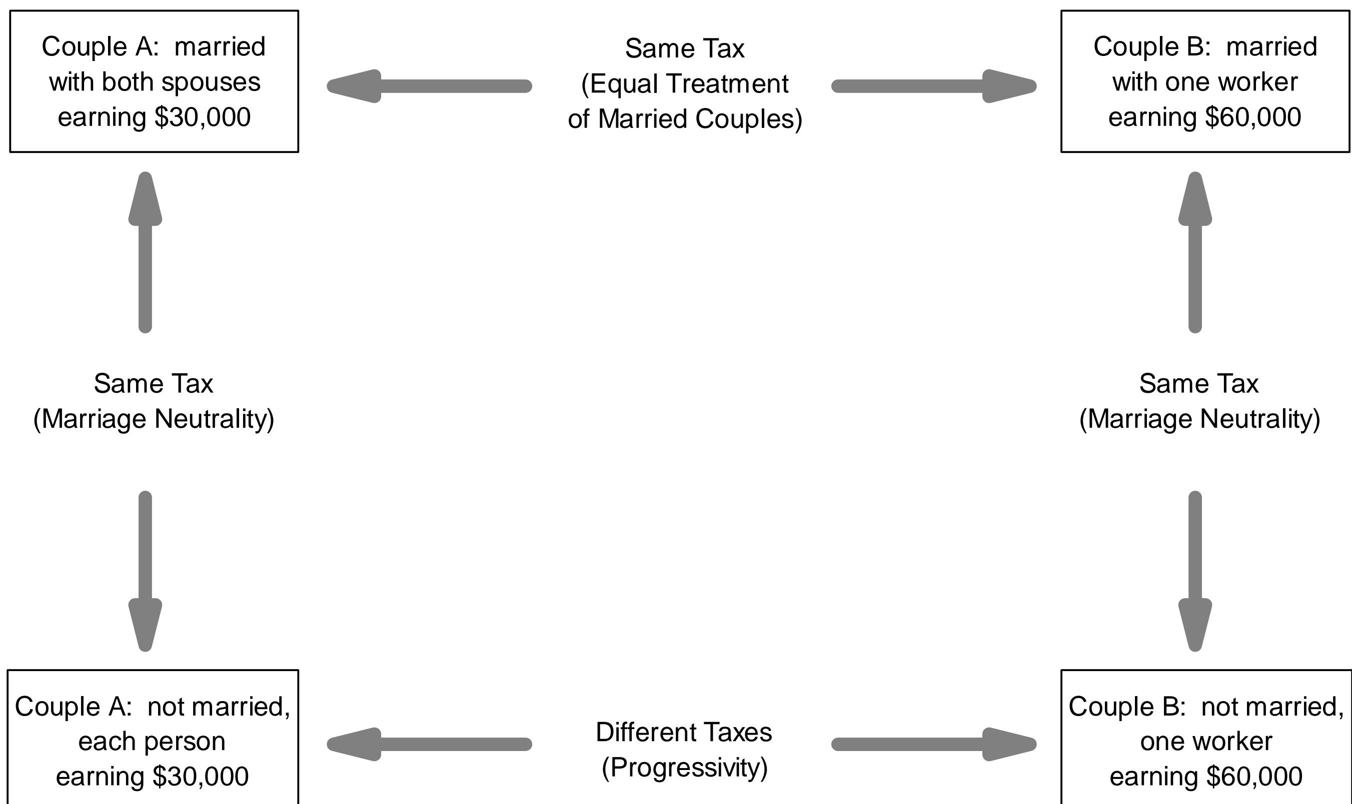
The Unattainable Ideal

A simple example demonstrates the impossibility of simultaneously achieving all three of those goals (see Figure 1). Consider two couples, each earning $60,000 and having no unearned income. Both members of couple A work, each earning $30,000, whereas only one member of couple B works, earning the couple's entire $60,000. Satisfying the goal of taxing married couples with the same incomes equally requires that married couple A and married couple B pay the same taxes. To meet the goal of marriage neutrality, the tax bill of each couple must not depend on their marital status; that is, the tax on two single people, each earning $30,000, must equal the tax on a married couple in which each spouse earns $30,000, and the tax on two single people, one with a $60,000 income and the other with no income, must equal the tax on a one-earner married couple with the same $60,000 income.

Combining the two goals implies that two single people, each with a $30,000 income, pay the same total tax as two single people, one earning $60,000 and the other with no income, or, equivalently, that a single person with a $60,000 income pay exactly double the tax of a single person earning $30,000. But that outcome directly violates the goal of progressive taxation: under that principle, a person who has twice the income of another pays more than twice the taxes.

Relaxing one or more of the three goals solves the contradiction among them. Forgoing progressivity, for example, would allow a tax system to satisfy both the goal of marriage neutrality and that of equal treatment

Figure 1.
The Conflict Among Goals of Income Taxation



SOURCE: Congressional Budget Office, derived from Treasury Department, Office of Tax Analysis, *Federal Income Tax Treatment of Married and Single Taxpayers* (September 13, 1977), p. 2.

of married couples. Alternatively, married couples with equal incomes but unequal division of income between spouses could pay different taxes based on the principle that the division of income within couples measures different abilities to pay. Or, as in the United States, the taxes of a married couple could depend only on their total income, thus satisfying the goal of equal treatment of married couples but sacrificing the goal of marriage neutrality because some married couples would pay higher or lower taxes than they would if they were single. In practice, the last solution to the contradiction among the three goals can impose a marriage penalty (that is, higher taxes than if they were not married) on some couples while granting a marriage bonus (lower taxes) to others. Two examples based on the federal individual income tax demonstrate these possibilities.

Example: A Marriage Penalty. A married couple with $75,000 in earnings, split evenly between husband and wife, paid $1,391 more in federal individual income taxes in 1996 than they would have if they had not been married (see Box 1). Two factors contribute to that marriage penalty. First, when filing a joint tax return, the couple can claim a standard deduction that is $1,300 less than the two single standard deductions—$4,000 each—they would receive if they were not married. At a marginal tax rate of 28 percent, the smaller deduction costs them $364 (28 percent of $1,300) in additional taxes. Second, because tax brackets for married couples are not twice as wide as those for single tax filers, $7,900 that is taxed at 15 percent on the two single returns faces a 28 percent rate on the joint return, yielding an additional tax of $1,027 (28 percent minus

Box 1.
A Marriage Penalty

A couple with $75,000 in total earnings, split evenly between the husband and the wife, would have incurred a marriage penalty of nearly $1,400 under 1996 tax law. The penalty results from two factors. First, the combined standard deduction for two individual tax filers would have been $8,000—$1,300 more than the standard deduction available on a joint return. At the couple's marginal tax rate of 28 percent, the lower deduction would have increased the couple's tax liability by $364 (28 percent of $1,300). Second, because tax brackets for joint returns were less than twice as wide as those for individual returns, $7,900 that is taxed at 15 percent on individual returns would have incurred a 28 percent rate on a joint return. That higher tax rate would have raised the couple's tax liability by an additional $1,027 (28 percent minus 15 percent equals 13 percent of $7,900). In combination, the two factors would have increased the couple's tax liability by 1.9 percent of their adjusted gross income.

	Husband	Wife	Couple
Adjusted Gross Income	$37,500	$37,500	$75,000
Less personal exemptions	2,550	2,550	5,100
Less standard deduction	4,000	4,000	6,700
Equals taxable income	30,950	30,950	63,200
Taxable at 15 percent	24,000	24,000	40,100
Taxable at 28 percent	6,950	6,950	23,100
Tax Liability	5,546	5,546	12,483
		Marriage Penalty	$1,391
		As a Percentage of Adjusted Gross Income	1.9

SOURCE: Congressional Budget Office.

15 percent equals 13 percent of $7,900). In combination, the two factors generate a marriage penalty of $1,391 in higher taxes. Because the couple receives the full value of personal exemptions whether or not they are married, exemptions cannot contribute to their marriage penalty.

Example: A Marriage Bonus. The couple described in the preceding example would have received a marriage bonus of more than $3,500 in 1996 if all of the couple's income were earned by one spouse—the wife in this instance (see Box 2). Three factors generate the bonus. First, because the husband has no earnings, he would receive no benefit from the personal exemption when filing as a single person. Filing jointly, the couple thus receives an additional $2,550 exemption, worth $791 in lower taxes (31 percent of $2,550). Second, the married couple can claim a standard deduction that is $2,700 greater than that which they can claim as single filers—again because the husband, without earnings, receives no value from the deduction as a single filer. The additional standard deduction lowers the couple's

Box 2.
A Marriage Bonus

A couple with $75,000 in total earnings, all earned by the wife, would have received a marriage bonus of nearly $4,000 under 1996 tax law. The bonus results from three factors. First, filing jointly, the couple would have claimed $5,100 in personal exemptions, twice what they could have claimed on two single returns. At a 31 percent tax rate, the larger exemption would have reduced the couple's tax liability by $791 (31 percent of $2,550). Second, the standard deduction of $6,700 on a joint return would have been $2,700 more than the $4,000 standard deduction the wife could have claimed on an individual return. (The husband, filing individually with no income, could not take the deduction.) At the couple's marginal tax rate of 31 percent, the larger deduction would have reduced the couple's tax liability by $837 (31 percent of $2,700). Finally, because tax brackets for joint returns were wider than those for individual returns, $16,100 that is taxed at 28 percent on individual returns would have been taxed at only 15 percent on a joint return and $5,050 taxed at 31 percent rather than at 28 percent. Those lower tax rates would have reduced the couple's tax liability by an additional $2,245 (28 percent minus 15 percent equals 13 percent of $16,100 plus 31 percent minus 28 percent equals 3 percent of $5,050). In combination, the three factors would have lowered the couple's tax liability by 5.2 percent of their adjusted gross income.

	Husband	Wife	Couple
Adjusted Gross Income	$0	$75,000	$75,000
Less personal exemptions	2,550	2,550	5,100
Less standard deduction	4,000	4,000	6,700
Equals taxable income	0	68,450	63,200
Taxable at 15 percent	0	24,000	40,100
Taxable at 28 percent	0	34,150	23,100
Taxable at 31 percent	0	10,300	0
Tax Liability	0	16,355	12,483
		Marriage Bonus	$3,872
		As a Percentage of Adjusted Gross Income	5.2

SOURCE: Congressional Budget Office.

taxes by $837 (31 percent of $2,700). Finally, because tax brackets for joint filers are wider than those for single people, $16,100 more of the couple's income is taxed at 15 percent rather than 28 percent, yielding tax savings of $2,093 (28 percent minus 15 percent equals 13 percent of $16,100), and $5,050 is taxed at 28 percent rather than 31 percent, saving another $152 (31 percent minus 28 percent equals 3 percent of $5,050). The three factors combine to provide the couple with a marriage bonus of $3,872 in lower taxes.

A History of the Treatment of Married Couples in the Federal Income Tax

Since its inception in 1913, the federal individual income tax has been periodically adjusted in its treatment of married couples. Until 1948, the government formally imposed income taxes on individuals, but couples were allowed to file joint returns as early as 1918, even though joint returns used the same schedules as individual returns.[2] Individual taxation meant that marital status had no effect on taxes and, as a result, married couples with identical total incomes could pay quite different taxes, depending on the division of income between husband and wife.

Community Property Laws

Community property laws in some states complicated the situation by requiring that husbands and wives share all of their income equally. The laws therefore provided a basis for each spouse to pay federal income taxes on one-half of the couple's income. That claim equalized taxes for couples with the same income, but created a situation in which some couples—those in which husband and wife had different earnings—received a marriage bonus, paying lower taxes after marriage than before. In 1930, the Supreme Court validated the splitting of income in community property states [*Poe v. Seaborn*, 282 U.S. 101 (1930)], but denied that opportunity to couples in other states, even if they agreed by contract to share their incomes equally [*Lucas v. Earl*, 281 U.S. 111 (1930)].

The distinction drawn between couples in states that have community property laws and those that have common property laws meant that couples with identical incomes could pay higher federal taxes in the latter states than in the former. Because only a small fraction of the population paid any income taxes before World War II—fewer than 4 million people owed any tax in 1939—the Congress felt little pressure to change this situation during the 1930s. In fact, before 1948, the Congress's only effort to change the filing status of couples came in 1941 in a proposal to require couples to file joint returns at individual rates. The proposal failed when opponents objected that the change would raise the taxes paid by virtually all two-earner couples.

As income taxes increasingly became a means to finance the war effort in the 1940s—between 1939 and 1945, taxable returns increased more than tenfold to nearly 43 million—state governments more widely realized that their citizens would pay lower federal taxes if the states adopted community property laws. After failing to satisfy a skeptical Supreme Court with optional community property laws [*Commissioner v. Harmon*, 323 U.S. 44 (1944)], Oklahoma and Oregon enacted mandatory community property rules that met the court's objections, even though couples were allowed to opt out of their coverage. Other states quickly followed suit. Concerns about problems that community property laws could create in nontax areas brought pressure on the Congress to act on the issue.

Joint Returns

The Congress responded in 1948 by allowing all married couples to file joint returns and pay taxes on their total income using schedules that had brackets twice the width of those for single individuals. That approach effectively assigned each spouse one-half of the cou-

2. This history of the treatment of couples in the federal individual income tax draws from Boris I. Bittker, "Federal Income Taxation and the Family," *Stanford Law Review*, vol. 27 (July 1975), pp. 1389-1463; June O'Neill, "Family Issues in Taxation," Rudy Penner, ed., *Taxing the Family* (Washington, D.C.: American Enterprise Institute, 1983), pp. 1-22; Edward J. McCaffery, "Taxation and the Family: A Fresh Look at Behavioral Gender Biases in the Code," *UCLA Law Review*, vol. 40 (April 1993), pp. 983-1060; Harvey S. Rosen, "The Marriage Tax Is Down But Not Out," *National Tax Journal*, vol. XL, no. 4 (December 1987), pp. 567-575; and Gregg A. Esenwein, *Marriage Tax Penalties and Bonuses Under the Federal Income Tax*, CRS Report for Congress 93-475E (Congressional Research Service, May 7, 1993).

ple's income and meant that a couple paid taxes equal to twice what a single person would pay if he earned one-half of the couple's total income. As a result, a single taxpayer would pay higher taxes than a married couple with the same total income. In effect, the new law provided a marriage bonus for most couples, and eliminated neutrality of tax laws with respect to marriage. Under the new law, marriage would leave tax liabilities unchanged only for couples who had no tax liability or in instances in which husband and wife had identical earnings.

In 1951, the Congress extended some of the advantage that married taxpayers received from income-splitting to unmarried taxpayers supporting dependents by establishing new schedules for "heads of household." Taxpayers in this new category incurred tax liability that was less than that of single taxpayers but greater than that of married couples with the same total income. The head-of-household filing status reduced marriage bonuses for couples with children by lowering the tax liabilities of single parents.

Although creating the joint filing status eliminated the unequal treatment of married couples in different states, it created sizable differences in the taxes paid by single and married people. Predictably, unmarried people viewed those differences as a tax on singles rather than as a bonus for couples, an effect magnified by the high marginal tax rates paid by upper-income taxpayers. Under 1970 rates, for example, a single person earning $20,000 paid $5,328 in income taxes, 42 percent more than the $3,750 paid by a married couple with the same total income. (About 15 percent of the difference resulted from the two personal exemptions allowed the married couple, whereas the single taxpayer was allowed only one. The rest of the difference derived from higher tax rates for single taxpayers.)

The Tax Reform Act of 1969 partially remedied the disparity by limiting the tax liability of single people to no more than 20 percent above that of married couples with the same taxable income, effective for tax years after 1970. For example, the change reduced the disparity in taxes between a single taxpayer and a married couple, each with $20,000 in total income, from 42 percent to 24 percent. But the limitation created marriage penalties for couples in which husband and wife had similar incomes and left in place marriage bonuses when the earnings split between spouses was less equal.

The Earned Income Tax Credit

The Tax Reform Act of 1975 created the Earned Income Tax Credit (EITC), a refundable credit available to low-income taxpayers with earnings. Because individual and joint filers have the same restrictions on their incomes for receiving the credit, the EITC added a potential penalty on married couples. If a low-income person who qualified for the EITC got married, the combined income of the couple could make them ineligible for the credit. At the same time, the requirement that credit claimants have a dependent child meant that couples could receive a tax bonus if a low-earner married a single parent with no earnings. The magnitude of both marriage penalties and bonuses resulting from the EITC was increased by subsequent tax acts that created different credits for taxpayers with one and more than one child, raised the maximum value of the credit, and extended eligibility to childless families.

Recent Changes in Tax Law

Complaints from two-earner couples about the "marriage tax" they had to pay led the Congress to reduce the taxes for those couples as part of the Economic Recovery Tax Act of 1981. That act established a two-earner deduction equal to 10 percent of the earnings of the lower-earning spouse, up to a maximum deduction of $3,000. The deduction reduced the marriage penalty for all couples facing the penalty, and eliminated the penalty entirely for some, but increased the size of the marriage bonus for others. Even with the new deduction, however, some couples paid more than $4,000 in added taxes because they filed joint returns.

The Tax Reform Act of 1986 repealed the two-earner deduction as part of a broad reform that increased the standard deduction for married couples and collapsed the tax schedule from 15 brackets with a maximum rate of 50 percent to just two brackets with a maximum rate of 28 percent. (Married couples with taxable income between $71,900 and $149,250 faced tax rates of 33 percent as the act phased out the benefits of the 15 percent bracket over that income range. The 33 percent rate was further extended—up to taxable income of $192,930 for a family of four—by phasing out the benefits from personal exemptions.) In combination, those changes sharply reduced the marriage penalty. For example, the act cut the marriage

penalty for a couple in which the husband and wife each earned $50,000 by more than one-half in 1988, from $2,609 to $1,284.[3] Although the act did not eliminate marriage penalties and bonuses, it reduced them enough to quiet most critics.

Tax increases in 1990 and 1993 expanded the number of tax brackets from two to five, raised the maximum marginal tax rate to 39.6 percent, and sharply increased the size and coverage of the earned income tax credit. In combination, those changes imposed significantly larger marriage penalties on both low- and high-income families, and increased the size of the marriage bonus for some couples. For example, a childless couple in which husband and wife each earned $300,000 faced a marriage penalty of nearly $16,000 after the 1993 act, compared with a penalty of about $1,900 under the old law.[4] At the other end of the income scale, a one-earner couple with two children and earnings of $10,000 saw their marriage penalty of $161 turn into a bonus of nearly $500.

Those increases in the disparity between the taxes paid by married couples and their unmarried counterparts have revived interest in reducing the effects of marriage on tax liability. The "Contract with America Tax Relief Act of 1995," as passed by the House of Representatives, would have reduced marriage penalties slightly by giving tax credits to couples incurring penalties. To constrain the revenue losses from the provision, the act would have limited credits to $145. Given that the penalty, under one broad measure, averages nearly $1,400 for couples who incur it and can exceed $20,000 for high-income couples, the credit would have done little to offset the tax costs of marriage. The Senate in 1995 considered a proposal to set the standard deduction for joint filers equal to twice that for single filers. The change would have been phased in over a 10-year period. That proposal would have reduced or eliminated penalties for taxpayers who do not itemize their deductions. At the same time, it would have increased bonuses for many couples and had no effect on penalties for couples who continued to itemize deductions. The Balanced Budget Act of 1995, which included the Senate provision, was vetoed by President Clinton.

The United States is among a minority of developed nations that tax married couples. More than two-thirds of the countries that are members of the Organization for Economic Cooperation and Development (OECD) tax married couples as individuals. Only three other developed countries tax couples jointly as does the United States, and four others tax all family members as a single entity (see Appendix A). Furthermore, the trend has been moving away from joint taxation: over the last two decades, 10 OECD members switched from joint to individual taxation of married couples. During the same period, no member country changed in the other direction.

States vary more widely in taxing the incomes of married couples (see Appendix B). Of the 42 states that tax incomes, only 12 tax couples in ways that generate significant marriage penalties. Another 15 states tax couples jointly, but use rate schedules that substantially reduce or eliminate penalties. Nine states and the District of Columbia allow couples to file individually on a single return, thus providing them with tax savings available to unmarried taxpayers. Finally, six states impose a single tax rate that, in combination with standard deductions and exemptions, precludes all marriage penalties.

The history of the changing taxation of couples and single people demonstrates the tension between imposing higher taxes on one group or the other with a progressive rate structure. Taxing individuals, as was the case when the income tax began, avoids the problem of different taxes based on marital status but runs afoul of the principle of taxing married couples equally and of state community property laws. The 1948 "solution" of joint taxation dealt with both of those problems but necessarily imposed higher taxes on single people in relation to married couples, thus violating the principle of marriage neutrality. The last five decades have witnessed periodic movements between those two poles, depending on the demands for fairness toward singles or couples. As long as the Congress pursues the three mutually incompatible goals of marriage neutrality, equal treatment of couples with similar incomes, and progressive tax rates, the tension between the two positions will continue.

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3. Joint Committee on Taxation, *General Explanation of the Tax Reform Act of 1986*, Joint Committee Print JCS-10-87 (May 4, 1987), p. 19.

4. Daniel R. Feenberg and Harvey S. Rosen, "Recent Developments in the Marriage Tax," *National Tax Journal*, vol. 47, no. 1 (March 1995), p. 94.

The Significance of Marriage Penalties and Bonuses

Does it matter that marriage penalties and bonuses arise from a tax code designed to meet the goals of equal tax liabilities for married couples with the same incomes and progressive taxation? Three issues are paramount in answering that question: the fairness of tax levies among couples, the effects of taxes on how much people choose to work, and the effects of taxes on marriage and divorce.

Fairness

Equal treatment under the law is a basic concept of fairness. Horizontal equity in taxation stipulates that people who have equal ability to pay receive equal treatment and therefore bear the same tax burden. Although determining ability to pay may be difficult in practice, the concept of horizontal equity helps in evaluating the conflicting goals of the tax system that lead to marriage penalties and bonuses. On the one hand, if the act of marriage has no effect on a couple's ability to pay, horizontal equity implies that taxes be marriage neutral—that is, that couples pay the same taxes whether or not they are married. On the other hand, if they are otherwise similar, married couples with the same total income must pay the same taxes to satisfy the criterion of equity. In the face of progressive tax rates, however, the two goals conflict (see "Defining Marriage Penalties and Bonuses" above). Reconciling them demands investigation of marriage penalties and bonuses.

One issue that must precede the question of horizontal equity involves the appropriate unit on which to levy taxes. If individuals provide their own resources and do not share with others, the most appropriate unit would be the individual. If, however, people share resources and consume goods and services in groups, those groups are the appropriate units for the purpose of taxation. The federal income tax code assumes that married couples combine their incomes and other resources to support themselves and their dependents, and therefore imposes taxes on the joint incomes of spouses. The code stops short of defining all tax units on the basis of shared incomes. On the one hand, married couples are presumed to combine resources and thus must file jointly. On the other hand, people in relationships not based on legal marriage or other family relationships must pay taxes on their separate incomes, even if they consume together. Unmarried couples or two members of the same family sharing a home are taxed as individuals.

Despite the implicit assumptions built into the tax code, marriage may or may not affect a couple's ability to pay, depending on whether the couple's costs of living change. If the couple lived together before marriage, simply getting married would have little or no effect on their costs and hence on their ability to pay. If they create a new household after marriage, their costs could rise or fall. If, for example, each person lived with his or her parents before the wedding, marriage could increase their costs, but if each had maintained a separate household, combining those households into one could reduce costs. Because living arrangements before and after marriage need not differ, the tax system might logically assume that marriage has no intrinsic effect on a couple's ability to pay and therefore that marriage neutrality would be desirable. The conclusion that marriage should not affect a couple's tax bill says nothing about the fairness of taxation of either married or unmarried couples.

Whether imposing the same taxes on married couples with equal incomes satisfies the principle of horizontal equity is more problematic. Two childless couples who have the same total income, earned in each case by two full-time workers, may also have the same ability to pay, regardless of the division of income between spouses. If one couple had only one worker, however, the couples would have quite different abilities to pay because the nonworking spouse could provide services in kind that are not as readily available to the two-earner couple. But if the working spouse of the one-earner couple held two different jobs, the couple's ability to pay would be different yet. In essence, as is more generally true, income alone provides a poor measure of ability to pay. Requiring that married couples with a given amount of total income pay the same taxes may therefore not satisfy the principle of horizontal equity.

Children complicate the issue. Tax rules can be totally indifferent to the presence of children, treating the decision to have and rear children as entirely the

responsibility of the parents. If, however, society values children and chooses to subsidize parents who rear them, tax rules, as in the current tax code, may be used to provide tax relief to families with children. Furthermore, the government may wish to encourage couples to have children by not taxing any resources that are provided by parents who stay home to care for them. Under that assumption, equal taxation of one- and two-earner couples who have the same total incomes may be appropriate.

The movement of people through a variety of tax statuses during their lifetimes and their consequent liability for different amounts of tax over time further complicate issues of fairness. A couple may change from being two unmarried individuals with earnings, to a two-earner childless married couple, to a one-earner couple with one spouse caring for children, to a two-earner couple purchasing child care, to a two-earner couple with older children who can care for themselves, and back to a two-earner childless couple. The individual income tax would treat the couple differently in each period, whether or not their ability to pay changes. Depending on the division of earnings between spouses, the couple may pay higher or lower taxes because they are married, even if they experience no change in ability to pay. The various features of the tax code affect people differently throughout their lives, sometimes reducing their tax liability and other times increasing it. Assessing whether they are taxed fairly depends on whether their situation is considered in any given year or over their entire lifetime as a couple. What may appear to be unfair in one year may appear quite different when viewed in a lifetime context.

The conflict between the two goals of marriage neutrality and taxing couples with equal incomes the same would matter little if the marital penalties and bonuses generated were small. To determine the importance of those effects—in terms of both their size and the number of couples affected—requires a close examination of who pays the penalties and who receives the bonuses.

Effects on the Supply of Labor

Taxing married couples may significantly affect the amount of paid work done by the second worker in each couple because a husband's and wife's incomes are combined to determine tax liability.[5] For example, if a man earns $75,000 and his wife decides to take a job, the couple will pay 28 percent of the wife's earnings to the federal government as income taxes, a further 15.3 percent in Social Security taxes (counting both employer and employee shares), and, possibly, a state or local income tax.[6] Because the husband's income has already moved the couple into the 28 percent income tax bracket, the first dollar of the wife's income bears a total tax rate greater than 43 percent. If she was single, the wife would pay no income tax on the first $6,550 that she earned and only a 15 percent income tax on the next $24,000. Including the 15.3 percent Social Security payroll tax, her marginal tax rate would be either 15.3 percent or 30.3 percent (not counting any state or local taxes), 28 percentage points or 13 percentage points lower than the 43.3 percent rate she incurs as a married person. The higher initial tax rate she faces when married reduces the value of her work and thus may induce her to work fewer hours each week, fewer weeks each year, or even not to work at all. At the same time, the husband's income may be taxed at a lower marginal rate than it would be if he was not married, yielding a higher after-tax wage that might lead him to work more than he otherwise would choose to do. If he was single, the husband would face a marginal income tax rate of 31 percent, higher than the 28 percent rate he faces when married. However, his average tax rate is also lower in marriage, raising his after-tax income and thus encouraging him to work less. The net effect on his labor supply is uncertain.

Taxes exert two countervailing influences on an individual's decision about how much to work. Compared with a situation in which there are no taxes on earnings, a tax reduces both the after-tax hourly wage of workers and their total after-tax income. Because people will choose to work more hours as long as their net hourly wage exceeds their value of an extra hour of leisure, the tax's lowering of net wages will lead individuals to work fewer hours. At the same time, because people's income falls—at any number of hours worked

5. For further detail on the effects of taxes on the work patterns of men and women, see Congressional Budget Office, *Labor Supply and Taxes*, CBO Memorandum (January 1996).

6. Most economists believe that the couple bears the employer's share of the payroll tax on the wife's earnings in the form of wages that are lower than they would otherwise be. That tax thus affects after-tax wages, the basis on which the wife may decide whether to go to work.

—as a result of the tax, they will want to consume less leisure and work more hours. The net effect depends on the relative magnitudes of the two offsetting pressures. Economists refer to those influences as the substitution effect and the income effect, respectively.

Research into the sensitivity of people's labor supply to their after-tax wages offers a mixed picture of how higher marginal tax rates on married couples affect their decisions about whether and how much to work. Economist James Heckman emphasized the need to distinguish between the effects of increased net wages on the hours worked by people already employed and the decision by people not working to take a job.[7] Robert Triest found that the decisions of both husbands and wives about the number of hours worked depend little on after-tax wages once the individual has decided to work at all.[8] But the decision to work appears to be much more responsive to changes in net wages, and more so for wives than for husbands. Studies of these issues encounter a range of methodological and measurement problems, however, and the magnitude of the effects is uncertain.[9]

Some workers appear to react more strongly to changes in their net wages than others. Economists Chinhui Juhn, Kevin Murphy, and Robert Topel found, for example, that low-wage workers are much more sensitive to their net pay than are higher-wage workers.[10] Their data suggest that a 10 percent increase in after-tax wages would lead workers in the bottom one-fifth of the wage distribution to increase the hours they worked by about 2.5 percent, and that those in the top two-fifths would work only about 0.5 percent more. By contrast, at the top end of the income scale, economist Nada Eissa found evidence that the labor supply of wives in upper-income families is highly sensitive to after-tax wages.[11] Her analysis suggested that wives in the top 1 percent of income distribution would increase the hours they worked by 8 percent in response to a 10 percent increase in net wages. Neither of those results, however, applies to married couples as a group, and studies that have attempted to measure the magnitude of the effects of wages on work have identified a wide range of values.

An international comparison of the labor supply of wives under joint and individual taxation indicates that joint taxation reduces the participation of women in the labor force. Economist Siv Gustafsson compared the labor supply among married women under Germany's joint and Sweden's individual income tax systems.[12] She estimated that imposing the German joint taxation approach on Sweden would have caused the participation rate of Swedish wives in the labor force to fall by one-fourth, whereas subjecting German wives to a Swedish-style tax system would have raised the participation rate of married German women in the labor force by one-fifth. That conclusion was bolstered by Gustafsson's finding that participation of Swedish wives in the labor force rose markedly following the replacement of joint with individual taxation in 1971. Although other factors surely contributed to the increase, and although the rise occurred gradually over a number of years as families adapted to the new tax system, the rate of participation of married women in the Swedish labor force climbed from 53 percent in 1969 to 74 percent a decade later. By comparison, Germany, which had joint taxation throughout the period, experienced one-third the increase of Sweden, from 39 percent to 46 percent.

Filing a joint tax return in the United States can result in higher, lower, or unchanged marginal tax rates for both husband and wife, depending on their total in-

7. James J. Heckman, "What Has Been Learned About Labor Supply in the Past Twenty Years?" *American Economic Review Papers and Proceedings*, vol. 83, no. 2 (May 1993), pp. 116-121.

8. Robert K. Triest, "The Effect of Income Taxation on Labor Supply in the United States," *The Journal of Human Resources*, vol. XXV, no. 3 (1990), pp. 491-516.

9. Randolph and Rogers discuss these issues and the reasons they are unsettled in William C. Randolph and Diane Lim Rogers, "The Implications for Tax Policy of Uncertainty About Labor Supply and Savings Responses," *National Tax Journal*, vol. 48, no. 3 (September 1995), pp. 429-446.

10. Chinhui Juhn, Kevin M. Murphy, and Robert H. Topel, "Why Has the Natural Rate of Unemployment Increased Over Time?" *Brookings Papers on Economic Activity*, no. 2 (1991), pp. 75-126. In the same publication, however, Janet Yellen countered that their estimates were too high because they failed to account for changes in government transfer programs (pp. 127-133).

11. Nada Eissa, *Taxation and Labor Supply of Married Women: The Tax Reform Act of 1986 As a Natural Experiment*, Working Paper No. 5023 (Cambridge, Mass.: National Bureau of Economic Research, February 1995). Eissa found that about one-half of the rise resulted from nonworking wives entering the labor force and one-half from employed wives working longer hours.

12. Siv Gustafsson, "Separate Taxation and Married Women's Labor Supply: A Comparison of West Germany and Sweden," *Journal of Population Economics*, vol. 5, no. 1 (February 1992), pp. 61-85.

Table 1.
Effects on Marginal Tax Rates of Married Couples Filing Jointly Rather than Individually, Projected 1996 (In percentage of married couples)

Marginal Tax Rate of Spouse with Higher Earnings	Marginal Tax Rate of Spouse with Lower Earnings			
	Lower	Unchanged	Higher	All Couples
Lower	3	3	18	24
Unchanged	7	14	43	64
Higher	1	1	11	12
All Couples	11	17	72	100

SOURCE: Congressional Budget Office simulations.

come and how much is earned by each spouse. Estimates for 1996 suggest that just 14 percent of married couples filing jointly will face the same marginal tax rate that each spouse would incur if they could file as individuals (see Table 1). Filing jointly rather than individually will lead to reduced marginal tax rates for the higher-earning spouse in 24 percent of all couples, unchanged marginal rates in 64 percent, and higher marginal rates in 12 percent. At the same time, joint versus individual filing raises marginal tax rates of lower-earning spouses in 72 percent of couples, lowers rates in 11 percent of couples, and has no effect in 17 percent.

The Congressional Budget Office (CBO) used microeconomic simulations to estimate the effects of requiring joint filing on the work behavior of husbands and wives. Using values for substitution and income elasticities from the economic literature on labor supply, CBO estimated how much each husband and wife would work if they faced individual marginal tax rates based on their own incomes rather than the rates that apply when they file joint tax returns.[13]

The simulations indicated that joint tax rates motivate higher-earning spouses to work between 0.1 percent and 0.3 percent *more* than they would if the tax code required them to file as individuals. That result is consistent with the observation that joint filing is more likely to lower tax rates for primary earners than to raise them. The reverse holds for secondary workers. Simulations indicated that generally higher tax rates for lower-earning spouses prompt them to work between 4 percent and 7 percent *less* than they would if they could file individually. Overall, requiring couples to file joint tax returns induces them to work less. As a result, their total earnings are between 0.7 percent and 1.2 percent less than they would otherwise be.

Effects on Marriage and Divorce

Couples decide to marry or divorce on the basis of the trade-offs between a broad array of benefits and costs of marriage. Social pressures, the desire for companionship, love, wanting to rear children, and economic considerations may induce people to marry, whereas issues of privacy and psychological and monetary costs may keep couples from marrying or induce them to seek divorce. The tax costs or benefits of marriage are of highly uncertain—but almost surely slight—importance.[14] For most couples, other factors almost certainly dominate tax considerations in the marriage deci-

13. Elasticities used for estimates of labor supply response were taken from Congressional Budget Office, *Labor Supply and Taxes*. The ranges used were primary worker substitution elasticity, 0.1 to 0.2; primary worker income elasticity, 0 to -0.1; secondary worker substitution elasticity, 0.6 to 0.9; and secondary worker income elasticity, -0.2 to -0.3.

14. The potential loss of means-tested benefits that many low-income mothers receive may be much more important. If marriage disqualifies a family for food stamps, housing assistance, and Medicaid benefits, the dollar cost is substantial. Especially in communities in which unmarried mothers are common, those costs could well outweigh other factors and generate significant disincentives to marry.

sion, as evidenced by the substantial numbers of couples who bear large marriage penalties in the form of higher taxes. Even so, couples for whom the decision to marry is close—that is, at the economist's margin, where minor factors can carry the day—may decide that being married is not worth having to pay thousands of dollars of additional taxes every year. Other couples may face bonuses that provide just enough additional inducement to lead them down the aisle. Similar issues may enter into couples' decisions to divorce.[15]

Economists investigating the impact of tax penalties on marriage have found only small or no effects. One study, for example, found that a 10 percent increase in all marriage penalties would decrease the fraction of adult women under 45 years old who are married by less than 0.5 percent.[16] Another study, focusing on the likelihood of single adult women marrying in a given year, detected no marriage penalty effect, but did find indications that some couples appeared to delay marriages for a few months to avoid paying higher taxes for a single year.[17]

One test of the effects of marriage penalties on whether couples wed is to compare the bonuses and penalties for married couples with those that unmarried couples would incur if they were to marry. Such a comparison, based on data from the March 1996 Current Population Survey, indicates that unmarried couples would be more likely than married couples to incur penalties if they were married, although only marginally so (see Table 2).[18] In 1995, 56 percent of unmarried couples would have incurred penalties if they had been married, compared with 49 percent of married couples. Respective values for marriage bonuses would have been 33 percent and 39 percent.

The foregoing comparisons might suggest that some couples may elect not to marry if doing so would bring them tax penalties. However, average penalties for married couples are much greater than the hypothet-

Table 2.
Marriage Penalties and Bonuses for Married and Unmarried Couples, Simulated 1995

	Married Couples	Unmarried Couples[a]
Number of Couples (Thousands)		
With Penalties	26,800	1,500
Unaffected	6,400	300
With Bonuses	21,500	900
Total	54,700	2,700
Couples in Category (Percent)		
With Penalties	49	56
Unaffected	12	11
With Bonuses	39	33
Total	100	100
Average Penalty		
In Dollars	1,200	770
As a Percentage of Income	1.9	1.6
Average Bonus		
In Dollars	1,140	1,020
As a Percentage of Income	2.3	2.7

SOURCE: Congressional Budget Office simulations based on data from the March 1996 Current Population Survey.

a. Unmarried couples are those living together and reporting as partners.

15. Leslie Whittington and James Alm found small effects of income taxes on decisions to divorce, particularly for women. Whittington and Alm, "'Til Death Do Us Part: The Effect of Income Taxation on Divorce," forthcoming in the *Journal of Human Resources* (Spring 1997).

16. James Alm and Leslie A. Whittington, "Does the Income Tax Affect Marital Decisions?" *National Tax Journal*, vol. 48, no. 4 (December 1995), pp. 565-572. In more recent work, the authors find small but statistically significant effects of marriage penalties in reducing the likelihood of marriage for women but not for men. Alm and Whittington, "For Love or Money: The Impact of Income-Taxes on Marriage" (unpublished working paper, University of Colorado at Boulder, February 1997).

17. David L. Sjoquist and Mary Beth Walker, "The Marriage Tax and the Rate and Timing of Marriage," *National Tax Journal*, vol. XLVIII, no. 4 (December 1995), pp. 547-558. James Alm and Leslie Whittington also found small but significant effects of penalties delaying marriage. Alm and Whittington, "Income Taxes and the Timing of Marital Decisions," forthcoming in the *Journal of Public Economics* (1997).

18. Unmarried couples are unmarried adults who identified themselves to Current Population Survey interviewers as partners. Couples could be of the same or opposite sexes. Only 3 percent were same-sex couples. See Appendix C.

ical penalties for unmarried couples would be—$1,200 versus $770—although penalties for the two groups measured as a percentage of income are less divergent—1.9 percent versus 1.6 percent. In part, the difference may arise from the different characteristics of the two groups (see Appendix C). Unmarried couples, with a median age of 35, are younger than their married counterparts (median age 47) and have a lower median income: $35,000 versus $45,000. Because their incomes are lower, unmarried couples may not be as willing to incur marriage penalties as wealthier couples, even if those penalties represent a smaller fraction of their incomes. In addition, younger couples may be less averse to living together outside of marriage than older couples and thus may feel less pressure to marry. For most couples, however, potential marriage penalties and bonuses are not sufficient cause to alter marriage decisions.

Chapter Two

Sources of Marriage Penalties and Bonuses

Married couples incur tax penalties or receive tax bonuses because the tax code treats them differently from unmarried taxpayers. Whether a couple has a penalty or a bonus depends on the level and sources of their income, the division of income between husband and wife, and the presence or absence of children. Understanding marriage penalties and bonuses requires an examination of the factors within the law that generate differences in the taxes paid by married and unmarried couples.

Factors Giving Rise to Marriage Penalties and Bonuses

Marriage penalties and bonuses result from factors that affect either the level of taxable income or the tax rate applied to that income. A penalty or a bonus occurs whenever a couple's exemptions, deductions, tax brackets, or credits differ from those of two otherwise similar single people (see Table 3). Such differences occur because the individual income tax sets parameters in dollars. Those dollar amounts for married couples often differ from the sums that would apply to spouses if they were single.

The various components of the income tax system interact in determining whether couples incur penalties or bonuses. They also determine the size of those tax differentials. Certain parts of the tax system may impose potentially large marriage penalties, but may do so for relatively few couples. The following analysis examines only the hypothetical impact of each component on the taxes married couples pay, without regard to how many couples each component affects (see Appendix Table D-1).[1]

The Standard Deduction

In 1996, single filers could claim a standard deduction of $4,000, married couples $6,700, and heads of household $5,900. Most taxpayers claimed the standard deduction, presumably because its value exceeded the deductions they could itemize, such as state taxes or home mortgage interest payments. In 1994, only 28 percent of all individual tax returns itemized their deductions.

If each can use the full deduction, two single filers claiming standard deductions could reduce their 1996 taxable income by $8,000—$1,300 more than the $6,700 deduction for joint filers. Differences in the standard deduction among filing statuses would thus impose a marriage penalty on such a couple that is equal to the tax on that additional taxable income, the amount of which depends on the couple's marginal tax

1. For a comprehensive discussion of provisions of the federal individual income tax code that give rise to marriage penalties and bonuses, see General Accounting Office, *Income Tax Treatment of Married and Single Individuals*, GAO/GGD-96-175 (September 1996).

Table 3.
Factors Determining Whether Couples Face Marriage Penalties or Bonuses, 1996

Tax Parameter or Feature	Conditions Leading to Marriage Penalty	Conditions Leading to Marriage Bonus
Personal Exemptions ($2,550 for all individuals, regardless of marital status.)	None.	One spouse cannot use full single exemption but other spouse would have positive taxable income if taxed as an individual.
Standard Deduction ($4,000 for singles, $6,700 for couples.)	Combined use of two single deductions exceeds value of married deduction.	One spouse cannot use full single deduction but other spouse would have positive taxable income if taxed as an individual.
Tax Brackets (Lower brackets for singles are 60 percent as wide as those for couples; top bracket starts at same income for all.)	Spouses have more nearly equal incomes; as married couple, more of combined income taxed at higher rate; high earners have more income subject to top tax rate.	Spouses have unequal incomes; as singles, income of higher-earning spouse taxed at higher rate.
Earned Income Tax Credit (Parameters same regardless of filing status.)	Low-earning parent married to spouse whose income causes loss of some or all of earned income tax credit.	Low-earning childless person married to parent with no or very low earnings.
Phaseout of Personal Exemptions (Starting income for singles equals two-thirds of that for couples.)	Spouses have more nearly equal incomes; as married couple, more of total income falls in phaseout range.	Spouses have unequal incomes; as singles, more income of higher-earning spouse subject to phaseout.
Limitation on Itemized Deductions (Starting point same regardless of filing status.)	Spouses have more nearly equal incomes; as married couple, more of total income falls in limitation range.	None.
Other Fixed Dollar Limitations (For example, income limit for individual retirement accounts, thresholds for taxation of Social Security.)	Either marriage does not increase limit or increase is less than spouse adds to measure subject to limit.	Marriage increases limit and one spouse adds less to measure subject to limit than the increase in limit.

SOURCE: Congressional Budget Office.

rate. A couple in the 28 percent tax bracket pays $364 (28 percent of $1,300) more in taxes than two comparable single filers, whereas a couple in the 15 percent bracket pays $195 more. The standard deduction cannot create a marriage penalty for couples who itemize their deductions and would do so even if they were not married.

The decision to itemize deductions can depend, however, on whether a couple is married. Consider, for example, two taxpayers who can each itemize $3,600 worth of deductions if they are not married and file singly. Because the standard deduction—$4,000—exceeds their itemizable deductions, each would choose to take the standard deduction and the total value of their deductions would equal $8,000. If they were married, their total itemized deductions would be $7,200, more than the standard deduction of $6,700 allowed for joint returns, and they would elect to itemize their deductions. Even though they itemize, they incur a marriage penalty because being married reduces their total deductions by $800. That penalty, however, results not from itemizing but from the difference in standard deductions for singles and couples.

The effect of standard deductions is greater if either spouse, were the couple not married, could file as head of household. The 1996 standard deduction for heads of household is $5,900, therefore, two heads of household could claim total deductions of $11,800—$5,100 more than the $6,700 available to joint filers.

The standard deduction can create marriage bonuses for couples in which one spouse has a low income and cannot use the full value of the standard deduction as a single filer. That spouse brings to a marriage his or her unused deduction, which can serve to reduce the couple's tax liability.

Personal Exemptions

Because their value does not vary by filing status, personal exemptions cannot contribute to marriage penalties. They can, however, provide marriage bonuses for spouses who could not use the full value of their exemptions if they were not married and thus had to file separately. In 1996, for example, the personal exemption of $2,550 per taxpayer reduced the taxable income of a one-earner childless couple by $2,550 because they filed jointly rather than as single individuals. If they were not married, the nonworker would pay no taxes with or without the exemption and would therefore receive no value from it.

Tax Brackets

Because tax brackets for joint tax filers are wider than those for either single filers or heads of household—but not twice as wide—they can generate either marriage penalties or bonuses, depending on the division of income between husband and wife. Couples in which one spouse earns most of the income generally receive marriage bonuses because the wider tax brackets for joint filers impose lower taxes on the income of the higher-earning spouse than do the narrower brackets for individuals filing as single or head of household (see Box 3). In 1996, those bonuses exceeded $2,000 for a couple with $40,100 of taxable income and nearly $4,600 for couples with taxable income of $147,700 or more.

Couples in which husband and wife earn more nearly equal shares of total income generally incur marriage penalties because the joint tax brackets are less than twice the width of single brackets (see Box 4). In 1996, married couples with an equally divided taxable income of $48,000 paid about $1,000 more in taxes than they would have if they had not filed joint returns. The penalty rises to just over $1,600 for couples with a taxable income of $116,300. Two-earner couples who have very high and equal incomes pay the largest marriage penalties, since the top rate bracket begins at the same level of taxable income for all filing statuses—$263,750 in 1996. As a result, as much as $263,750 of joint income can be taxed at 39.6 percent rather than 36 percent, raising a couple's taxes by a maximum of almost $9,500 more.

The Earned Income Tax Credit

Couples who have low earnings may incur a marriage penalty or bonus because the size of the earned income tax credit does not depend on a family's filing status but does vary with the number of children in the family. As a result, combining the incomes and children of both spouses on one return can increase or reduce the credit

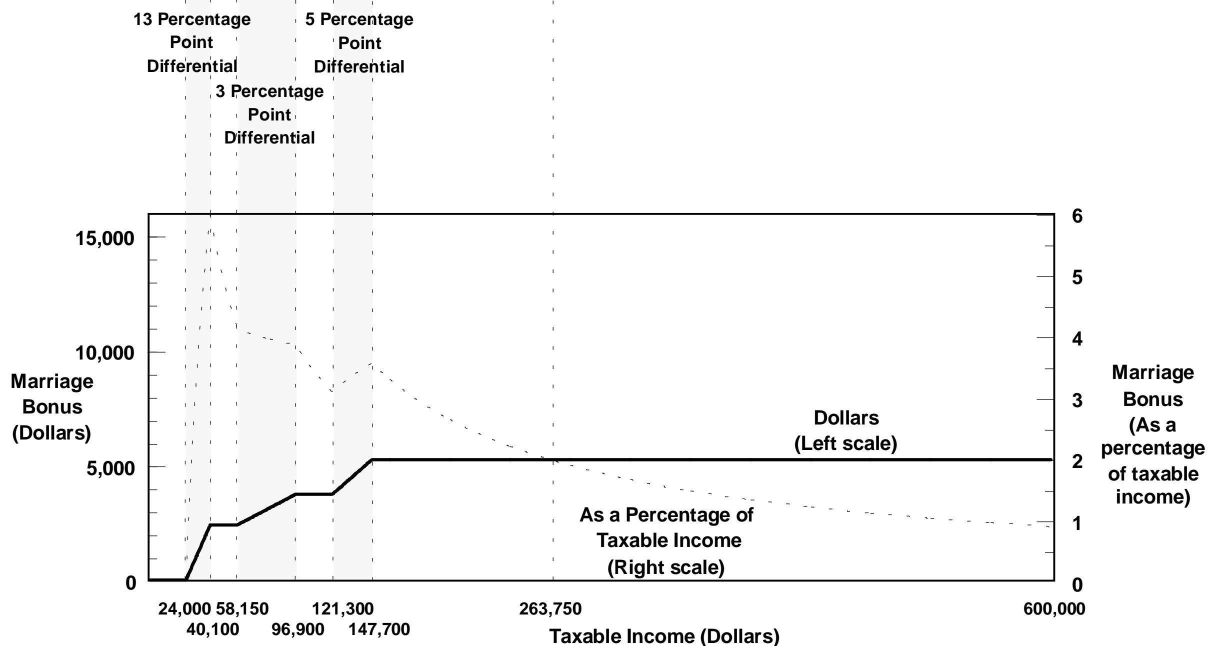
they would receive in relation to what they would get if they could file single or head-of-household returns.

The credit follows three schedules—for childless taxpayers, those with one child, and those with two or more children—that do not depend on filing status; that is, the credit is the same for joint filers, heads of household, and single filers. Under each schedule, the credit increases with earnings to a maximum, is constant at that maximum for a range of earnings, and then declines to zero (see Figure 2). Beginning with the 1995 tax year, tax units claiming the EITC also had to satisfy an asset test that denies the credit to families with more than $2,350 of income from interest, dividends, and

Box 3.
1996 Marriage Bonuses Resulting from Tax Brackets for One-Earner Couples

Tax brackets create marriage bonuses when the marginal tax rate of an individual return exceeds that for a joint return with the same taxable income. For example, when a couple's taxable income is between $24,000 and $40,100, all earned by one spouse, the marginal tax rate—that is, the tax rate on the last dollar of income—on a joint return is 15 percent, whereas that on an individual return is 28 percent. The 13 percentage point differential yields a marriage bonus of 13 cents for each dollar of taxable income in that range, over which the bonus, measured in dollars, rises from zero to $2,093 (13 percent of $40,100 minus $24,000).

The bonus also rises when taxable income falls between $58,150 and $96,900 (when the differential between tax rates is 3 percentage points) and between $121,300 and $147,700 (when the differential is 5 percentage points). In all other ranges of taxable income, marginal tax rates do not differ for joint and single returns and marriage bonuses do not change.



SOURCE: Congressional Budget Office.

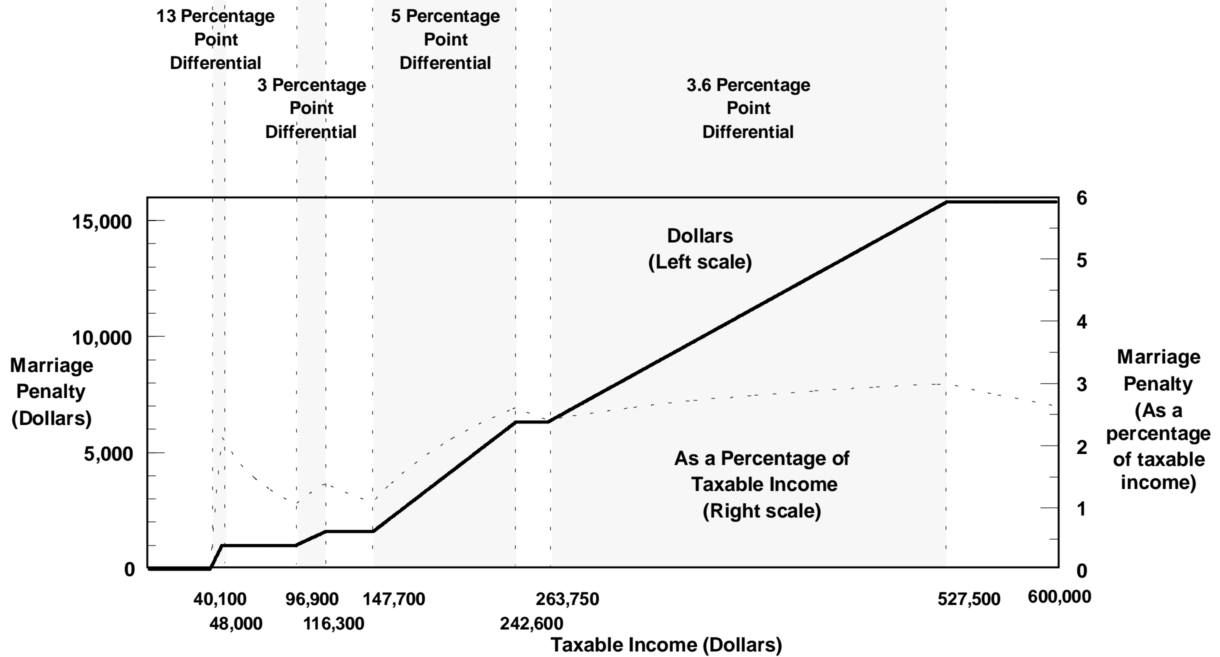
rent. That limitation could impose a marriage penalty as well.

In 1996, the credit was largest for taxpayers with two or more children, reaching a maximum of $3,556. Families with one child could receive up to $2,152 and

Box 4.
1996 Marriage Penalties Resulting from Tax Brackets for Two-Earner Couples in Which Spouses Have Equal Earnings

Tax brackets create marriage penalties when the marginal tax rate of a joint return exceeds that for an individual return with the same taxable income. For example, when a couple's taxable income is between $40,100 and $48,000, earned equally by both spouses, the marginal tax rate—that is, the tax on the last dollar of income—on a joint return is 28 percent, whereas that on two individual returns is 15 percent. The 13 percentage point differential yields a marriage penalty of 13 cents for each dollar of taxable income in that range, over which the penalty, measured in dollars, rises from zero to $1,027 (13 percent of $48,000-$40,100).

The penalty also rises when taxable income falls between $96,900 and $116,300 (when the differential between tax rates is 3 percentage points), between $147,700 and $242,600 (when the differential is 5 percentage points), and between $263,750 and $527,500 (when the differential is 3.6 percentage points). In all other ranges of taxable income, tax rates do not differ for joint and individual returns and marriage bonuses do not change.

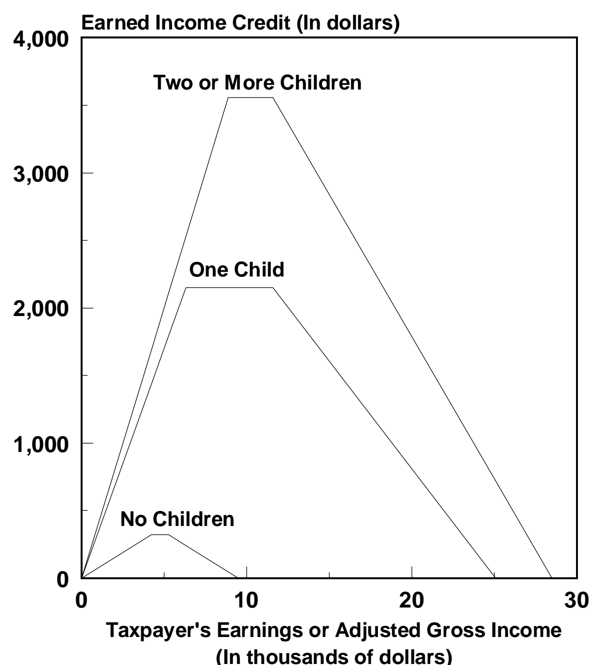


SOURCE: Congressional Budget Office.

childless taxpayers up to $323. For families with two children, the credit equaled 40 percent of earnings up to $8,890, was constant at $3,556 when earnings fell between $8,890 and $11,610, and declined by 21.06 percent of AGI exceeding $11,610, disappearing entirely when AGI was $28,495 or greater. (All parameters apply to 1996; dollar values are adjusted for inflation annually.) For families with one child, the maximum credit of $2,152 applied for earnings between $6,330 and $11,610, and phased out completely when AGI reached $25,078. Childless families received the maximum credit of $323 when their earnings fell between $4,220 and $5,280 and received no credit when their AGI exceeded $9,500.

Two aspects of the EITC lead to marriage penalties and bonuses: the credit is the same for all filing statuses but differs according to the number of children. Consider first the effect of fixed credit parameters across filing statuses. Spouses who could qualify individually for credits could lose some or all of them when filing jointly because their combined income would move them closer to or beyond the income at which the credit becomes zero. In addition, when filing individually, spouses could qualify for two separate credits, not just the one they can receive as joint filers. In 1996, for example, a couple with two children in which both husband and wife earn $11,000 incurred a marriage penalty of more than $2,900 from the EITC alone (see Box 5). Filing jointly in 1996, the couple qualified for a single credit of $1,368. If the couple was not married and each spouse filed as a head of household with one child, each would have received the maximum EITC of $2,152. Two factors cause the reduction in the credit, which was more than 13 percent of the couple's earnings. First, combining the husband's and wife's earnings puts their total income into the range over which the credit declines. Second, the couple would qualify for two separate credits if they could file individually but can receive only one credit as joint filers.

Figure 2.
Earned Income Tax Credit by Number of Children and Earnings, 1996 Tax Law



SOURCE: Congressional Budget Office.

The EITC can also impose a marriage penalty on higher-income two-earner couples if the division of earnings between spouses is very different. A couple with two children and $50,000 in earnings, split 80 percent and 20 percent between husband and wife, would receive no EITC when filing jointly and pay total taxes of $4,965. If they were not married, however, the lower-earning member of the couple could claim the maximum one-child credit of $2,152, based on having only $10,000 of earnings. Furthermore, each member could file as head of household, and differences in usable standard deductions and personal exemptions would further reduce the couple's separate taxes by $615 below the amount they would pay if they filed jointly, yielding a total marriage penalty of $2,767.

The higher EITC for families with more children can yield marriage bonuses for couples with low earnings. Combining two tax units can allow the resulting couple to claim an EITC that is greater because taxpayers with one child receive a larger percentage credit than those with no children and families with two or more children receive larger percentages than those with only one child. For example, if a couple had one child, the husband earned $6,000 in 1996, and the wife did not work, they would qualify for an EITC of $2,040. If they were not married and the child was associated with the mother, their EITC would be $268, all going to the husband. Joint filing thus yields a bonus of nearly $1,800—30 percent of their earnings. That difference occurs because taxpayers with no children

receive a credit equal to 7.65 percent of earnings in the phase-in range, whereas those with one child get a 34 percent credit, regardless of tax filing status. The variance of the EITC with the number of children in a tax unit cannot impose a marriage penalty: combining children into one unit does not lower either credit percentages or the income ranges over which the credit increases or decreases. Given that the credit does not increase for tax units with additional children beyond two means, however, some couples with more than two children could incur a penalty. That penalty results from the limitation of a couple to one credit, whereas each member could receive a credit if they were not married.

Families who have children and earnings below $10,000 generally receive a marriage bonus because of the phase-in of the EITC (see Figure 3). As incomes rise above $10,000, two-earner couples with children incur a marriage penalty as their total incomes lead to a phaseout of their EITC. The penalty is greatest—15 percent of earnings—for two-earner families with children and total earnings between $20,000 and $30,000, the range in which the EITC disappears for joint filers

Box 5.
A Marriage Penalty for a Low-Income Couple with Children

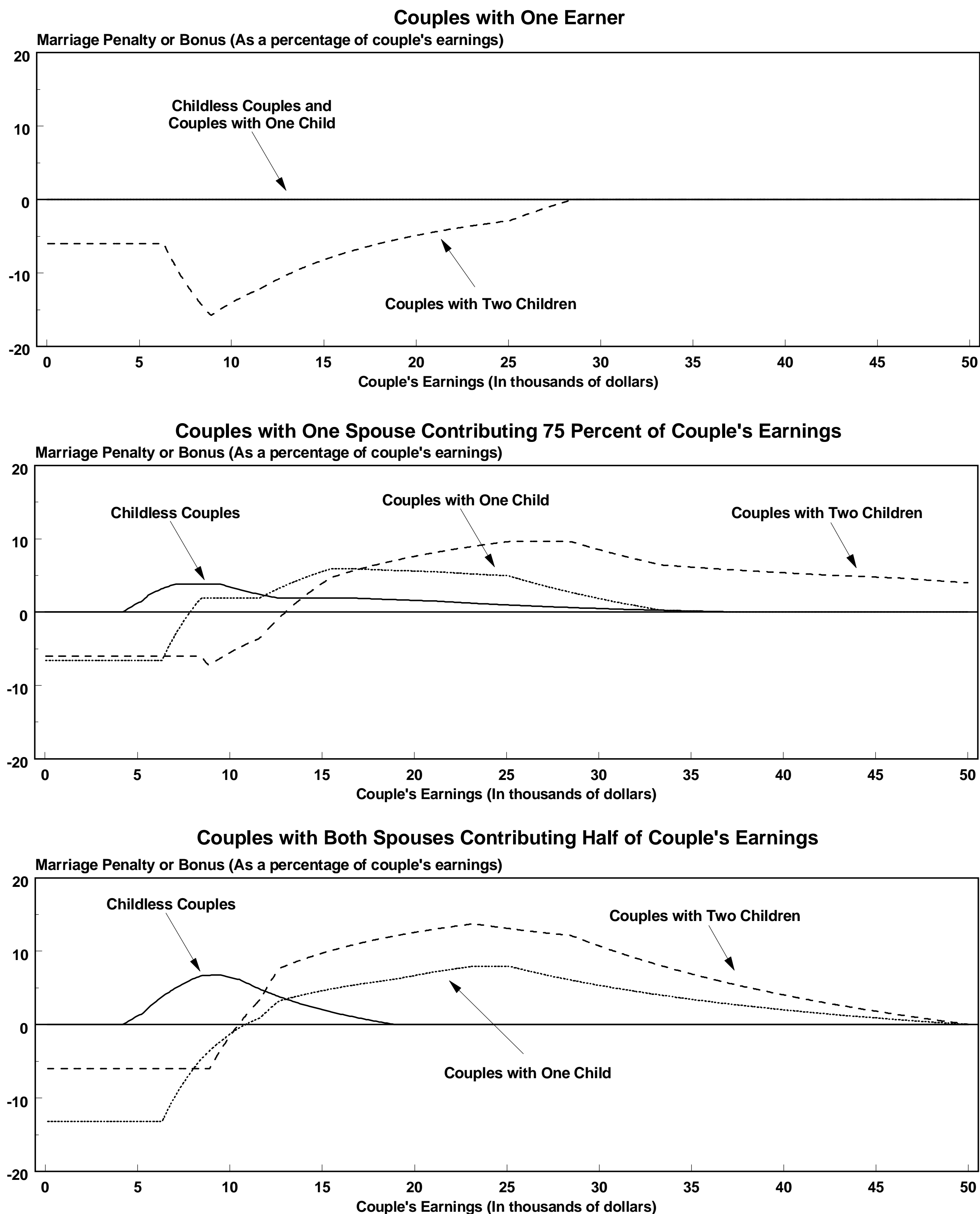
A couple with two children and $22,000 in total earnings, split evenly between the husband and the wife, would have incurred a marriage penalty of $3,701 under 1996 tax law. The penalty results from two factors. First, if they were not married, both the husband and the wife could file as heads of household, each claiming one child as a dependent. As heads of household, their combined standard deductions would have been $11,800, $5,100 more than the $6,700 standard deduction available on a joint return. At the couple's marginal tax rate of 15 percent, the lower deduction would have increased the couple's tax liability by $765 (15 percent of $5,100). Second, filing separate returns, the husband and wife each could have claimed the maximum earned income tax credit (EITC) for a filer with one child, $2,152. Filing jointly, the couple would have received only one, smaller EITC of $1,368. Thus, filing jointly the couple would have received a payment of $603, about $3,700 less than the $4,304 they would have gotten if they could have filed separately.

	Husband[a]	Wife[a]	Couple
Adjusted Gross Income	$11,000	$11,000	$22,000
Less personal exemptions	5,100	5,100	10,200
Less standard deduction	5,900	5,900	6,700
Equals taxable income	0	0	5,100
Tax (At 15 percent)	0	0	765
Less earned income tax credit	2,152	2,152	1,368
Tax Liability	-2,152	-2,152	-603
		Marriage Penalty	$3,701
		As a Percentage of Adjusted Gross Income	16.8

SOURCE: Congressional Budget Office.

a. Baseline for calculating marriage penalty assumes that both husband and wife file as head of household with one child.

Figure 3.
Marriage Penalties and Bonuses Resulting from the Earned Income Tax Credit, 1996 Tax Law



SOURCE: Congressional Budget Office.
NOTE: Positive values indicate penalties; negative values indicate bonuses.

but would still exist if the couple were not married and earnings were split between parents. In 1996, the largest penalty fell on couples with four or more children in which each spouse earned $11,610. Filing jointly, such a couple would receive a credit of $1,111. If the couple were not married and each parent filed as a head of household with two children, each would receive a credit of $3,556, or a total of $7,112. The marriage penalty attributable to the EITC would thus equal $6,001, more than one-fourth of their earnings. Finally, childless couples never get a tax bonus from the EITC, but the credit may impose a penalty on those couples with two earners whose combined income exceeds $5,280.

The Phaseout of Personal Exemptions

High-income couples can receive marriage bonuses or incur marriage penalties through a provision of the income tax code that denies them some or all of the value of their personal exemptions. In 1996, the phaseout reduced the personal exemptions taxpayers could claim by 2 percent for every $2,500 (or fraction of $2,500) by which their adjusted gross income exceeds $117,950 for single filers, $147,450 for heads of household, or $176,950 for joint filers. Because the threshold income level for single people was two-thirds of the level for married couples, unmarried couples with two high incomes could have combined incomes up to $58,950 higher than if they were married without being affected by the phaseout.

That difference can result in single filers preserving up to 46 percent of their personal exemptions, compared with married couples. For a childless couple in the 31 percent tax bracket, the difference would translate into a marriage penalty of more than $700. If married, the couple would lose 46 percent of their $5,000 in personal exemptions—$2,300. At a 31 percent tax rate, the loss would increase their taxes by $713—31 percent of $2,300. Couples with children could bear an even larger penalty because, if they were not married, they could file as heads of household and protect their exemptions until their individual incomes reached $147,450. The penalty borne by such couples could exceed $2,900.

Conversely, couples who have one high-earner and one non- or low-earner can receive marriage bonuses because the phaseout of exemptions for couples starts at a higher income level. In practice, the phaseout of personal exemptions affects few couples: less than 3 percent of joint filers have incomes above the phaseout threshold and not all of them incur marriage penalties.

The Limitation on Itemized Deductions

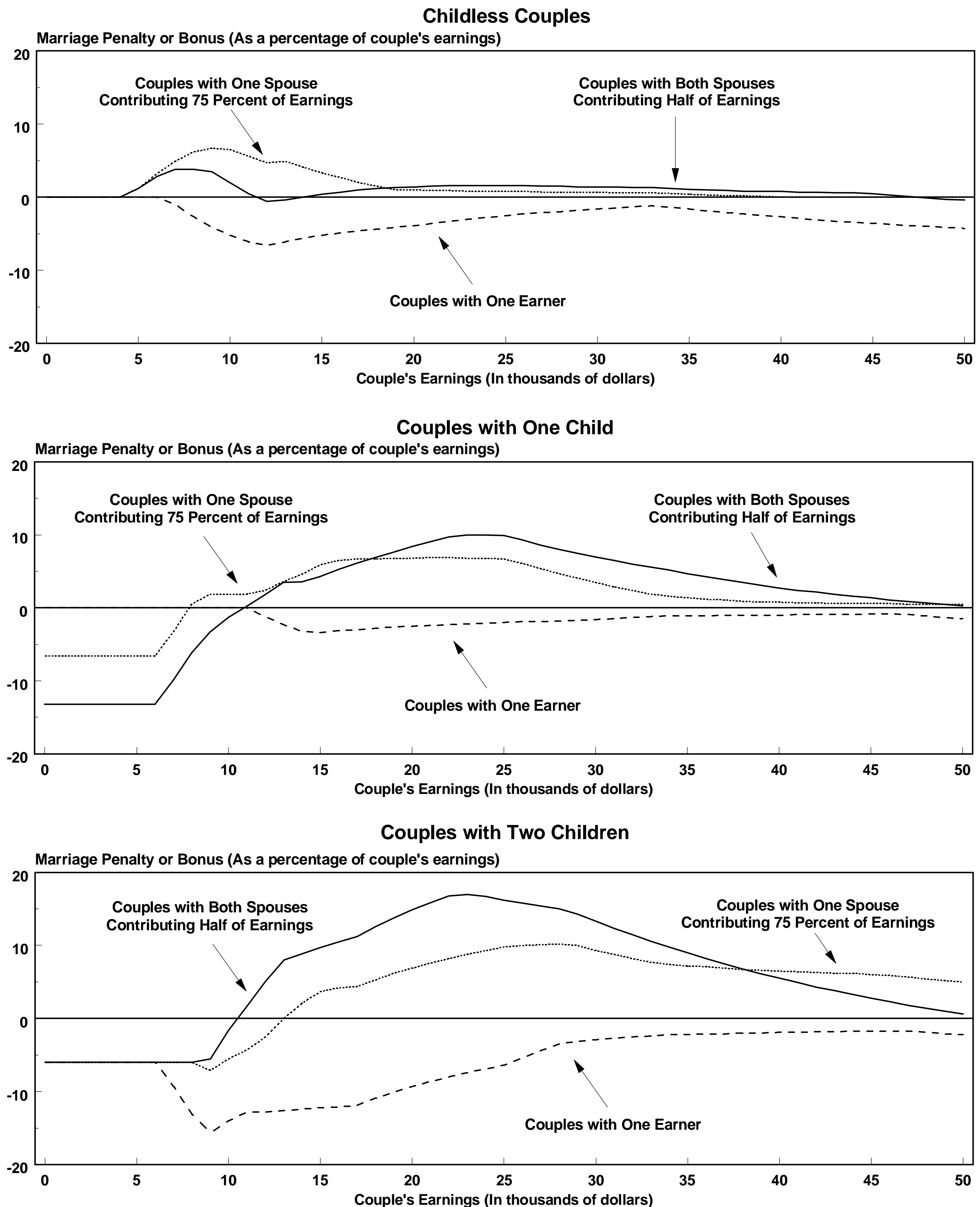
High-income couples can incur a marriage penalty because the tax code limits their itemized deductions more than if they were not married. Regardless of filing status, the limitation reduces the itemized deductions a taxpayer can claim by 3 percent of the amount by which adjusted gross income exceeds an indexed threshold—$117,950 in 1996. Because the threshold is the same for both single and joint filing statuses, a couple in which husband and wife each has AGI at the threshold could claim their full itemized deductions if they were not married but could deduct $3,539 (3 percent of $117,950) less if they were married. The limitation, however, cannot generate marriage bonuses. Again, few couples are affected; less than 7 percent of joint filers are subject to the limitation.

Other Fixed Dollar Limitations

Other features of the tax code that use fixed dollar values to limit reductions in taxable income or allowable tax credits can generate marriage penalties or bonuses. Limitations that do not differ by filing status, or that are not high enough to offset for joint filers the effects of combining a couple's income, impose higher tax liabilities on married couples than if they were not married. Such limitations include the dependent care credit, the income limit for deductible individual retirement accounts (IRAs), and the thresholds for taxation of Social Security benefits, among others.

The dependent care credit, for example, declines from 30 percent of allowed expenses for tax units with incomes below $10,000 to 20 percent for those with incomes above $28,000, whereas allowed expenses cannot exceed $2,400 for one child and $4,800 for two or more children. A married couple with four children in which the husband and wife each earn $24,000 could receive a credit of $960, but both spouses could claim a credit of $1,104 if they were not married. Most of the decrease in the credit resulting from marriage derives from limiting the total creditable child care expenses to $4,800. Of the $1,248 penalty in the example, $144 results from the reduction in the percentage rate of the

Figure 4.
Marriage Penalties and Bonuses by Number of Children and Earnings Split, 1996 Tax Law



SOURCE: Congressional Budget Office simulations.
NOTE: Positive values indicate penalties; negative values indicate bonuses.

credit and $1,104 comes from the limit on creditable expenses.

Fixed-dollar limitations generate marriage bonuses when the dollar limitation is higher for a couple than for a single person and when one spouse adds little to the measure that is subject to the limitation. For example, a single earner can deduct up to $2,000 in contributions to an IRA if he or she has earnings of at least $2,000 and if his or her adjusted gross income is not more than $25,000, whereas a couple can do so if its income does not exceed $40,000. A couple with both spouses earning $25,000 could take no IRA deduction, but each member could deduct $2,000 if they were not married. At the same time, a one-earner couple with a $40,000 income could take the full deduction, but neither spouse could deduct any retirement contributions if he or she were not married. Furthermore, the one-earner couple could increase their deductible IRA contribution to $4,000 because a spouse with no earnings can deduct up to $2,000.

Which Couples Pay the Marriage Tax?

Three factors have the greatest influence on whether a couple bears a marriage penalty or receives a marriage bonus: the couple's total income, the division of that income between husband and wife, and the presence and number of children (and other dependents) that determine the filing status of unmarried individuals and qualify taxpayers for the EITC and personal exemptions.

The following analysis calculates marriage penalties and bonuses as the differences in tax for a married couple filing a joint return versus their filing two single—or, if applicable, head-of-household—returns. All income is assumed to be from earnings and each spouse would claim the standard deduction or itemized deductions equal to 20 percent of earnings, whichever is greater. That simplified calculation differs from the more complete model used in Chapter 3 to estimate marriage penalties and bonuses.

Couples with just one earner (and no unearned income) never incur a marriage penalty and receive a bonus at all but the lowest income levels. At low incomes, that bonus results from the additional personal exemptions and standard deduction brought to the marriage by the nonworking spouse and, for couples with children, larger earned income tax credits (see Figure 4). Upper-income couples receive their bonuses primarily from the tax-rate brackets that are wider for joint filers than for single people.

The largest marriage bonuses, measured as a percentage of income, occur in two distinct cases. First, two-earner couples with one child and very low incomes split equally between spouses receive a larger EITC as the credit phases in and thus receive a bonus of up to 13 percent of their income. Second, low-income single-earner couples in which each spouse has one child, and for whom combining children into one tax unit increases the size of the EITC, receive bonuses of up to 11 percent of income (see Figure 4). The largest bonuses in dollar terms—more than $5,600—go to childless one-earner couples with incomes between $180,000 and $190,000.

Marriage penalties generally increase as the division of income between husband and wife becomes more equal. At high incomes the penalties result primarily from the different tax-rate brackets for each filing status, whereas the EITC and differences between standard deductions for joint filers and single people or heads of household dominate for couples with low incomes. Once again, the penalties, measured as a percentage of income, are greatest for low-income couples who have several children and an equal division of income between spouses; the loss of EITC on joint returns can cost such families up to 18 percent of income. In dollar terms, the penalty resulting from differences in tax brackets, limitations on itemized deductions, and the phaseout of personal exemptions combine to impose the maximum penalty—more than $21,500—on couples whose income is equally divided between spouses and whose taxable income exceeds $527,500. Less than 1 percent of married couples have incomes that high, however, and few of those are likely to have income divided evenly enough between spouses to generate such large penalties.

Chapter Three

Magnitudes of Marriage Penalties and Bonuses

Nearly all married couples incur penalties or bonuses that shift billions of dollars of income taxes among taxpayers. Depending on how marriage penalties are calculated, between 14 million and 23 million married taxpayers incurred penalties totaling between $8 billion and $40 billion in 1996.[1] In that year, between 24 million and 31 million other couples benefitted from between $32 billion and $45 billion in bonuses. Average penalties and bonuses increase with income and more than half of the total value of each falls on tax units with incomes above $50,000. Only couples with no tax liability and those few with incomes falling in specific ranges incur neither a penalty nor a bonus. Less than 10 percent of all joint tax filers are unaffected under any of the four measures of bonuses and penalties described below.

Measuring Marriage Penalties and Bonuses

The size and imposition of marriage penalties and bonuses depend on the benchmark used for comparison against actual tax liabilities. A marriage penalty equals the amount by which a couple's tax liability under joint filing exceeds the taxes they would pay if the income tax code allowed them to file as individuals. If they were allowed to file individually, however, it is not clear whether the tax code would provide the same set of exemptions, deductions, and credits currently available to unmarried taxpayers. For example, without joint filing, the code might not allow taxpayers to file as heads of household and take advantage of the tax brackets available under that filing status. If joint filing was not generally required for married couples, the Congress might elect to change dollar limits on various tax provisions, thus raising or lowering the taxes owed by individual filers. In sum, it is not clear exactly what provisions of the tax code should provide the benchmark against which to estimate marriage penalties and bonuses.

The aspects of the tax code used to calculate penalties and bonuses determine both the size of those measures and which couples incur them. In general, measures that incorporate more aspects of the tax code generate larger penalties affecting more couples and smaller bonuses for fewer couples. This analysis focuses on one basic measure of penalties and bonuses, but it also compares their size and affected populations under that measure with similar values calculated under one broader and three more limited measures. The choice of measure affects both the total amounts of penalties and bonuses and which couples bear them.

Furthermore, the estimates of marriage penalties and bonuses made in this analysis understate the full costs of joint filing because they are derived from observations of couples' incomes under the existing tax code. Thus, they do not account for behavioral changes made in response to that code. If the high marginal tax

1. The estimates given in this chapter are based on data from the Internal Revenue Service's Statistics of Income. See Appendix E for a description of those data.

rates facing second earners under joint tax filing induce them to work less than they would under lower rates, the estimated costs of requiring joint returns are too low and the values assigned to bonuses too high.[2] Overall, joint filing requirements may reduce the labor supply of married couples by about 1 percent. The forgone earnings caused by the tax code impose costs not only on the workers in the form of lower incomes but also on society in the form of lost output. In addition, some couples who appear to benefit from joint filing by receiving bonuses may actually be worse off: their tax savings may result from their working less in response to taxes rather than from the labor supply choices they would make without taxes.

Finally, regardless of which aspects of the tax code are used, estimates of penalties and bonuses must make assumptions about the division of incomes, deductible expenses and the assignment of dependents. One alternative would be a "divorce" model that would set the following conditions of a divorce: spouses would report their own incomes and itemize their own deductible expenses, and children would likely go with the mother. A divorce model would be appropriate if the relevant baseline consists of the taxes that a couple would owe if they were to dissolve their marriage.

Alternatively, deductions, exemptions, and children might be allocated so as to minimize each couple's joint tax liability. A third possibility would rely on specific rules for assignment. Estimates of penalties and bonuses using either of those alternatives, rather than a divorce model, would more likely reflect possible changes that the Congress might make to alter the tax treatment of married couples. Consequently, this study relies on specific assumptions about the division of incomes, expenses, and dependents to quantify marriage penalties and bonuses (see Appendix F for estimates of penalties and bonuses under a divorce model).

The estimates of marriage penalties and bonuses below are just that: estimates. Because they ignore behavioral responses, they are not measures of how tax revenues would change if married couples could file individual tax returns. Nor are they estimates of the full economic costs of joint filing. They are simply the calculated differences between the taxes married couples pay under current law and the taxes they would pay if they had to file individual tax returns given specific assumptions about the division of incomes, itemizable deductions, and dependent exemptions between spouses.

This study's basic measure of penalties and bonuses calculates the penalty or bonus a couple bears as the difference between the taxes they would pay when filing jointly under 1996 law and the taxes they would pay if they filed singly given the following assumptions:

- A couple's income from investments is divided between spouses in proportion to their earnings. Each spouse pays taxes on his or her earnings and share of investment income. Couples with no earnings are treated as one-earner couples.

- Spouses claim the couple's itemized deductions in proportion to their individual incomes. A spouse claims the appropriate standard deduction if it exceeds his or her share of the couple's itemized deductions.

- All childless couples file two single returns.

- In couples with one child, the higher-earning spouse claims the child as a dependent and files as a head of household. The other spouse files a single return.

- If a couple has two or more children, the lower-earning spouse claims one child as a dependent and files as a head of household. The other spouse claims all other children and also files as head of household.

- Both spouses can claim the earned income tax credit if eligible.

To show how the measure used to assess penalties and bonuses affects their magnitudes, the analysis also considers one broader and three more restrictive alternatives (see Box 6 for a summary of all five measures). The broader one is identical to the basic measure discussed above except that the higher-earning spouse claims all of the couple's itemized deductions, and the lower-earning spouse claims the appropriate standard

2. See "Effects on the Supply of Labor" in Chapter 1 of this study for a discussion of behavioral responses to increased marginal tax rates.

Box 6.
Alternative Measures of Marriage Penalties and Bonuses

A marriage penalty or bonus equals the difference between the tax liability of a couple filing jointly and their liability if they could file as individuals. The calculation depends on assumptions about the taxes they would pay if they filed individually. Calculations differ depending on the division between spouses for tax purposes of unearned income, itemized deductions, and children, whether individuals can file as heads of household, and whether individuals can claim amounts of earned income tax credits (EITCs) different from what they would receive on joint returns. The following measures differ in their assumptions about how couples would file tax returns if they were allowed to file separately.

Basic Measure: Spouses divide unearned income and itemized deductions in proportion to their earnings. The first child is assigned to the spouse with higher earnings, the second to the lower-earning spouse, and all others to the higher earner. If eligible, both spouses can file as head of household and claim the earned income tax credit.

Broader Measure: Same as basic measure except that the spouse with higher earnings claims all itemized deductions and the lower earner takes the appropriate standard deduction.

Basic Measure Less Head of Household: Same as basic measure except that spouses must file single returns and cannot file as heads of household.

Basic Measure Less EITC: Same as basic measure except that penalty or bonus calculation excludes any changes in eligibility for or amounts of the earned income tax credit.

Basic Measure Less Head of Household and EITC: Same as basic measure except that spouses must file single returns and cannot file as heads of household and the penalty or bonus calculation excludes any changes in eligibility for or amounts of the earned income tax credit.

deduction.[3] In general, that broader measure reduces the tax liability that the couple would incur if spouses filed individually and therefore increases the calculated size and incidence of marriage penalties (it has the reverse effect on bonuses).

The more restrictive measures result in smaller penalties and larger bonuses. The first does not allow parents to file as heads of household but requires that they file single returns. That restriction increases the baseline tax liabilities used to calculate penalties and bonuses and thus reduces the size of the penalties and the population they affect. It also increases the size of bonuses and the number of couples they affect.

A second more restrictive measure allows parents to file as heads of household but excludes any effects of changes in amounts of earned income tax credit that they would be entitled to claim if they were allowed to file separate returns. Omitting EITC effects has the same impact on estimated penalties and bonuses that denying head-of-household filing status does: the baseline tax liabilities against which penalties and bonuses are assessed increase, fewer couples incur penalties, and more couples receive bonuses.

The final measure excludes both head-of-household filing status and the savings that spouses would receive from separately claiming the EITC. Combining the two limitations increases the number of couples receiving bonuses with a commensurate reduction in the number of couples incurring penalties.

Total Marriage Penalties and Bonuses

Under the basic measure of penalties and bonuses, nearly 21 million couples incurred marriage penalties averaging nearly $1,400 apiece in 1996, raising their taxes by a total of about $29 billion. At the same time, another 25 million couples received bonuses averaging

3. This definition is proposed by Daniel R. Feenberg and Harvey S. Rosen, most recently in "Recent Developments in the Marriage Tax," *National Tax Journal*, vol. 47, no. 1 (March 1995), pp. 91-101.

$1,300 apiece, saving them a total of about $33 billion in taxes (see Table 4). An additional 3 million couples incurred neither penalties nor bonuses.

Thus, about 51 percent of all married couples paid lower taxes in 1996 because they filed joint returns, and 42 percent paid more. Only 6 percent were unaffected. Under the basic measure of the marriage penalty, couples paid a total of about $4 billion less in taxes than they would have if they were required to file as individuals.

The broader measure of marriage penalties and bonuses results in larger estimates of the number and size of penalties and smaller values for the number and size of bonuses. Compared with the effects of the basic measure, the broader concept would mean that an additional 2 million couples would incur penalties and the

Table 4.
Total Value of and Tax Returns with Marriage Penalties and Bonuses Under Alternative Measures, Projected 1996

	Broader Measure of Penalty and Bonus	Basic Measure of Penalty and Bonus	Basic Measure Less Head of Household	Basic Measure Less EITC	Basic Measure Less Head of Household and EITC
			Joint Returns (Millions)		
With Penalties	23.0	20.9	18.5	17.8	13.9
Unaffected	2.4	3.1	3.0	4.1	3.9
With Bonuses	23.9	25.3	27.7	27.3	31.4
Total	49.3	49.3	49.3	49.3	49.3
			Joint Returns (Percent)		
With Penalties	47	42	38	36	28
Unaffected	5	6	6	8	8
With Bonuses	49	51	56	55	64
Total	100	100	100	100	100
			Total Value for Joint Returns (Billions of dollars)		
Penalties	40.2	28.8	18.1	17.0	8.5
Bonuses	32.2	32.9	42.2	33.2	44.7
Net Effect on Tax Liability[a]	7.9	-4.1	-24.1	-16.1	-36.2
			Average Penalty or Bonus for Joint Returns (Dollars)		
Penalties	1,750	1,380	980	960	610
Bonuses	1,350	1,300	1,520	1,210	1,420

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: EITC = earned income tax credit.

a. Positive values indicate net penalties; negative values indicate net bonuses.

average penalty would rise to nearly $1,750, roughly a 25 percent increase. As a result, total penalties would be 40 percent higher—about $40 billion. More than 1 million fewer couples would receive bonuses, and the total bonus would fall by less than $1 billion. Under this measure, couples as a group would pay an additional $8 billion in taxes because they had filed joint tax returns.

More restrictive measures would have opposite effects. Denying the head of household filing status would shift more than 2 million couples from penalties to bonuses, reduce the total penalty by nearly $11 billion, and increase the total bonus by roughly $9 billion. Under that measure, joint filing cuts the taxes paid by couples by about $24 billion. Alternatively, restricting the measure to exclude tax changes resulting from couples claiming additional EITC would reduce the number of penalized couples by 3 million and shift 2 million couples into bonus status. Compared with the basic measure, it would reduce total penalties by more than 40 percent, but would have little effect on the total value of bonuses.

Combining both restrictions—that is, excluding both head-of-household filing status and EITC differences—would remove an additional 4 million couples from the penalty category and give bonuses to about 4 million more couples. That tighter measure would cut the total penalty to less than one-third of that estimated under the basic definition. Overall, under this measure, joint filing would reduce the total tax liability of mar-

Table 5.
Couples Receiving Marriage Penalties and Bonuses by Adjusted Gross Income, Projected 1996

	Less Than $20,000	$20,000-$50,000	$50,000-$100,000	$100,000 and Over	All Incomes
		Tax Returns (Thousands)			
With Penalties	1,100	8,100	9,000	2,700	20,900
Unaffected	2,300	300	500	0	3,100
With Bonuses	5,800	10,000	7,200	2,300	25,300
Total	9,200	18,400	16,700	5,000	49,300
		Percentage of All Returns in Income Category			
With Penalties	12	44	54	54	42
Unaffected	25	1	3	0	6
With Bonuses	63	55	43	46	51
Total	100	100	100	100	100
		Percentage of All Returns in Penalty, Bonus, or Unaffected Category			
With Penalties	5	39	43	13	100
Unaffected	74	10	16	0	100
With Bonuses	23	40	28	9	100
All Returns	19	37	34	10	100

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: Marriage penalties and bonuses are calculated using the basic measure outlined in Box 6.

ried couples by about $36 billion below what they would have owed if they had been required to file individual returns.

The Distribution of Marriage Penalties and Bonuses

Marriage penalties and bonuses are not apportioned evenly across the income distribution (see Table 5 on page 31). Instead, lower-income couples are more likely to receive bonuses, whereas higher-income couples are about equally likely to incur penalties or receive bonuses. In 1996, couples with an adjusted gross income of less than $20,000—19 percent of all joint filers—made up 23 percent of bonus recipients but only 5 percent of couples incurring penalties. By contrast, couples with an AGI between $50,000 and $100,000 —34 percent of all couples—represented 43 percent of those bearing penalties and 28 percent of those receiving bonuses. Three-fourths of couples filing tax returns and incurring neither bonuses nor penalties had an AGI below $20,000. Those couples generally owed no taxes, whether they filed jointly or singly.

In dollar terms, average marriage penalties and bonuses rise with couples' incomes, but the reverse holds when they are measured in relation to income (see Table 6). In 1996, couples with bonuses and AGI below $50,000 paid taxes averaging between $700 and $900 less than what they would have paid if they had filed singly, whereas those with bonuses and an AGI above $100,000 saved an average of nearly $3,000 in taxes by filing joint returns. Despite those large dollar differences, the distribution of bonuses was progressive. Affected couples with incomes below $20,000 received bonuses averaging 5 percent of their incomes in 1996, double that for bonus recipients with incomes between $20,000 and $100,000 and four times that for those with incomes above $100,000.

Table 6.
Marriage Penalties and Bonuses by Adjusted Gross Income of Couple, Projected 1996

	Less Than $20,000	$20,000- $50,000	$50,000- $100,000	$100,000 and Over	All Incomes
Total Penalty or Bonus for Affected Couples (Millions of dollars)					
Penalties	900	9,600	11,100	7,200	28,800
Bonuses	3,900	8,700	13,500	6,800	32,900
Net Effect on Tax Liability[a]	-3,000	900	-2,400	400	-4,100
Average Penalty or Bonus for Affected Couples (Dollars)					
Penalties	770	1,190	1,240	2,640	1,380
Bonuses	680	870	1,880	2,970	1,300
Average Penalty or Bonus for Affected Couples (Percentage)					
Penalties	7.6	3.2	1.7	1.4	2.0
Bonuses	5.0	2.6	2.8	1.2	2.3

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: Marriage penalties and bonuses are calculated using the basic measure outlined in Box 6.

a. Positive values indicate net marriage penalties; negative values indicate net bonuses.

Table 7.
Joint Tax Returns by Penalty or Bonus Status and Division of Earnings Between Spouses, Projected 1996

	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings[a]	All Couples
Joint Returns (Thousands)				
With Penalties	10,800	10,100	0	20,900
Unaffected	600	100	2,300	3,100
With Bonuses	600	5,300	19,400	25,300
All Joint Returns	12,000	15,500	21,700	49,300
Percentage of All Joint Returns				
With Penalties	22	20	0	42
Unaffected	1	b	5	6
With Bonuses	1	11	39	51
All Joint Returns	24	31	44	100
Percentage of Joint Returns in Income Shares Category				
With Penalties	90	65	0	42
Unaffected	5	1	11	6
With Bonuses	5	34	89	51
All Joint Returns	100	100	100	100
Percentage of Joint Returns in Penalty or Bonus Category				
With Penalties	52	48	0	100
Unaffected	21	5	75	100
With Bonuses	2	21	77	100
All Joint Returns	24	31	44	100

SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

NOTES: Marriage penalties and bonuses are calculated using the basic measure outlined in Box 6.

See Table D-2 for additional data supporting this table.

a. Couples with no earners and those with one earner incur similar marriage penalties and bonuses and are thus combined in the analysis. For simplicity of exposition, the text refers to both types of couples as having one earner.

b. Less than 0.5 percent.

Average penalties vary more widely in terms of both dollars and percentage of income. Couples at the bottom end of the income scale who incur penalties paid an average of nearly $800 in additional taxes, compared with marriage penalties averaging more than $2,600 for couples with an AGI above $100,000. For those in the bottom income category, however, that average penalty represented nearly 8 percent of income, compared with less than 2 percent for couples incurring penalties in the top category. Those couples in the middle-income ranges who are affected—namely, those with an AGI between $20,000 and $100,000—incurred penalties averaging about $1,200, not quite 3 percent of their income.

In combination, marriage penalties and bonuses raised the total taxes paid by couples with an AGI between $20,000 and $50,000 and by those with an AGI above $100,000, and lowered taxes for couples in other income categories. Filing joint returns increased the tax bill of the first group by about $900 million in 1996—the difference between $9.6 billion in marriage penalties and $8.7 billion in bonuses. The one-fifth of all couples who have incomes below $20,000 benefited as a group; about $3.9 billion in bonuses offset roughly $900 million in penalties, yielding net tax savings of about $3 billion because those couples file joint returns. Couples with an AGI between $50,000 and $100,000—one-third of all joint filers—paid nearly $2.4 billion less in total taxes because they filed jointly, whereas those in the top income group paid an additional $400 million because they could not file as individuals. Nonetheless, about one-half of all couples received bonuses and two-fifths incurred penalties. The net effect within an in-

Table 8.
Marriage Penalties and Bonuses by Penalty or Bonus Status and Division of Earnings Between Spouses, Projected 1996

	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings[a]	All Couples
Total Penalty or Bonus for Affected Couples (Millions of dollars)				
Penalties	15,200	13,600	0	28,800
Bonuses	100	4,400	28,500	32,900
Net Effect on Tax Liability[b]	15,100	9,200	-28,500	-4,100
Average Penalty or Bonus for Affected Couples (Dollars)				
Penalties	1,400	1,350	n.a.	1,380
Bonuses	90	830	1,470	1,300

SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

NOTES: Marriage penalties and bonuses are calculated using the basic measure outlined in Box 6.

See Table D-2 for additional data supporting this table.

n.a. = not applicable.

a. Couples with no earners and those with one earner incur similar marriage penalties and bonuses and are thus combined in the analysis. For simplicity of exposition, the text refers to both types of couples as having one earner.

b. Positive values indicate net marriage penalties; negative values indicate net bonuses.

come category results from a significant redistribution of tax liabilities from those individuals receiving bonuses to those paying penalties.

Couples whose incomes are more equally divided between husband and wife are more likely to incur marriage penalties and less likely to receive bonuses than couples in which one spouse's income is significantly greater (see Table 7 on page 33). Couples with just one earner made up 44 percent of all couples in 1996 but represented 77 percent of all returns receiving bonuses, lowering their income tax liabilities by more than $28 billion compared with what they would have owed if they had filed individual returns (see Table 8). Virtually no one-earner couples paid marriage penalties. By contrast, couples in which both spouses earned at least one-third of their combined income—one-quarter of all couples—were disproportionately likely to incur penalties. In 1996 they filed 52 percent of all penalized returns but only 2 percent of returns with bonuses. The 90 percent of such couples who incurred penalties paid a total of $15 billion in additional taxes because they filed jointly, an average penalty of about $1,400.

Two-earner couples whose income is less equally divided between spouses were less likely to incur penalties and more likely to receive bonuses than those with a more equal division. Nearly two-thirds of two-earner couples in which one spouse earned less than one-third of total income paid penalties totaling over $13 billion,

Table 9.
Effective Individual Income Tax Rates of Married Couples Filing Individual or Joint Returns, by Adjusted Gross Income and Division of Earnings Between Spouses, Projected 1996 (In percent)

Adjusted Gross Income	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings[a]	Nonelderly Single Filers
Effective Tax Rate when Couples File Joint Tax Returns				
Less Than $20,000	-9.9	-12.9	-8.2	2.9
$20,000 - $50,000	8.5	7.8	7.3	10.7
$50,000 - $100,000	12.5	12.0	12.2	16.0
More Than $100,000	19.3	22.9	24.4	25.8
All Couples	13.2	15.2	15.0	11.3
Effective Tax Rate if Couples Were Required to File Individual Tax Returns				
Less Than $20,000	-19.7	-13.1	-1.6	2.9
$20,000 - $50,000	5.4	5.9	10.1	10.7
$50,000 - $100,000	11.0	11.4	15.9	16.0
More Than $100,000	17.4	22.3	25.7	25.8
All Couples	11.2	14.3	17.6	11.3

SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

NOTE: Marriage penalties and bonuses are calculated using the basic measure outlined in Box 6.

a. Couples with no earners and those with one earner incur similar marriage penalties and bonuses and are thus combined in the analysis. For simplicity of exposition, the text refers to both types of couples as having one earner.

and the other third received total bonuses of roughly $4 billion. The net effect raised taxes for all such couples by a total of about $9 billion in 1996.

Effective Tax Rates of Married Couples

Among all couples and within all income categories, filing joint tax returns generally equalizes the effective tax rates borne by one- and two-earner married couples, thus roughly satisfying the goal of having couples with equal incomes pay comparable taxes. The differences in effective tax rates under joint and individual filing, however, indicate that the goal of marriage neutrality is not met. Couples who have incomes between $20,000 and $50,000, for example, paid taxes averaging about 8 percent of their incomes in 1996, regardless of how much of their income was earned by each spouse (see Table 9 on page 35). If couples had been required to file individual returns, the average effective tax rate of one-earner couples would have been 10 percent, double the 5 percent rate paid by two-earner couples. A similar situation occurred for couples whose incomes were between $50,000 and $100,000.

Joint filing appears to have had a less equalizing effect on tax rates for couples whose incomes were above $100,000 and for whom effective 1996 tax rates ranged from 19 percent to 24 percent compared with a range of average rates from 17 percent to 26 percent under individual filing. The lower effective tax rate results because two-earner couples in which both husband and wife earn at least one-third of total income had, on average, lower incomes than other high-income couples.

A similar but reversed situation occurred for couples who had incomes below $20,000. Low-income, two-earner couples had, on average, higher incomes than their one-earner counterparts. Those with more equal splits of earnings between husband and wife had higher incomes than those for which the split was less equal. That income inequality among types of couples led to a significant divergence of effective tax rates under joint filing (-8 percent to -13 percent), although that spread was narrower than that which would have occurred under individual filing (-2 percent to -20 percent).[4]

At all income levels, married couples incurred markedly lower effective 1996 tax rates than single taxpayers, largely because of the separate tax schedules for the two groups and because couples generally can claim more personal exemptions than single filers. Tax units whose AGI was above $20,000 faced average effective tax rates between 1 percentage point and 6 percentage points lower if they were couples than if they were single taxpayers. The difference was much larger—10 percentage points or more—for tax units whose AGI was under $20,000, primarily because the EITC was more likely to go to couples than to single filers. The generally lower incomes of single filers mean that as a group, they pay a smaller share of their incomes in taxes than married couples.[5]

4. Negative tax rates imply that taxpayers receive a payment rather than paying a tax.

5. Appendix G discusses the distribution of different types of families across income categories. Working-age married couples are more likely to be in higher-income categories than are families headed by working-age single people or the elderly.

Chapter Four

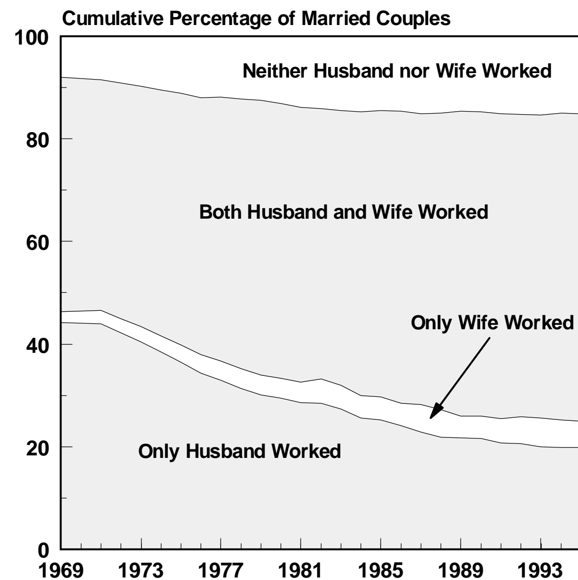
Labor Market and Demographic Changes Affecting Marriage Penalties and Bonuses

In the last two decades, the share of married couples who have two earners has risen sharply as the difference between the earnings of husbands and wives has decreased, particularly for couples with higher incomes. Those labor market and demographic changes, which have affected both childless couples and those with children, have helped to increase the fraction of couples incurring marriage penalties and drop the proportion receiving marriage bonuses.

Between 1969 and 1995, the share of all married couples in which both spouses worked increased from 46 percent to 60 percent, whereas the proportion with just one worker fell from 46 percent to 25 percent (see Figure 5).[1] Over the same period, the fraction of couples with no workers nearly doubled from 8 percent to 15 percent, reflecting the growth of the elderly population and the falling rates of labor force participation among older men. Thus, although one-half of working married couples had just one earner in 1969, that share had dropped to less than one-third by 1995.

The increasing likelihood of married couples having two earners was offset during the period by the decline in married couples as a share of all families and individuals (see Figure 6). For simplicity of exposition, the following discussion refers to this group as "families," including individuals not living with relatives as families with a single member. In 1969, married couples made up two-thirds of all families; by 1995, that share had dropped to one-half. Most of the shift re-

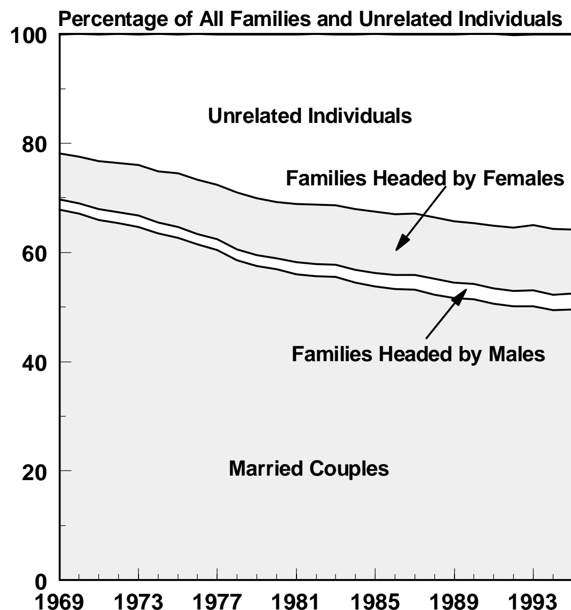
Figure 5.
Work Patterns of Married Couples, 1969-1995



SOURCE: Congressional Budget Office tabulations of data from the Current Population Survey. Data limitations required interpolation of values for five years: 1970, 1972, 1974, 1975, and 1977.

1. The tabulations presented in this chapter are generally derived from data from the Current Population Survey by the Bureau of the Census. See Appendix E for a description of those data.

Figure 6.
Distribution of Families and Unrelated Individuals by Type, 1969-1995



SOURCE: Congressional Budget Office tabulations based on data in Bureau of the Census, "Household and Family Characteristics: March 1993," *Current Population Reports*, Series P20, No. 477 (June 1994), and unpublished data from the Bureau of the Census.

sulted from sharp increases in the number of unrelated individuals—that is, one-person families—whose proportion rose from just over one-fifth in 1969 to more than one-third in 1995. The fraction of all families headed by unmarried women living with relatives, mostly mothers and their children, grew less rapidly over the 1969-1995 period: from 9 percent to 12 percent of all units. The decline in the relative number of married-couple families indicates that a smaller fraction of families file joint tax returns. As a result, fewer families may incur marriage penalties or bonuses today than was the case 25 years ago, even though the changing characteristics of married couples may have subjected more couples to penalties.

Counts of actual tax returns filed in 1969 and 1993 provide somewhat different information but generally confirm those changes. In 1969, 60 percent of returns were filed by married couples, 4 percent by heads of household, and 36 percent by single people. By 1993, married returns had declined to 44 percent, heads of household had tripled to 13 percent, and single returns had risen to 42 percent. Those values differ from the overall demographic data for two reasons: first, low-income people need not file returns and generally do so only to get refunds or the EITC; and second, single dependents file their own returns if they have sufficient income. Heads of household with low incomes may be more likely to file returns than other low-income people because they are likely to qualify for the EITC (which did not exist in 1969).

Working-Age Married Couples

Since 1969, working-age married couples have become increasingly likely to have two earners and to have a more equal distribution of earnings between husband and wife (see Table 10). That analysis defines working -age couples with earnings as married couples in which both the husband and wife are between 25 and 64 years old; in which neither the husband nor the wife reports negative earnings from self-employment; and in which either the husband or the wife—or both—reports positive earnings.

Limiting the age range for couples restricts observations to the population most likely to be in the labor force, thereby avoiding younger couples who may not yet have completed their education and older people who may have only loose ties to the labor force. Omitting couples with negative earnings eliminates the confusion that such uncommon units might create, and requiring that couples have some earnings focuses the analysis on couples in the labor force. For 1995, constraining the base population in those ways omits just over one-fourth of all married couples. (See Appendix H for a more complete discussion of limitations imposed on the observed population.)

The fraction of working-age married couples in which both spouses held jobs rose from just under one-half in 1969 to nearly three-fourths in 1995. Over the same period, the fraction of couples in which both husband and wife earned at least one-third of the couple's total earnings doubled from 17 percent to 34 percent. The near halving of the proportion of couples with just one worker reduced the likelihood that couples would

Table 10.
Distribution of Working-Age Married Couples, by Division of Earnings Between Spouses in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings	All Couples
		Working-Age Married Couples (Thousands)		
1969	5,600	10,100	16,700	32,400
1979	7,500	12,700	13,700	34,000
1989	11,800	15,100	11,300	38,200
1995	13,600	15,200	11,300	40,100
		Percentage of All Working-Age Married Couples		
1969	17.2	31.2	51.7	100.0
1979	22.2	37.4	40.4	100.0
1989	30.9	39.5	29.5	100.0
1995	33.9	37.9	28.2	100.0

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Survey for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

receive marriage bonuses, and the greater equality of earnings between spouses increased both the share of couples bearing marriage penalties and the size of those penalties. The changes in the earnings patterns of married couples varied markedly, depending on a couple's total earnings, age, and presence and number of children.

Changes in Earnings Among Income Categories

Between 1969 and 1995, the percentage of working-age married couples in which both husband and wife worked increased at all earnings levels, but rose more for couples with high earnings than for those with low earnings (see Table 11). In 1995, 31 percent of couples with earnings below $20,000—in 1995 dollars—had two workers, compared with 29 percent in 1969. By contrast, the share of couples with two earners whose combined earnings were between $50,000 and $100,000 increased over the same period from 63 percent to 87 percent. Nearly 80 percent of couples in the highest earnings group—more than $100,000—had two earners in 1995, almost double the 43 percent of 1969. By the end of the period, couples in the highest income category were more likely to have two earners than those whose incomes were below $50,000 and nearly as likely as those whose incomes were between $50,000 and $100,000.

In part, the shift results from two earners generating more income than one, so that a couple in which both husband and wife work is less likely to have earnings low enough to fall into the bottom income category. Having two earners increases the likelihood that a couple's income puts them in one of the higher earnings categories. Regardless of the reason for the shift, the rise in two-earner couples over the last quarter century was concentrated in the higher income categories, where marriage penalties are generally larger and more prevalent. The shift in working patterns of married couples has thus intensified the problem of marriage penalties.

Table 11.
Percentage of Working-Age Married Couples with Two Earners, by Total Income in 1969, 1979, 1989, and 1995

Year	Less Than $20,000	$20,000-$50,000	$50,000-$100,000	More Than $100,000	All Incomes
1969	28.5	46.0	62.7	43.0	48.3
1979	29.5	56.3	73.4	56.7	59.6
1989	38.0	66.6	82.7	78.7	70.5
1995	30.9	69.7	87.0	78.6	71.8

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Survey for 1970, 1980, 1990, and 1996.

NOTES: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Incomes are measured in 1995 dollars.

Husbands and wives now earn more nearly equal incomes than they did 25 years ago. The change occurred within all income groups, but was more pronounced among those with the highest earnings (see Table 12). Among working-age couples with total earnings between $20,000 and $50,000 (in 1995 dollars), the proportion of couples in which both spouses earned at least one-third of the couple's total earnings doubled from 15 percent in 1969 to 32 percent in 1995. Couples whose total earnings were above $100,000 showed even greater movement toward equal earnings between spouses: over the 1969-1995 period, the fraction of those couples in which each spouse earned at least one-third of the couple's earnings tripled from 10 percent to 33 percent. Even so, in 1995, an equal division of earnings between spouses was most likely for couples in the next lower income category (between $50,000 and $100,000).

Both the increased likelihood of having two earners and the greater equality of husbands' and wives' earnings increased the chances that working couples would incur a marriage penalty at income tax time. Those shifts were more likely to occur for couples with high earnings, which aggravated the situation because higher-income families generally bear greater marriage penalties—in dollar terms, although not as a percentage of income (see Table 6 in Chapter 3).

Changes in Earnings Among Age Categories

Both the portion of working-age couples with two earners and the equality of earnings between husband and wife increased for all age groups between 1969 and 1995, but the increases were greater for couples in which both spouses were under age 55 (see Tables 13 and 14). In 1969, roughly one-half of working couples in each age category—defined in terms of the age of the older spouse—had two earners, and couples in the 55 to 64 age group were only slightly less likely than younger couples to have two workers. By 1995, three-quarters of couples in each of the younger age groups had two earners compared with less than 60 percent of couples in the oldest age category. The trend of wives entering the labor force appears to have been offset in the oldest age group—in which the older spouse was between 55 and 64 years old—by the decreasing participation of men over age 55.

Between 1969 and 1995 husbands and wives in every age group moved toward greater equality of earnings, and again the trend was stronger for younger couples. The share of couples in which both spouses earned at least one-third of the couple's income more

Table 12.
Percentage Distribution of Working-Age Married Couples, by Division of Earnings Between Spouses and Total Income in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings
	All Income Categories		
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
	Couple's Income Less Than $20,000		
1969	7.1	21.4	71.5
1979	9.7	19.9	70.5
1989	12.3	25.7	62.0
1995	11.6	19.3	69.1
	Couple's Income $20,000 to $50,000		
1969	14.9	31.1	54.0
1979	20.3	36.0	43.7
1989	27.3	39.4	33.4
1995	32.1	37.6	30.3
	Couple's Income $50,000 to $100,000		
1969	27.4	35.4	37.3
1979	29.3	44.1	26.6
1989	40.2	42.5	17.3
1995	44.4	42.7	13.0
	Couple's Income More Than $100,000		
1969	9.9	33.1	57.0
1979	16.0	40.6	43.3
1989	32.5	46.3	21.3
1995	32.5	46.1	21.4

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTES: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Incomes are measured in 1995 dollars.

Table 13.
Percentage of Working-Age Married Couples with Two Earners, by Age of Older Spouse in 1969, 1979, 1989, and 1995

	Age of Older Spouse				All Age
Year	25-34	35-44	45-54	55-64	Groups
1969	46.5	49.5	51.2	44.8	48.3
1979	67.7	63.5	59.8	44.8	59.6
1989	76.0	74.2	71.8	54.0	70.5
1995	76.7	74.1	74.2	57.9	71.8

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

than doubled for those under age 45, from 15 percent in 1969 to more than 35 percent in 1995. By contrast, the oldest age group experienced little change in the equality of earnings between spouses, and the comparable value rose only 7 percentage points from 19 percent to 26 percent. The greater equality of earnings for younger couples means that they are significantly more likely to incur marriage penalties than their older counterparts, all else being equal. Furthermore, if the tendency toward greater earnings equality among the young signals a long-term trend that will extend over time into older age groups, the pattern may foreshadow further increases in the number of couples who will be subject to marriage penalties in the future.

Changes in Earnings by Number of Children

Working-age couples were more likely to have two earners in 1995 than in 1969, regardless of how many children they had. By 1995, more than two-thirds of couples in each category—with none, one, and two or more children—had two earners. The increase in that likelihood over the period was greater for those with two or more children than for those with none or one (see Table 15). Between 1969 and 1995, the fraction of couples with two or more children and both parents working rose by more than one-half, from 43 percent to 69 percent. By contrast, comparable values for childless couples grew about one-third, from 53 percent to 72 percent, largely because childless couples are generally older than couples with children and, as discussed above, older couples are less likely than their younger counterparts to have two earners.

Equality of earnings between spouses also increased during the 1969-1995 period for couples, regardless of the number of children, and couples with children had larger increases than those with none. Even so, at the end of the period, couples with two or more children had less parity of earnings than other couples (see Table 16). In 1969, one-fourth of childless couples had both spouses earning at least one-third of their total income, compared with one-fifth of couples with one child and one-ninth of couples with two or more children. By 1995, more than 36 percent of couples with no children or one child showed that degree of earnings equality—about 7 percentage points more than couples with two or more children. Couples with children are more likely than their childless counterparts to incur marriage penalties, especially at lower earnings levels, and the increased equality of earnings between spouses served only to aggravate the situation during the 1969-1995 period.

One rationale for the tax code's equal treatment of one- and two-earner couples could be to provide an indirect subsidy for families in which one parent stays home to care for children. Such a rationale might be

Table 14.
Percentage Distribution of Working-Age Married Couples, by Division of Earnings Between Spouses and Age of Older Spouse in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings
	All Age Groups		
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
	Older Spouse Age 25-34		
1969	15.2	31.4	53.5
1979	27.4	40.3	32.3
1989	36.2	39.8	24.0
1995	39.9	36.7	23.3
	Older Spouse Age 35-44		
1969	14.7	34.8	50.5
1979	21.9	41.6	36.5
1989	32.2	42.0	25.8
1995	34.8	39.3	25.9
	Older Spouse Age 45-54		
1969	19.5	31.7	48.8
1979	21.0	38.7	40.2
1989	31.0	40.8	28.2
1995	33.8	40.4	25.8
	Older Spouse Age 55-64		
1969	19.3	25.4	55.2
1979	17.8	27.0	55.2
1989	21.4	32.6	46.0
1995	25.8	32.1	42.1

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

valid if families with children typically have only one earner. That situation was common in the past but definitely does not prevail today. In 1969, nearly one-half of all families with children were headed by couples with just one earner; by 1995, that share had fallen below one-fifth, whereas the fraction headed by two-earner couples had risen above one-half (see Table 17). Over the same period, the fraction of families with children headed by a single parent more than doubled, from 13 percent to 30 percent. In view of such major demographic changes, equal tax treatment of one- and two-earner couples cannot be justified on the basis of aiding children. If the tax system has as one objective the favorable tax treatment of families with children, the tax code can better offer such benefits directly through higher exemptions or credits for children. Preferential tax treatment of single-parent families, however, as provided by the head-of-household filing status, might offer reasonably well-targeted assistance to families with children. Even so, a subsidy offered directly to families with children would almost certainly provide a more effective form of assistance.

Table 15.
Percentage of Working-Age Married Couples with Two Earners, by Number of Children in 1969, 1979, 1989, and 1995

Year	No Children	One Child	Two or More Children	All Couples
1969	53.0	53.3	43.2	48.3
1979	59.9	65.0	56.4	59.6
1989	70.4	75.9	67.2	70.5
1995	71.6	76.9	69.1	71.8

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Survey for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Overview

Two complementary trends emerged over the last quarter century: there were more working-age couples with two earners and greater parity of earnings between husbands and wives. Those trends occurred in all earnings, age, and child categories, but were concentrated more among couples with higher earnings, in younger age groups, and with children. The patterns should have given more couples marriage penalties and fewer couples bonuses, simply because penalties occur more frequently for two-earner couples with a more equal division of earnings between husband and wife than for those whose earnings are less equally divided. The trends in earnings since 1969 have made marriage penalties more likely for all couples, particularly for those with high earnings, those with both spouses under age 55, and those with children. At the same time, the sharp decline in all categories in the proportion of one-earner couples has meant a corresponding drop in the number of couples benefiting from marriage bonuses, which go to virtually all couples with one earner and occur more frequently for couples who have a less equal division of earnings.

An estimate of the effect of demographic and earnings changes since 1969 on marriage penalties and bonuses can be obtained by superimposing the 1969 distribution of married couples and their earnings on the projected 1996 distribution and comparing the size and incidence of penalties and bonuses under 1996 tax law (see Table 18; statistics in the following discussion include only working-age couples with some earnings). Thus, if married couples in 1996 had work and earnings patterns similar to those of their counterparts in 1969, the fraction of couples incurring marriage penalties would be markedly lower—30 percent compared with 47 percent—and the fraction receiving bonuses would be much higher—64 percent rather than the actual 48 percent. Those estimates support the conclusion that labor market and demographic changes over the last quarter century have increased the likelihood that couples will incur marriage penalties.

Table 16.
Percentage Distribution of Working-Age Married Couples, by Division of Earnings Between Spouses and Number of Children in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Only One Spouse Had Earnings
	All Couples		
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
	No Children		
1969	24.4	28.6	47.0
1979	27.0	32.9	40.1
1989	34.3	36.2	29.6
1995	36.3	35.3	28.4
	One Child		
1969	19.3	34.1	46.7
1979	24.6	40.4	35.0
1989	34.9	41.1	24.1
1995	37.6	39.4	23.1
	Two or More Children		
1969	11.3	31.9	56.8
1979	16.3	40.1	43.6
1989	25.0	42.2	32.8
1995	29.2	39.9	30.9

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Additional evidence of the effects of changing earnings and demographics comes from the work of economists James Alm and Leslie Whittington, who found a general rise since 1970 in the percentage of couples incurring a marriage tax.[2] Using both different assumptions and data from those of the analysis discussed in Chapter 3, Alm and Whittington concluded that the share of couples incurring penalties rose from less than 40 percent in 1970 to nearly 60 percent in 1994, whereas the fraction receiving bonuses fell from 50 percent to less than 30 percent. Among couples incurring penalties, the average penalty rose through the 1970s from about $600 to more than $1,800 (in 1994 dollars) before falling to $1,000 in 1990 and then rising

2. James Alm and Leslie A. Whittington, "The Rise and Fall and Rise ... of the Marriage Tax," *National Tax Journal*, vol. XLIX, no. 4 (December 1996), pp. 571-589.

Table 17.
Percentage Distribution of Families with Children, by Type and Number of Earners in Married Couples in 1969, 1979, 1989, and 1995

Year	One-Earner Married Couples	Two-Earner Married Couples	Single-Parent Families
1969	44.6	41.1	12.9
1979	29.8	46.9	21.1
1989	21.0	51.4	25.1
1995	18.7	50.2	29.6

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Married couples with zero or negative earnings are excluded.

again to $1,200 in 1994. Bonuses followed a similar pattern, rising from nearly $800 in 1971 to more than $1,600 in 1980 and then falling to just over $1,000 by 1994.

The Alm and Whittington analysis further demonstrates that changes in earnings and demographic characteristics have led to larger marriage penalties. One simulation held tax law constant and found that changes in the earnings of couples have caused the average effect of marriage on income tax liabilities to change from a bonus of between $600 and $800 in 1970 to a penalty of $400 in 1994 (all in 1994 dollars). An alternative simulation holding the makeup of the population fixed at 1992 levels demonstrated that although changes in tax law have caused average penalties to vary widely over the past two decades—between more than $600 in the early 1970s to just over $200 in the late 1980s—those changes alone have not increased the likelihood that couples will incur penalties. Although the Alm and Whittington analysis relies on different assumptions and data than does this study, it provides support for the conclusion that changing earnings patterns and demographics have made marriage penalties more common.

Table 18.
Simulated Effects of Demographic Change on Marriage Penalties and Bonuses, 1969 and 1996

	Simulated 1969	Estimated 1996
Percentage of Returns with One Earner	57	38
Percentage of Earnings Going to One-Earner Couples	52	30
Percentage of Returns with:		
Penalty	30	47
Bonus	64	48
Neither penalty nor bonus	6	5

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income and the March Current Population Surveys for 1970 and 1996.

NOTE: Estimates for 1969 were calculated by superimposing the distribution of working-age couples by age and division of earnings between husband and wife on measures of marriage penalties and bonuses projected for 1996. The simulations for 1969 thus implicitly assume that 1996 tax law would apply to the 1969 distribution of married couples.

Chapter Five

Reducing Marriage Penalties

Recent growth in the size of marriage penalties and the number of couples who are subject to them has renewed interest in the effect of joint filing on the taxes people pay. There are several approaches to the problem.[1]

At one extreme lie minor changes within the current tax system, including tax credits to offset the penalty, changes in tax brackets and standard deduction levels, or reenacting the two-earner deduction. For low-income families, changing the structure of the earned income tax credit could reduce—perhaps to zero—the marriage penalties that it generates. Such proposals would reduce the impact of the penalties but not eliminate them.

At the other extreme is a reversion to the situation that existed before 1948, in which all individuals had to file single tax returns and pay taxes on their own income. That change would totally eliminate the marriage penalty but also get rid of bonuses and impose a large redistribution of tax burdens among married couples. An intermediate approach—allowing couples to elect either joint, single, or, if appropriate, head-of-household filing status—would remove penalties but leave bonuses in place, thus causing substantial revenue losses and complicating the tax system. Finally, proposals to replace the current income tax with either a simpler tax on incomes or some form of consumption tax would change the existing pattern of penalties and bonuses in ways that will be apparent only after the plans for reform are more specific.

Any change in the tax system for the purpose of reducing or eliminating marriage penalties must confront a basic trade-off. Because marriage penalties mean that many couples pay higher taxes than they would if they were not required to file as a couple, lowering the penalties requires either that taxes on single and head-of-household filers be raised or that taxes on joint filers be cut. The former approach would almost certainly bring complaints from those not filing jointly that the tax laws again discriminated against them with a new "singles penalty." The latter approach would reduce tax revenues unless other changes make up for the loss. Furthermore, the more it reduced penalties, the greater would be the revenue loss. Changes that reduce marriage penalties without incurring revenue losses must redistribute the burden of taxes away from couples now incurring penalties and toward other taxpayers—namely, either couples now receiving bonuses or unmarried taxpayers. That basic trade-off limits what the different options can accomplish.

A final issue concerns the relationship between marriage penalties and bonuses. Changes in the tax code that reduce penalties are generally blunt instruments that affect all joint filers, whether they incur bonuses or not. As a result, they tend not only to reduce penalties but to increase existing bonuses and create new ones. One important measure of the efficiency of policies to lower penalties involves the extent to which they also raise bonuses.

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1. Jonathan Barry Forman offers a range of options in "What Can Be Done About Marriage Penalties?" *Family Law Quarterly*, vol. 30, no. 1 (Spring 1996), pp. 1-22.

If different options affect taxpayers in different parts of the income distribution, combining options could serve to spread the benefits of change more equally among couples who are currently penalized. For example, widening tax brackets and raising the standard deduction for joint filers reduces penalties primarily for couples who have incomes above $50,000, whereas revising the EITC affects low-income couples most. Combining the two options would reduce penalties for the entire income distribution. Even so, couples currently incurring marriage penalties would receive varying degrees of relief. Furthermore, because options may interact with each other, the effects of combining two of them would not equal the sum of their individual effects. Many combinations of options are possible. The following analysis, however, considers only individual options.

Widen Tax Brackets and Raise the Standard Deduction for Joint Filers

The cause of marriage penalties for many middle- and high-income couples is that joint filers face tax brackets that are less than twice as wide as those for single filers and a standard deduction less than twice that for sin-

Box 7.
Setting Tax Brackets and Standard Deductions for Joint Filers to Twice Those for Single Filers

Simulations of the option setting tax brackets and standard deductions for joint filers equal to twice those for single filers assumed that the 28 percent, 31 percent, and 36 percent tax brackets for joint filers start at taxable incomes twice those for single filers. Doubling the current starting point for the 39.6 percent bracket was considered too extreme, however. Instead, the lower end of that bracket for 1993 was taken to be 1.67 times the appropriate starting point for single filers. Thus, the simulation took the start of the 39.6 percent bracket for single filers for 1993 to be $150,000, doubled that to obtain a new 39.6 percent bracket starting income for joint filers for 1993, and indexed both values forward to 1996. The resulting starting points for the top tax bracket were thus assumed to be $158,250 for single filers and $316,500 for joint filers. Those values compare with $263,750 for both filing statuses under current law. Furthermore, the simulations assumed bracket starting points for heads of household halfway between those for single and joint filers.

Simulations assumed standard deductions for the three filing statuses of single filers, $4,000; heads of household, $6,000; and joint filers, $8,000, compared with $4,000, $5,900, and $6,700, respectively, under current law.

The tax brackets used in the simulations were as follows:

Lowest Taxable Income for Tax Rates (In dollars)

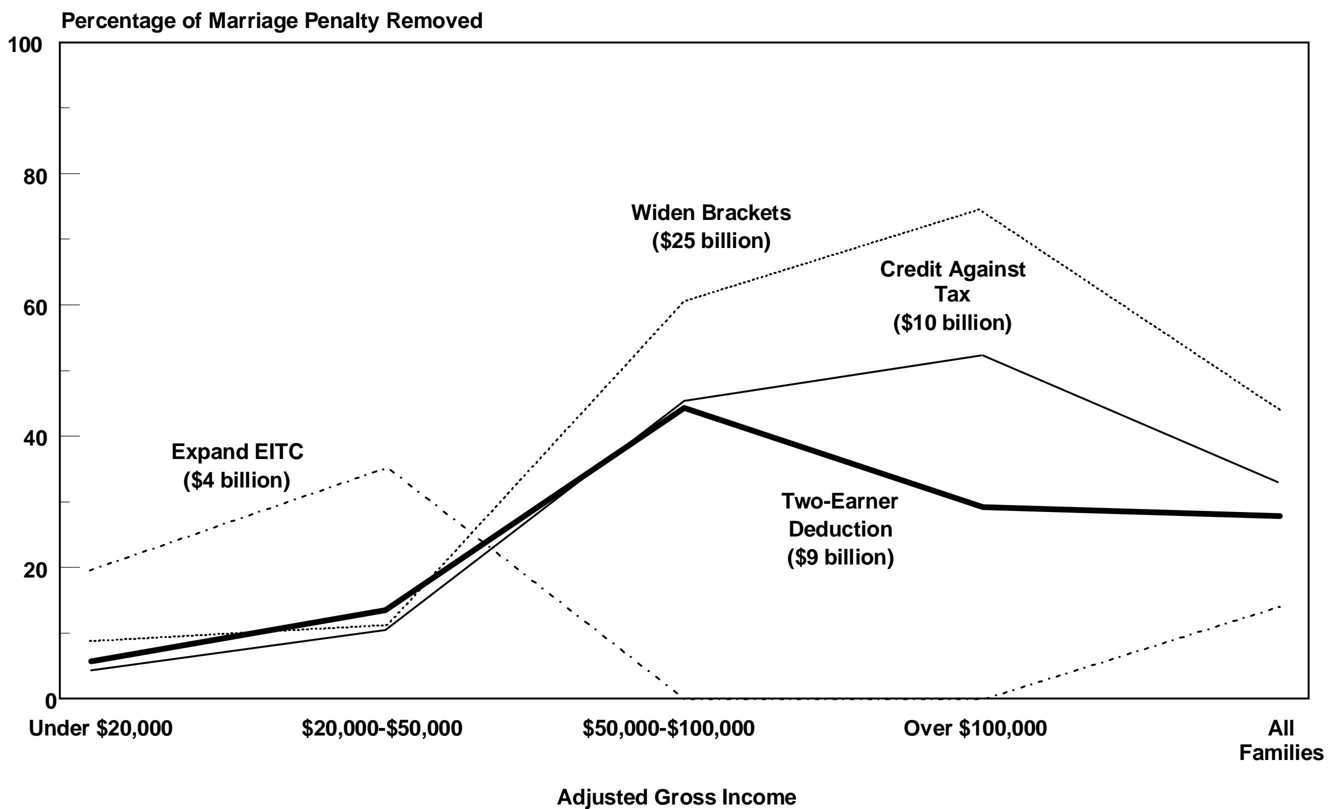
Tax Rate	Single Filers		Head of Household		Joint Filers	
(Percent)	Current	Simulated	Current	Simulated	Current	Simulated
15	0	0	0	0	0	0
28	24,000	24,000	32,150	36,000	40,100	48,000
31	58,150	58,150	83,050	87,225	96,900	116,300
36	121,300	121,300	134,500	181,950	147,700	242,600
39.6	263,750	158,250	263,750	237,375	263,750	316,500

SOURCE: Congressional Budget Office.

gles. For example, in 1996 the 15 percent tax bracket for joint filers applied to the first $40,100 of their taxable income—1.67 times the $24,000 first bracket for single filers. Similarly, the 1996 standard deduction for joint filers was $6,700—or 1.68 times that for single filers. Because the ratios are less than two, married couples in which husband and wife have roughly equal incomes pay higher taxes than they would if they were not married. Widening the tax brackets to twice the width of single brackets and setting the joint standard deduction to twice that for singles would eliminate that source of marriage penalties. At the same time, however, it would create new marriage bonuses for many couples and increase those for most couples now receiving them.

An alternative approach to reducing marriage penalties would be to make standard deductions and tax brackets for single filers equal to one-half of those currently available to joint filers. Parameters for heads of household would be set midway between the two. Such changes would increase the taxes of single and head-of-household filers and thus increase federal tax revenues. Because the incomes of such filers are generally lower than those of joint filers, the revenue impact of the change would be smaller.

Figure 7.
Projected 1996 Marriage Penalty Relief Under Alternative Proposals, Basic Measure of Marriage Penalty



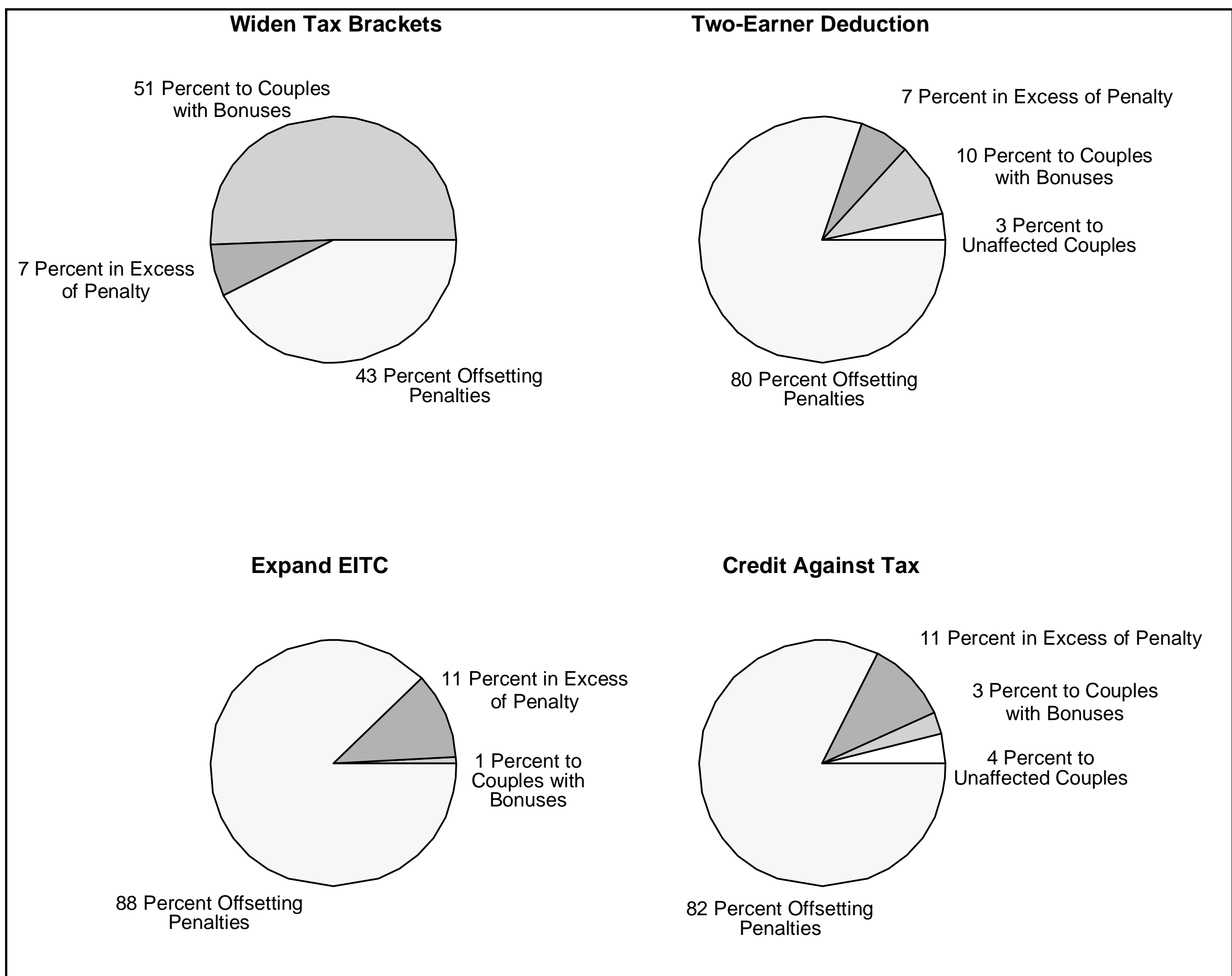
SOURCE: Congressional Budget Office projections based on data from the 1993 Statistics of Income.

NOTES: The basic measure of penalty and bonus assumes that income is divided between spouses based on the division of earnings; itemized deductions are divided in proportion to income; childless couples file two single returns; in couples with one child, the higher-earning spouse files as head of household and the lower-earning spouse files as single; in couples with two or more children, both spouses file as head of household and the higher-earning spouse claims all but one child; and all filers claim earned income tax credit (EITC) if eligible.

The 1996 revenue cost of each proposal is shown in parentheses.

Setting tax brackets and standard deductions for joint filers at twice those of single filers would reduce federal tax revenues by an estimated $25 billion measured at 1996 income levels (see Box 7 on page 48 for details of this option). The tax reduction would be shared almost equally between couples now incurring marriage penalties and those currently receiving bonuses. On the whole, the changes would reduce marriage penalties by 44 percent (see Figure 7 on page 49). That reduction would go primarily to couples with incomes above $50,000, whose total penalty would fall by two-thirds; lower-income taxpayers would have their penalties reduced by just over one-tenth. At the same time, because their top tax bracket would begin at a

Figure 8.
Projected 1996 Target Efficiency of Alternative Proposals to Relieve Marriage Penalties, Basic Measure of Marriage Penalty



SOURCE: Congressional Budget Office projections based on data frzom the 1993 Statistics of Income.

NOTE: The basic measure of the penalty and bonus assumes that income is divided between spouses based on the division of earnings; itemized deductions are divided in proportion to income; childless couples file two single returns; in couples with one child, the higher-earning spouse files as head of household and the lower-earning spouse files as single; in couples with two or more children, both spouses file as head of household and the higher-earning spouse claims all but one child; and all filers claim the earned income tax credit (EITC) if eligible.

lower taxable income than under current law, high-income taxpayers filing singly or as heads of household would pay an additional $140 million in taxes.

Reducing marriage penalties by widening tax brackets and increasing the standard deduction for joint filers is highly inefficient because one-half of the revenue cost to the government would go to couples already receiving marriage bonuses (see Figure 8). Furthermore, more than five-sixths of the roughly $13 billion in reduced taxes for current bonus recipients would go to couples with incomes above $50,000, who incur less than two-thirds of all current penalties.

Setting tax brackets and standard deductions for joint filers at twice those for single filers would largely return the tax bracket relationships to what they were before 1969. As indicated in the historical discussion above, the Congress changed the tax code in 1969 to reduce the "singles penalty," the higher taxes that many taxpayers incurred because they were not married. Changes made that year drew a compromise between marriage and singles penalties, creating the former in the process of reducing the latter. Reversing that action could rekindle the complaints of single filers that the tax code discriminates against them. Even if changes left their taxes unaffected, single filers might object that lowering the taxes of married couples would leave singles worse off in relative terms, again paying higher taxes because they are single than they would if they were married.

Exempt from Taxes Some Income of Lower-Earning Spouse

One cause of marriage penalties is that the first dollar of taxable income of the lower-earning spouse is taxed at the marginal tax rate of the higher-earning spouse. Although the wider tax brackets for joint filers reduce the taxes paid on the higher-earning spouse's income, the higher initial tax rate faced by the lower-earning spouse creates a disincentive for that spouse to work at all. Furthermore, it results in a marriage penalty if that spouse earns a large enough share of the couple's total income. Exempting part of the lower-earning spouse's income from taxation would alleviate this problem. One approach to such an exemption would be to restore the second-earner deduction.

Between 1982 and 1986, two-earner couples were allowed to deduct from taxable income 10 percent (5 percent in 1982) of the earnings of the lower-earning spouse, up to a maximum of $3,000. The Tax Reform Act of 1986 eliminated the provision, in part because other changes in the tax law had reduced the size of marriage penalties, but also to offset the act's revenue losses. Restoring the two-earner deduction would reduce or eliminate the marriage penalty for many couples. For example, a couple with one spouse earning $30,000 and the other earning $20,000 would be shifted from incurring a $195 penalty to receiving a $105 bonus (see Box 8). Overall, restoring the deduction would lower the total marriage penalty levied in 1996 by roughly one-third at an estimated cost of $9 billion in lost revenues.

The relief provided by the two-earner deduction would be greatest for couples with incomes between $50,000 and $100,000, for whom marriage penalties would fall by nearly one-half. By contrast, couples at the bottom of the income distribution would gain an average of less than one-tenth of their current marriage penalties, largely because their penalties arise from the standard deduction and the earned income tax credit, whereas the two-earner deduction reduces penalties deriving from the tax brackets. Because of the $3,000 limit on the deduction, couples at the top of the income distribution would recoup only one-third of their current penalties.

The two-earner deduction would benefit not only couples currently incurring marriage penalties but also many families now in a bonus position. For example, a two-earner childless couple in which the lower-earning spouse earns $5,000 of the couple's $50,000 in earnings would pay $75 less in 1996 taxes because of the deduction, even though they would already receive a marriage bonus of more than $1,900. About one-fifth of all couples who currently receive bonuses would benefit from the two-earner deduction with average tax savings of about $170. As a consequence, 20 percent of the revenues lost because of the deduction would increase existing bonuses or create new ones (see Figure 8). Just one-half of this amount would go to couples now receiving bonuses. About one-sixth of that

amount would go to the roughly 1 million couples now neither paying penalties nor receiving bonuses who would also benefit from the two-earner deduction. The final one-third would go to couples incurring penalties but would exceed the amount of penalty they pay.

Restoring the two-earner deduction could induce some married couples to change whether and how much they work. Depending on the earnings of the lower-earning spouse, the change would affect couples in one of three ways. First, for one-earner couples, the deduction would lower the marginal tax rate that nonworking spouses would face if they entered the labor force and would thus increase their after-tax wages. That increase could induce them to go to work.

Second, two-earner couples in which the lower-earning spouse earned less than $30,000—and thus for whom the $3,000 cap would not limit the deduction—would experience a similar increase in the after-tax wages of lower-earning spouses, which could lead them to work more hours. At the same time, however, because the deduction would raise the couple's after-tax income even if neither spouse changed hours of work, such a couple would want to work less. The two inducements offset one another and the net effect on labor supply is indeterminate.

Finally, the deduction would increase the after-tax income of two-earner couples whose spouses both earn more than $30,000, but would have no effect on their

Box 8.
The Two-Earner Deduction

A couple with $50,000 in total earnings—$30,000 earned by the husband and $20,000 by the wife—would have incurred a marriage penalty of $195 under 1996 tax law. The penalty results from a smaller standard deduction under joint filing than under individual filing. If the couple could also have claimed a two-earner deduction equal to 10 percent of the wife's earnings, their taxable income would have been reduced by $2,000 (10 percent of $20,000), their tax liability would have fallen by $300 (15 percent of $2,000), and their $195 marriage penalty would have become a bonus of $105.

			Couple	
	Husband	Wife	Under Current Law	With Two-Earner Deduction
Adjusted Gross Income	$30,000	$20,000	$50,000	$50,000
Less personal exemptions	2,550	2,550	5,100	5,100
Less standard deduction	4,000	4,000	6,700	6,700
Less two-earner deduction	0	0	0	2,000
Equals taxable income	23,450	13,450	38,200	36,200
Taxable at 15 percent	23,450	13,450	38,200	36,200
Tax Liability	3,518	2,018	5,730	5,430
Marriage Penalty (+) or Bonus (-)			$195	-$105
As a Percentage of Adjusted Gross Income			0.4	-0.2

SOURCE: Congressional Budget Office.

after-tax wage rate because additional earnings would not generate additional deductions. Those couples would tend to work fewer hours because of the gain in income and would have no offsetting effect of higher net wages. The total effect on the labor supply of restoring the two-earner deduction could be up or down, depending on the relative numbers of those three types of couples and how much each would change its work patterns.

Modify Earned Income Tax Credit to Reflect Number of Adult Earners

Low-income families with children can incur significant marriage penalties because of limits on the earned income tax credit. If both husband and wife work, the phaseout of the EITC on the basis of their combined income can lead to the loss of some or all of the EITC to which one of them might be entitled individually. (See Box 5 for an example in which the loss of EITC benefits would cost a couple one-eighth of their pretax income, compared with what would happen if they could file as single taxpayers.) Modifying the EITC to take account of whether one or both spouses work would alleviate this marriage penalty.

A wide range of options for modifying the EITC to provide larger credits for two-earner couples could reduce marriage penalties but would also encounter problems of cost and complexity. At one extreme, each parent could receive the EITC on the basis of the current credit parameters and their earnings and total incomes. That liberalization would remove completely any marriage penalties associated with the EITC, but would eliminate the existing limits on family income for receiving the credit, reduce federal revenues and increase spending by a total of about $14 billion in 1996, and grant EITC to more than 11 million families not now eligible for the credit. Couples in which one spouse had earnings low enough to qualify for the EITC under current credit parameters would receive the credit, regardless of how much the other spouse earned. As a result, one-third of the tax reduction would go to couples with incomes above $50,000.

Modifying that approach to phase out individual credits based on family rather than individual income but setting higher levels for couples would limit the credit to lower-income families and hold down revenue losses. Each spouse would be entitled to an EITC based on individual earnings, but the couple's EITC would be reduced by a percentage of the amount by which their total income exceeds a given level. The rate of reduction and the income above which it becomes effective would determine the maximum income a family could have without losing the credit entirely. For example, if couples were limited to collecting EITC only if their total adjusted gross income were less than twice the current limits, the combined revenue loss and spending increase would drop to about $10 billion in 1996, only 10 percent of which would go to couples with incomes above $50,000.

Both revenue losses and spending increases would be smaller under an alternative that set EITC parameters for couples equal to twice those for single and head-of-household tax filers. That option would effectively require spouses to share earnings equally and then qualify for the EITC as individuals using the current credit parameters. Compared with the previous approach, this option would reduce the amount of EITC going to couples in which husband and wife have substantially different incomes. Combined revenue losses and spending increases would have totaled nearly $4 billion in 1996, virtually all of which would have gone to couples with incomes below $50,000. Marriage penalties resulting from the EITC would decline or disappear for about one-third of couples currently penalized, reducing those penalties by about one-fourth. The approach would be highly effective in targeting couples now incurring EITC marriage penalties; less than 1 percent of total revenue losses and spending increases would go to couples currently receiving EITC marriage bonuses. Couples with incomes between $20,000 and $50,000 would receive about 90 percent of the marriage penalty relief, and almost all of the rest would go to couples with incomes below $20,000. As would be the case for each of the previous EITC options, this approach would extend the credit to couples with incomes far above current limits—$28,495 in 1996. More than 3.7 million couples would become newly eligible for the EITC.

More restrictive liberalizations of the EITC could ease the marriage penalties created by the credit while

generating smaller total revenue losses and spending increases and without extending the credit to high-income couples. The more restrictive the changes, however, the fewer couples now penalized would get relief and the smaller the fraction of current penalties would be removed. Granting the credit to couples based on individual earnings but phasing the credit out more quickly than under current law would hold down revenue losses, but would be much less effective in reducing marriage penalties and the disincentives for low-income people to marry and work.

An alternative to modifying the EITC would be replacing it with a taxable child allowance. If the allowance was available to all taxpayers with children, receipt would be unaffected by marriage and the allowance would generate neither penalties nor bonuses. Although making child allowances taxable would maintain progressivity, extending them to all families, regardless of income, would require markedly increasing outlays or reducing benefits to low-income families substantially below current levels of the EITC. In any case, this alternative would involve major changes in the nature of the redistribution currently accomplished by the EITC.

Restore the Requirement That Spouses File Individual Returns

Before 1948, the individual income tax imposed no marriage penalties because husbands and wives had to file their own individual returns. Although shifting to a joint filing requirement might have fit the times when most couples had just one worker, the preponderance of two-earner couples in the 1990s may call for a return to individual taxation. Such a change would not only remove all marriage penalties but would also eliminate marriage bonuses. The net effect would be a shift in the burden of income taxes away from two-earner couples and toward one-earner couples.

By eliminating differences in couples' tax liabilities brought about by marriage, the change would improve the fairness of the tax system between married couples and otherwise similar pairs who are not married and reduce the disincentives to work caused by joint income taxation with progressive rates. Revenue gains from removing marriage bonuses would more than offset revenue losses resulting from the elimination of penalties and would raise net federal revenues by an estimated $4 billion measured at 1996 income levels. That revenue gain assumes that, if eligible, each spouse could file as a head of household and claim the EITC. Denying either of those options would generate greater revenue gains.

Requiring individual filing would, however, cause a large redistribution of tax liabilities from those now incurring penalties to those now receiving bonuses. Assuming that there would be no changes in marital status or earnings because of the changed tax law, nearly 21 million couples now incurring penalties would save an average of nearly $1,400 in taxes, and another 25 million couples currently benefiting from bonuses would, on average, pay about $1,300 more in taxes than they do under current law.

Requiring all people to file individual tax returns would mean that couples with identical incomes but different divisions of those incomes between husband and wife would pay different taxes, an outcome that some people would view as unfair. Differences in the way couples earn their incomes may, however, warrant varying levels of taxes. A couple in which only one spouse works is better off than a two-earner couple with the same income if the first couple's nonworking spouse is free to provide services that the second couple might have to purchase. Taxing couples on the basis of their ability to pay would require that the first couple pay more in taxes than the second, which is what would happen under a system of individual taxation.

At the same time, taxing one-earner couples more than two-earner couples with the same dollar income could be considered antifamily because it could induce more couples to have two earners and thus require child care facilities outside the family. Furthermore, two couples in which all spouses work full time could have markedly different divisions of income between husband and wife and therefore pay different amounts of income tax, even though both their time and monetary resources would be identical. Only by further complicating the tax code, however, could the Congress

eliminate such inequities; even then, additional issues affecting ability to pay would remain.

Returning to individual filing for married couples would cause other problems. First, the change would have offsetting effects on work incentives. On the one hand, by lowering the tax rate imposed on the first dollar earned by a lower-earning spouse, the shift would reduce the work disincentives created by the tax system. On the other, the marginal tax on the income of the higher-earning spouse could be raised, imposing work disincentives that could lead to a reduction in the number of hours that spouse would work. The net effect is ambiguous.

A second issue involves the conflict between individual filing requirements and state community property laws. As noted earlier in the historical discussion, community property states hold that a couple's income is divided evenly between husband and wife, therefore each spouse should pay taxes on one-half of the couple's income. Requiring that spouses pay individual taxes on their own incomes would run afoul of the 1930 Supreme Court decision affirming that couples in community property states can split their total incomes evenly for tax purposes. A return to mandated individual filing would have to deal with the community property issue.

Finally, individual filing by spouses would require rules governing the allocation of jointly received incomes and of deductions and exemptions. One approach would allow couples to divide those items in any way they wanted, although allowing total freedom would make tax filing more complicated as couples tried to determine their tax-minimizing allocations. Alternatively, the law could require a joint return only for income received jointly, a practice followed by many other industrialized countries. That requirement would raise the costs of complying with the tax code and would impose additional burdens on the Internal Revenue Service. Finally, the law could mandate particular divisions of joint incomes, deductions, and exemptions between spouses, thereby limiting the number of calculations a couple would have to make but nonetheless complicating the tax code.

Allow Couples Choice of Filing Status

Giving couples the choice of filing jointly, as individuals, or, if eligible, as heads of household, would eliminate all marriage penalties at the cost of large losses of revenue. Because spouses could choose to file individually or as household heads, marriage could not, by itself, increase a couple's tax liability. However, allowing joint tax returns would retain current marriage bonuses. Couples receiving bonuses would continue to do so, whereas those now incurring penalties would shift to individual or head-of-household returns. In 1996, this option would have reduced federal tax revenues by an estimated $29 billion, the total value of all marriage penalties. Disallowing the option of filing as head-of-household would decrease the revenue loss. The approach would also encounter the same difficulties with dividing joint incomes, deductions, and exemptions between spouses as the option to require individual filing.

Under a less extreme approach, couples would be required to file joint returns but would be given, on the basis of a simplified tax calculation, a credit equal to all or part of their marriage penalty. Using a simplified calculation would increase the administrative feasibility of that option and hold down its costs—for example, counting only earned income and allowing only standard deductions and personal exemptions. Even so, requiring that a couple seeking relief from marriage penalties prepare two individual tax calculations—in addition to completing their full joint return—would impose significant compliance costs on filers and large administrative costs on the Internal Revenue Service. Furthermore, if the marriage penalty incurred by a couple does not derive from differences in tax brackets and standard deductions for single and joint filers, then basing credits on a simplified tax calculation would not offset all penalties. For example, the marriage penalties incurred by low-income families with children result principally from the EITC; only if credit calculations included the EITC would this approach provide significant relief from marriage penalties for low-income families.

A credit based only on earnings, standard deductions, personal exemptions, and joint-versus-single filing statuses would reduce the total marriage penalty by about one-third at a cost of about $10 billion in forgone revenues. Because it would offset most of the penalties deriving from tax brackets, this approach would lower penalties most for higher-income families; on average, couples with incomes above $50,000 would see their marriage penalties fall by more than one-half.

Conversely, because the credit would not take the EITC into account—the major cause of marriage penalties for low-income couples—families with incomes below $20,000 would have less than one-tenth of their penalty removed. In addition, some couples currently receiving marriage bonuses would qualify for a credit. Roughly one-sixth of the total credit would increase existing bonuses or create new ones (see Figure 8).

Fundamental Tax Reform

In recent years, calls for a fundamental restructuring of the federal tax system have increased, ranging from a flatter income tax to substituting consumption for income as the object of taxation. The precise effects of any such reforms on marriage penalties depend on the specific details of the new tax, but it is possible to predict some general outcomes as a result of particular kinds of changes.

Flat Taxes

One approach to fundamental tax reform would replace the current individual income tax with a flat (single rate) tax on labor and business incomes. Under one formulation, individual taxpayers could deduct only a personal allowance defined by tax filing status and a fixed personal allowance for each dependent before imposing a single tax rate on the remaining (taxable) income. Business incomes would be taxed separately.

A flat tax would reduce and possibly eliminate marriage penalties. Because just one tax rate would apply, there could be no penalty from tax brackets. Furthermore, if the tax eliminated the EITC, that credit would no longer impose marriage penalties. Only differences in personal allowances for tax filers would generate penalties. If the allowance for a single filer was exactly one-half that for a couple, marriage penalties would occur only if unmarried taxpayers with dependents could file as heads of household with larger personal allowances than they would receive as single filers. Other versions of the flat tax that would eliminate all exemptions and deductions beyond personal allowances would have similar effects

Marriage bonuses would continue under a flat tax if one spouse was unable to use the full value of personal allowances to reduce taxable income. Any couple in which only one member paid positive taxes before marriage would receive a marriage bonus because the pair could reduce their taxable income by up to the difference between joint and single personal allowances and thus pay lower taxes. Only if neither spouse owed any taxes before marriage or both spouses paid positive taxes before marriage, and marriage did not change their total deductions and exemptions, would they neither incur a marriage penalty nor receive a marriage bonus.

Retail Sales Taxes and Value-Added Taxes

Replacing the current individual income tax with a retail sales tax or a value-added tax would eliminate all marriage penalties and bonuses. Because a retail sales tax (RST) or a value-added tax (VAT) would tax consumption and involve no personal deductions or exemptions, only differences in levels of consumption would produce differences in tax liability. Under an RST or VAT, couples would pay higher or lower taxes after marriage than before only if their consumption changed. Marriage itself would have no effect on their taxes. Most proposals for an RST or a VAT include provisions for tax relief for low-income families through either a rebate or an income-based credit. Rebates or credits, depending on how they were structured, could reintroduce marriage penalties and bonuses.

Appendixes

Appendix A

Tax Treatment of Married Couples in Other Countries

Most industrialized countries tax married couples differently than does the United States. In 1993, of the 27 countries in the Organization for Economic Cooperation and Development (OECD), 19 imposed income taxes separately on husbands and wives, as the United States did before 1948 (see Box A-1). In those countries, marriage has little effect on a couple's tax liability on earnings, but couples with identical incomes can owe substantially different amounts of taxes, depending on the division of earnings between husband and wife. In general, however, the 19 countries tax spouses' combined investment earnings, either at the higher of their marginal tax rates or through a legally determined division of asset income between them for tax purposes.

Four countries—France, Luxembourg, Portugal, and Switzerland—follow an opposite approach. They grant marriage bonuses to virtually all families and provide child bonuses as well. For example, the French system requires taxpayers to combine all income earned by parents and their children and then to split the income among all family members. Children are weighted half as much as parents. Individual tax schedules then apply to each of the split incomes. A couple with two children would thus pay the same tax rate as a single person with one-third of their family income. Under progressive tax rates, such income-splitting nearly always results in a marriage bonus.

Among the OECD countries, only three tax couples on their combined incomes as the United States does. Germany allows complete income-splitting between spouses, just as the United States did between 1948 and 1969. Because both singles and couples face the same tax rates, German couples generally receive a marriage bonus. Ireland and Norway, like the United States, impose taxes on each couple's combined income using separate tax schedules that mitigate the effects of joint taxation and can result in marriage penalties or bonuses.

Individual taxation has dominated only since 1970. Before that year, only six OECD countries taxed spouses separately. By 1980, seven countries had shifted away from joint or family taxation to individual taxation, and three more countries followed suit in 1989 and 1990. In the same period, no countries moved in the other direction, and any reversal in this pattern is highly unlikely.

Individual taxation generally applies only to earnings. Countries that require couples to file individual returns treat property income in one of two ways. Some countries ignore the division of ownership of assets between spouses and tax income from all of a couple's assets as income to the higher-earning spouse. Consequently, the higher marginal tax rate of the spouse who earns more applies to all property income. Other countries require a specific division of property income between spouses, either evenly or in proportion to earnings. The marginal tax rate of each spouse thus applies to part of the couple's property income. In either case, legal ownership of assets does not matter in determining tax liability and couples gain no advantage from manipulating ownership to minimize their tax bills.

Box A-1.
Tax Treatment of Earned Income in OECD Countries, 1993

Individual Taxation	Joint Taxation	Family Taxation[a]
Australia	Germany	France
Austria	Ireland	Luxembourg
Belgium	Norway	Portugal
Canada	United States	Switzerland
Czech Republic		
Denmark		
Finland		
Greece		
Hungary		
Iceland		
Italy		
Japan		
Mexico		
Netherlands		
New Zealand		
Spain		
Sweden		
Turkey		
United Kingdom		

SOURCE: Congressional Budget Office, derived from Organization for Economic Cooperation and Development, part IV, "Description of the Tax/Benefit Systems," *The Tax/Benefit Position of Production Workers, Annual Report, 1990-1993* (Paris: Organization for Economic Cooperation and Development, 1994), pp. 107-228.

a. Taxes are based on total income from all family members and composition of family.

Appendix B

Treatment of Married Couples Under State Income Taxes

The states vary widely in the way they tax the incomes of couples (see Box B-1). Eight states have no income tax and therefore do not face the issue. Six additional states impose a single tax rate on all tax units, regardless of income level or filing status. Because marriage does not affect the levels of deduction and personal exemption in any of those states, couples incur no marriage penalties and receive bonuses only if one spouse has earnings below the level of individual exemptions and deductions. The remaining 36 states and the District of Columbia fall into three groups that treat the taxation of married couples differently.

States with Joint Return Rate Schedules

Fifteen states have schedules that reduce or eliminate any tax penalty on marriage. Eight of those states create tax brackets for married couples by doubling the width of the rate brackets for individual filers, following the pattern of the federal schedules used between 1948 and 1969. That approach creates marriage bonuses for virtually all couples. The other seven states widen but do not double the brackets for married couples, thereby lowering penalties below what they would be if couples had to use the rate brackets for individual filers but leaving marriage penalties in place for some couples. The last approach mirrors the current federal income tax, under which the width of tax brackets for married couples is generally two-thirds larger than that for single filers.

States Allowing Couples to File Separate Returns on a Single Form

Nine states and the District of Columbia allow husbands and wives to use one return but pay taxes on their separate incomes as if they were single. Because couples have the choice of whether to file separately, they can only face a marriage bonus, which generally occurs when the earnings of the husband and wife are substantially different. Such an option was effectively available on the federal level to couples in community property states before 1948; couples in those states could elect either to report their individual incomes or to divide their total income equally between spouses.

The 10 jurisdictions allowing spouses to file state tax returns individually on a single form face a problem—namely, how to tax property income. Because of the ease with which couples can switch ownership of assets between spouses, at least some of those jurisdictions allow couples to choose the division of income from jointly owned property between themselves if they elect to file separately on a single return. Even so, separate filers must report income from their individually owned assets as that of the owner. In such cases, cou-

ples could still shift asset ownership to the spouse with the lower marginal tax rate to minimize their combined tax liability.

States in Which Couples May Face Marriage Penalties

Twelve states impose marriage penalties and bonuses similar to those at the federal level. Because North Dakota, Rhode Island, and Vermont levy taxes as a percentage of federal liability, couples filing in those states face penalties or bonuses proportional to those in the federal income tax. Couples in other states may incur marriage penalties because they must use tax schedules the same as or not very different from those used by single people. In general, those states require couples who file joint federal returns also to file joint state returns.

Box B-1.
Treatment of Married Couples Under State Income Taxes, 1993

States Allowing Married Couples to File Separately on a Single Tax Return	States with Joint Rate Schedules for Married Couples, Reducing or Eliminating Marriage Penalty	States in Which Married Couples May Face a Marriage Penalty	States with Flat Tax Rates and Therefore No Marriage Penalty[a]	States with No Income Tax
Arkansas	Alabama[b]	Georgia	Connecticut	Alaska
Delaware	Arizona[b]	Kansas	Illinois	Florida
District of Columbia	California[b]	Maryland	Indiana	Nevada
Iowa	Colorado	New Jersey	Massachusetts	New Hampshire
Kentucky	Hawaii[b]	New Mexico	Michigan	South Dakota
Mississippi	Idaho[b]	North Dakota[c]	Pennsylvania	Texas
Missouri	Louisiana[b]	Ohio		Washington
Montana	Maine	Oklahoma		Wyoming
Tennessee	Minnesota	Rhode Island[c]		
Virginia	Nebraska	South Carolina		
	New York	Vermont[c]		
	North Carolina	West Virginia		
	Oregon[b]			
	Utah[b]			
	Wisconsin			

SOURCE: Derived from Advisory Commission on Intergovernmental Relations, "Budget Processes and Tax Systems," *Significant Features of Fiscal Federalism 1994*, vol. 1 (Washington, D.C.: Advisory Commission on Intergovernmental Relations, June 1994), Tables 16 and 17, pp. 54-62.

a. Standard deductions and exemptions for couples equal the sum of those of spouses filing as individuals and hence do not impose marriage penalties.

b. These states fully eliminate any marriage penalty by allowing married couples to use rate brackets double the width of those available to single filers.

c. North Dakota, Rhode Island, and Vermont levy state income taxes as a percentage of federal income tax liability and therefore impose marriage penalties proportional to those at the federal level.

Appendix C

Characteristics of Married and Unmarried Couples, 1995

The Current Population Survey (CPS) provides data that allow comparison of married couples and self-identified unmarried couples. Since 1995, the CPS has asked respondents whether they had unmarried partners and were therefore couples who were not married but living together in relationships that have many of the characteristics of marriages. The March 1996 CPS identified nearly 2.7 million such couples, 97 percent of which were opposite-sex couples. The survey also recorded 54.7 million married couples. Self-identified unmarried couples thus constituted about 5 percent of all couples.

An alternative method used for many years by the census to identify unmarried couples defines them as unrelated adults of opposite sexes living together in a household with no other adults present. This definition finds many more unmarried couples than does self-identification: 3.8 million in March 1996 versus 2.7 million self-identified couples. The number of unmarried couples identified under this definition has increased rapidly over the past quarter century from 0.5 million in 1970 to 1.2 million in 1980, 2.9 million in 1990, and 3.8 million in 1996.

Demographic Differences

As a group, unmarried couples earn lower incomes, are younger, and have fewer children than married couples. Unmarried couples had markedly lower incomes in 1995 than their married counterparts: 43 percent of unmarried couples and 30 percent of married couples had incomes below $30,000. In the same year, 42 percent of married couples and 30 percent of those not married had incomes above $50,000 (see Table C-1).

In 1995, one-half of all unmarried couples were under age 35, compared with only one-fifth of married couples. At the other end of the age spectrum, one-third of married couples but less than one-tenth of unmarried couples were 55 years old or older (see Table C-2).

The two groups were more similar in terms of numbers of children: 46 percent of married couples and 42 percent of unmarried couples had children in 1995. Among those who had children, however, more than 60 percent of married couples had two or more children compared with less than half of unmarried couples (see Table C-3).

Differences in Simulated Marriage Penalties and Bonuses

Given the differences between married and unmarried couples, it is not surprising that simulations of marriage penalties and bonuses for the two groups are dissimilar (see Table C-4).

Based on the March 1996 CPS, the simulations indicate that 49 percent of married couples incur penalties and 39 percent have bonuses. By contrast, 56 percent of unmarried couples would bear penalties and 33 percent would receive bonuses if they were required to file joint tax returns. Estimated average bonuses for the two groups are similar—$1,140 and $1,020—but average penalties for married couples are more than 50 percent larger than those for their unmarried counterparts—nearly $1,200 versus about $770. Much of the difference probably occurs because unmarried couples as a group have substantially lower incomes than married couples.

Table C-1.
Distribution of Married and Unmarried Couples by Total Income, 1995

	Less Than $10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$50,000	$50,000-$75,000	$75,000-$100,000	More Than $100,000	Total
				Thousands of Couples				
Married	2,400	6,500	7,850	14,610	12,290	5,610	5,390	54,670
Unmarried[a]	190	420	530	740	470	170	150	2,650
				Percentage of Couples				
Married	4	12	14	27	22	10	10	100
Unmarried[a]	7	16	20	28	18	6	6	100

SOURCE: Congressional Budget Office tabulations of data from the March 1996 Current Population Survey.

a. Unmarried couples are those living together and reporting as partners.

Table C-2.
Distribution of Married and Unmarried Couples by Age of Older Spouse, 1995

	Under Age 25	25-34	35-44	45-54	55-64	65 and Over	All Ages
			Thousands of Couples				
Married	1,150	9,230	14,290	11,820	8,100	10,070	54,670
Unmarried[a]	350	980	680	400	150	90	2,650
			Percentage of Couples				
Married	2	17	26	22	15	18	100
Unmarried[a]	13	37	26	15	6	3	100

SOURCE: Congressional Budget Office tabulations of data from the March 1996 Current Population Survey.

a. Unmarried couples are those living together and reporting as partners.

Table C-3.
Distribution of Married and Unmarried Couples by Number of Children, 1995

	No Children	One Child	Two or More Children	All Couples
		Thousands of Couples		
Married	29,300	9,570	15,800	54,670
Unmarried[a]	1,530	570	550	2,650
		Percentage of Couples		
Married	54	18	29	100
Unmarried[a]	58	22	21	100

SOURCE: Congressional Budget Office tabulations of data from the March 1996 Current Population Survey.

a. Unmarried couples are those living together and reporting as partners.

Table C-4.
Simulated Marriage Penalties and Bonuses for Married and Unmarried Couples, 1995

	Married Couples	Unmarried Couples[a]
Number of Couples (Thousands)		
With penalties	26,800	1,480
Unaffected	6,350	300
With bonuses	21,520	870
Total	54,670	2,650
Percentage of Couples		
With penalties	49	56
Unaffected	12	11
With bonuses	39	33
Total	100	100
Average Penalty	1,200	770
Average Bonus	1,140	1,020
Total Penalties (Millions of dollars)	32,040	1,140
Total Bonuses (Millions of dollars)	24,540	890

SOURCE: Congressional Budget Office simulations based on data from the March 1996 Current Population Survey.

a. Unmarried couples are those living together and reporting as partners.

Appendix D

Additional Supporting Tables

The following four tables—D-1 through D-4—provide additional information about marriage penalties and bonuses. Table D-1 shows the relative importance of factors that affect the tax liabilities of married couples. Table D-2 illustrates the distribution of married couples by the level of earnings of each spouse. Table D-3 demonstrates how the division of earnings between spouses influences the likelihood that a couple would incur a penalty or receive a bonus, as well as the size of the penalty or bonus. Table D-4—supporting Table 7 and Table 8 in Chapter 3—reveals how penalties and bonuses vary with the number of earners that a couple has.

Table D-1.
Factors Determining Marriage Penalties and Bonuses by Adjusted Gross Income, Simulated 1996

Return Category	All Incomes	Less Than $20,000	$20,000-$50,000	$50,000-$100,000	More Than $100,000
	Thousands of Returns				
With Penalty	20,880	1,120	8,050	8,990	2,730
Tax penalty only	10,760	30	2,360	5,970	2,400
EITC penalty only	880	490	240	150	a
Both tax and EITC penalties	6,840	300	4,150	2,190	210
Tax penalty exceeds EITC bonus	0	0	0	0	0
EITC penalty exceeds tax bonus	2,400	290	1,310	680	120
With Neither Penalty nor Bonus	3,130	2,320	260	550	10
With Bonus	25,260	5,760	10,040	7,170	2,290
Tax bonus only	20,030	4,160	8,100	5,800	1,970
EITC bonus only	680	670	10	0	0
Both tax and EITC bonuses	1,100	580	520	0	0
Tax bonus exceeds EITC penalty	3,450	350	1,410	1,370	320
EITC bonus exceeds tax penalty	0	0	0	0	0
All Returns	49,270	9,190	18,351	16,700	5,020
	Percentage of Returns in Income Category				
With Penalty	42	12	44	54	54
Tax penalty only	22	0	13	36	48
EITC penalty only	2	5	1	1	0
Both tax and EITC penalties	14	3	23	13	4
Tax penalty exceeds EITC bonus	0	0	0	0	0
EITC penalty exceeds tax bonus	5	3	7	4	2
With Neither Penalty nor Bonus	6	25	1	3	0
With Bonus	51	63	55	43	46
Tax bonus only	41	45	44	35	39
EITC bonus only	1	7	0	0	0
Both tax and EITC bonuses	2	6	3	0	0
Tax bonus exceeds EITC penalty	7	4	8	8	6
EITC bonus exceeds tax penalty	0	0	0	0	0
All Returns	100	100	100	100	100

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: EITC = earned income tax credit.

a. Less than 5,000.

Table D-2.
Married Couples by Earnings of Each Spouse, Simulated 1996 (Percentage of all married couples)

Earnings of Lower-Earning Spouse	Earnings of Higher-Earning Spouse								
	No Earnings	Less Than $10,000	$10,000- $20,000	$20,000- $30,000	$30,000- $50,000	$50,000- $75,000	$75,000- $100,000	More Than $100,000	All Earnings Levels
No Earnings	10	7	6	5	7	4	1	2	44
Less Than $10,000	*	3	4	4	6	3	1	1	21
$10,000 - $20,000	*	*	3	5	6	2	1	a	15
$20,000 - $30,000	*	*	*	3	6	2	a	a	11
$30,000 - $50,000	*	*	*	*	4	2	1	a	7
$50,000 - $75,000	*	*	*	*	*	1	a	a	1
$75,000 - $100,000	*	*	*	*	*	*	a	a	a
More Than $100,000	*	*	*	*	*	*	*	a	a
All Earnings Levels	10	10	13	17	28	14	4	5	100

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: * = Situation cannot occur because lower-earning spouse must have earnings less than those of higher-earning spouse.

a. Less than 0.5 percent.

Table D-3.
Married Couples with Marriage Penalties or Bonuses and Average Penalty or Bonus by Earnings of Each Spouse, Simulated 1996

	Earnings of Higher-Earning Spouse								
Measure	No Earnings	Less Than $10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$50,000	$50,000-$75,000	$75,000-$100,000	More Than $100,000	All Earnings Levels
Lower-Earning Spouse Had No Earnings									
Percentage with Penalties	0	0	0	0	0	0	0	0	0
Average Penalty (Dollars)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Percentage with Bonuses	86	68	88	98	99	99	99	99	89
Average Bonus (Dollars)	1,410	1,060	1,010	1,010	1,270	2,210	2,550	3,270	1,470
Lower-Earning Spouse Earned Less Than $10,000									
Percentage with Penalties	*	59	71	70	58	38	25	24	58
Average Penalty (Dollars)	*	760	1,110	1,110	1,090	1,070	1,030	1,360	1,060
Percentage with Bonuses	*	39	29	30	42	62	75	76	42
Average Bonus (Dollars)	*	340	580	580	800	1,260	1,350	2,100	890
Lower-Earning Spouse Earned $10,000 to $20,000									
Percentage with Penalties	*	*	96	92	72	74	71	67	82
Average Penalty (Dollars)	*	*	1,760	1,130	1,410	1,460	1,550	1,760	1,400
Percentage with Bonuses	*	*	1	4	24	26	29	33	15
Average Bonus (Dollars)	*	*	a	60	390	570	820	1,390	490
Lower-Earning Spouse Earned $20,000 to $30,000									
Percentage with Penalties	*	*	*	82	85	94	82	84	86
Average Penalty (Dollars)	*	*	*	720	950	1,200	1,290	2,270	1,000
Percentage with Bonuses	*	*	*	5	7	6	17	15	7
Average Bonus (Dollars)	*	*	*	10	70	240	330	510	140
Lower-Earning Spouse Earned $30,000 to $50,000									
Percentage with Penalties	*	*	*	*	93	99	97	98	96
Average Penalty (Dollars)	*	*	*	*	1,570	1,890	1,930	3,450	1,830
Percentage with Bonuses	*	*	*	*	2	0	3	1	1
Average Bonus (Dollars)	*	*	*	*	a	n.a.	110	640	50

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

Table D-3.
Continued

Measure	No Earnings	Less Than $10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$50,000	$50,000-$75,000	$75,000-$100,000	More Than $100,000	All Earnings Levels
	Earnings of Higher-Earning Spouse								
Lower-Earning Spouse Earned $50,000 to $75,000									
Percentage with Penalties	*	*	*	*	*	99	99	99	99
Average Penalty (Dollars)	*	*	*	*	*	2,280	2,840	5,230	3,090
Percentage with Bonuses	*	*	*	*	*	0	b	b	b
Average Bonus (Dollars)	*	*	*	*	*	n.a.	c	c	c
Lower-Earning Spouse Earned $75,000 to $100,000									
Percentage with Penalties	*	*	*	*	*	*	97	99	99
Average Penalty (Dollars)	*	*	*	*	*	*	4,070	7,300	6,120
Percentage with Bonuses	*	*	*	*	*	*	0	b	b
Average Bonus (Dollars)	*	*	*	*	*	*	n.a.	c	c
Lower-Earning Spouse Earned More Than $100,000									
Percentage with Penalties	*	*	*	*	*	*	*	99	99
Average Penalty (Dollars)	*	*	*	*	*	*	*	12,050	12,050
Percentage with Bonuses	*	*	*	*	*	*	*	b	b
Average Bonus (Dollars)	*	*	*	*	*	*	*	c	c
All Earnings Levels of Lower-Earning Spouse									
Percentage with Penalties	0	15	41	56	55	52	46	35	42
Average Penalty (Dollars)	n.a.	760	1,400	1,030	1,240	1,550	1,850	3,900	1,380
Percentage with Bonuses	86	60	53	40	41	48	53	64	51
Average Bonus (Dollars)	1,410	940	930	890	1,020	1,800	2,030	2,930	1,300

NOTES: Percentages in each earnings category may not add to 100 percent because some couples neither incur penalties nor receive bonuses.

n.a. = not applicable.

* = Situation cannot occur because lower-earning spouse must have earnings less than those of higher-earning spouse.

a. Less than 50 cents.

b. Less than 0.5 percent.

c. Too few cases to provide meaningful measure.

Table D-4.
Distribution of Marriage Penalties and Bonuses by Number of Earners, Simulated 1996

	Number of Earners in Couple			All
	None	One	Two	Returns
Joint Returns (Millions)				
With Penalty	0	0	20,900	20,900
Unaffected	700	1,600	800	3,100
With Bonus	4,100	15,300	5,900	25,300
All Returns	4,800	16,900	27,500	49,300
Joint Returns (Percent)				
With Penalty	0	0	76	42
Unaffected	14	10	3	6
With Bonus	86	90	21	51
All Returns	100	100	100	100
Total Value for Joint Returns (Millions of dollars)				
Penalty	0	0	28,800	28,800
Bonus	-5,800	-22,600	-4,400	-32,900
Average Penalty or Bonus for Joint Returns (Dollars)				
Penalty	n.a.	n.a.	1,380	1,380
Bonus	-1,410	-1,480	-760	-1,300
Net Effect on Tax Liability[a]	-5,800	-22,600	24,300	-4,100

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

NOTE: n.a. = not applicable.

a. Positive values indicate net penalties; negative values indicate net bonuses.

Appendix E

Sources of Data

The analysis reported in this study uses two sources of data about married couples: the Internal Revenue Service's Statistics of Income (SOI) and the Current Population Survey (CPS) from the Bureau of the Census. The SOI provides the basis for estimating the magnitudes of marriage penalties and bonuses in Chapter 3 and the effects of the options described in Chapter 5. The CPS was used to examine labor market and demographic changes since 1969, discussed in Chapter 4.

Statistics of Income

This study uses data from the 1993 SOI to estimate marriage penalties and bonuses. The SOI is an annual database created by the Internal Revenue Service (IRS). The 1993 file consists of extensive data reported on the individual federal income tax returns filed by a nonrandom sample of nearly 105,000 taxpayers during 1994. The IRS selects sample returns based on their usefulness in analyzing the income tax and in modeling tax policy. In practice, the likelihood of the IRS selecting a return is inversely related to the amount of income reported; that is, the file contains relatively more returns with large positive or negative incomes than returns with smaller incomes. For example, the 1993 SOI includes all individual tax returns reporting income greater than $10 million or losses greater than $5 million, but only one out of every 3,000 returns with positive income less than $30,000. The IRS assigns a weight to each sample return equal to the inverse of its probability of selection. Weighted counts of returns thus represent all returns filed during 1994.

For each selected tax return, the SOI reports each entry on the basic return (1040, 1040A, or 1040EZ, as appropriate) as well as most of the information included on accompanying schedules. In addition, the 1993 SOI includes information taken from W-2 forms reporting the wage and salary incomes of husbands and wives separately. (Joint tax returns show only the combined earnings of husband and wife.) The SOI thus provides most of the information about incomes needed to simulate the taxes that spouses would pay if they could file individual rather than joint returns. Note, however, that the file does not indicate how the couple would divide up dependents, itemized deductions, or income from assets. The simulations used in the analysis must therefore rely on assumptions about those divisions, as described in Chapter 3.

Besides the basic limitations inherent in any data set that only samples a portion of the entire population, the SOI is further limited because it does not represent the entire population. Because it samples only taxpayers who filed returns during a given year, the SOI excludes nonfilers. In particular, the file underrepresents people with incomes too low to owe taxes, other than those who file tax returns to claim the earned income tax credit or refunds of taxes withheld by employers. Any analysis that examines the entire population must thus rely on another source of data.

Current Population Survey

The CPS is an annual microdata file created by the Bureau of the Census that represents the noninstitu-

tionalized U.S. population. Each month the Census Bureau interviews members of approximately 60,000 households concerning their demographic and employment characteristics, primarily to obtain information for estimating unemployment statistics. In March of each year, the bureau supplements the basic CPS with questions about incomes from a variety of sources received during the previous calendar year by each member of sampled households. Each reporting unit (household, family, and individual) is assigned a weight equal to the inverse of the probability of that unit's selection for interviewing. Weighted tabulations of variables included in the March CPS thus provide representative estimates of values for the entire noninstitutionalized population. Data files are available for the annual March CPS beginning in the late 1960s.

The CPS has a variety of shortcomings that limit its usefulness for analysis. First, incomes reported to the CPS are substantially less than the values that independent sources of data would predict, particularly for unearned income such as transfer income, interest, rents, and dividends. Second, the Census Bureau "topcodes" income values, reporting high incomes only as being above a fixed level. Thus, for example, the CPS shows earnings from a single job only up to $99,999. In the March 1996 CPS, values above the topcoding level are reported as the mean of all topcoded values. In earlier years, the CPS only showed the topcode value for amounts above that level. For all years, the CPS thus provides only limited information about units with the highest incomes.

Topcoding makes it impossible to determine the precise division of earnings between spouses for high-income couples. In those cases—less than 1 percent of couples with incomes above $100,000 in 1995—the analysis reported in Chapter 4 categorized both spouses as having more than one-third of the couple's combined earnings. Finally, because the CPS has changed over time, the data collected in different years are not fully comparable. Changes in data collection methods, the questionnaire used, and levels of topcoding all create differences that can be only partially corrected.

Despite its shortcomings, the Current Population Survey provided the information necessary to examine demographic changes in working-age married couples over time, presented in Chapter 4.

Appendix F

Estimated Marriage Penalties and Bonuses Under a Divorce Model

The estimated magnitudes of marriage penalties and bonuses provided in Chapter 3 assume that the higher-earning spouse would claim most of a couple's children as dependents if the couple were allowed to file individual tax returns. The lower-earning spouse would claim at most one child and that is only if the couple had at least two children. That assignment of children for the purpose of tax filing generally—but not always—results in a smaller tax liability for the couple under individual filing.

An alternative approach would assign all children to the lower-earning spouse, more closely approximating the fact that children generally go with the mother when couples divorce and that, on average, women earn less than men. If the simulations reported in Chapter 3 used this alternative assumption to estimate the taxes couples would owe if they could file individual returns, they would find fewer couples incurring penalties and more receiving bonuses (see Table F-1). Simulated total bonuses would be two-thirds larger—up from $33 billion to $55 billion—and total penalties would drop from $29 billion to $25 billion. The estimated net bonus resulting from requiring married couples to file joint tax returns would thus jump from $4 billion to $30 billion. In addition, the estimated average penalty incurred by penalized couples would fall from $1,380 to $1,300, whereas the average bonus for couples receiving one would increase by half from $1,300 to $1,960.

Two points are worth noting. First, the changes in estimated penalties and bonuses as a result of reassigning children occur because shifting children from the tax return of the higher-earning spouse to that of the lower-earner raises the couple's tax liability under individual filing. The higher earner generally loses the option of filing a head-of-household return and thus faces a higher tax rate and loses personal exemptions for the children. Although some lower-earning spouses would lose the benefits of the earned income tax credit under the alternative assumption, others would have exemptions they could not use fully and possibly lower tax rates that would apply to low or no taxable income. When higher individual tax liabilities provide the baseline against which penalty or bonus status is determined, penalties shrink and bonuses grow.

Second, although assigning all children to the lower-earning spouse may better represent the way children would be allocated if the couple were to divorce, estimates of penalties and bonuses should use that assignment only if the policy alternative to joint tax filing is divorce and consequent individual filing. If the relevant alternative is not divorce but individual filing under which the couple chooses how to allocate children between returns, the assignment used in the simulations for Chapter 3 is more appropriate.

Table F-1.
Marriage Penalties and Bonuses for Married Couples Under Alternative Assumptions about Distribution of Children Between Spouses, Simulated 1996

	Children Assigned as in Simulations[a]	All Children Assigned to Lower-Earning Spouse
Number of Couples (Thousands)		
With Penalties	20,900	19,300
Unaffected	3,100	1,800
With Bonuses	25,300	28,100
Total	49,300	49,300
Percentage of Couples		
With Penalties	42	39
Unaffected	6	4
With Bonuses	51	57
Total	100	100
Total Value (Millions of dollars)		
Penalties	28,800	25,200
Bonuses	32,900	55,200
Average Penalty or Bonus (Dollars)		
Penalty	1,380	1,300
Bonus	1,300	1,960

SOURCE: Congressional Budget Office simulations based on data from the 1993 Statistics of Income.

a. The couple's first child is assigned to the higher-earning spouse, the second child to the lower-earning spouse, and all other children to the higher-earning spouse.

Appendix G

The Income Distribution of Families

Working-age married couples generally have higher incomes than their unmarried counterparts and elderly families, and thus tend to face higher tax rates because of the progressivity of the federal income tax. Data from the March 1996 Current Population Survey indicate that just over one-third of all families had incomes below $20,000 in 1995, a similar fraction had incomes between $20,000 and $50,000, about one-fifth had incomes between $50,000 and $100,000, and about one-sixteenth had incomes exceeding $100,000 (see Table G-1).

Working-age single parents—those 25 through 64 years old—had the lowest incomes in 1995, with 55 percent receiving less than $20,000 annually and only 8 percent receiving $50,000 or more. Working-age, childless, single people are somewhat better off: 43 percent received less than $20,000, and 13 percent received $50,000 or more. Elderly families had incomes similar to those of working-age single parents.

Largely because nearly three-fourths of them had at least two incomes, working-age married couples had the highest incomes. One-seventh of those without children had incomes of $100,000 or greater, and 42 percent had incomes between $50,000 and $100,000. Only one-tenth had incomes below $20,000. Their counterparts with children were nearly as well off, with one in eight families receiving at least $100,000 and two-fifths receiving between $50,000 and $100,000.

The last quarter century has seen a greater concentration of working-age couples who have incomes above $50,000 (in 1995 dollars) and a smaller fraction of couples with incomes below that level (see Table G-2). Between 1969 and 1995, couples with total income above $50,000 (in 1995 dollars) became relatively more common, increasing from 38 percent to 56 percent of all couples. Most of the shift in income shares took place during the 1970s. There was movement out of the middle-income ranges to both higher- and lower-income categories during the 1980s, but little change has occurred in the distribution since 1989. Those shifts reflect two offsetting factors. First, the earnings of younger workers declined markedly between 1969 and 1995, leading to lower incomes for younger families. At the same time, the aging of the baby-boom generation and the rising proportion of two-earner couples have increased the incomes of many couples. Many observers have suggested that the increasing number of two-earner couples has been a response to declining wages.

Table G-1.
Percentage Distribution of Families by Income Category and Family Type, 1995

Income of Taxable Unit	Working-Age Childless Single Individuals	Working-Age Childless Couples	Working-Age Single Individuals with Children	Working-Age Couples with Children	Elderly Families	All Families
Less Than $20,000	43	10	55	10	53	36
$20,000 - $50,000	43	33	36	38	34	37
$50,000 - $100,000	11	42	7	40	10	21
More Than $100,000	2	15	1	12	3	6
All Families	100	100	100	100	100	100

SOURCE: Congressional Budget Office tabulations of data from the March 1996 Current Population Survey.

NOTES: Working-age individuals are people between ages 25 and 64, inclusive. Working-age couples are those in which both spouses are in that age range.

Families are groups of related individuals living together. Individuals not living with relatives are included as one-person families.

Table G-2.
Distribution of Working-Age Married Couples with Earnings by Income Category in 1969, 1979, 1989, and 1995

Couple's Total Income (1995 dollars)	1969	1979	1989	1995
Less Than $20,000	8	6	7	8
$20,000 -$50,000	54	42	37	37
$50,000 -$100,000	33	43	43	42
More Than $100,000	4	9	13	14

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

Appendix H

Comparison of Demographic Changes for Working-Age Couples and All Married Couples

The demographic analysis reported in this study relies primarily on data from the March Current Population Survey, issued annually by the Bureau of the Census. Those data include demographic and income information for a sample of about 150,000 people, along with weights to allow the calculation of statistics representing the noninstitutional population of the United States. The analysis focuses on married couples during the 1969-1993 period.

Because marriage penalties and bonuses primarily affect couples who work, the analysis covers only working-age couples with earnings. That limitation imposed the following three requirements on couples: both spouses must be between ages 25 and 64, inclusive; neither spouse can report negative earnings (in general, negative earnings result from losses in self-employment activities); and at least one spouse has to have positive earnings.

Those limitations eliminated 27 percent of all married couples from the analyzed 1993 population (see Table H-1). Of the 27 percent, 12 percent violated the age limits but not the earnings requirements, another 12 percent satisfied neither the age nor income limits, and 3 percent failed to meet the income requirements in cases in which both spouses were in the appropriate age range.

In the case of more than one-half of the couples who were removed from the analysis because of age, both spouses were 65 years old or older. Another one-fifth had elderly husbands. Among nearly all of the other excluded couples, either the wife or both spouses were under age 25. Just 5 percent of the omitted couples were dropped from the analysis because the husband was too young or the wife too old. Of the 3 percent of couples excised solely on the basis of earnings, nearly all had no earnings.

Limiting the analyzed population to working-age couples increased the proportion of couples with two earners, largely because many of those omitted were elderly couples who did not work (see Table H-2). Both populations, however, had substantial increases in proportions of two-earner couples over the 1969-1995 period.

Text tables 9 through 15 show the demographic changes that occurred between 1969 and 1995 for working-age married couples with earnings. Tables H-3 through H-9 repeat those tables, adding comparable data for all married couples to allow comparison of the changes for the smaller and the more inclusive groups. The tables show similar qualitative trends with differences that would be expected when older, younger, and nonworking couples were excluded. For example, Table H-3 shows that all married couples followed the same trend of declining shares of one-earner couples and greater equality of earnings between spouses as was observed for working-age couples with earnings. Including couples with spouses over age 64 or under age 25 increases the share of couples with one earner, but does not alter the fact that such couples were substantially less common in 1995 than in 1969. Similar observations hold for other demographic changes.

Table H-1.
Selection of Married Couples for Analysis Based on Age and Earnings, 1995

Category	Number (Thousands)	Distribution (Percent)
All Married Couples	54,650	100
Couples Excluded by Age but Not Earnings		
Both spouses age 65 or over	1,400	3
Husband age 65 or over, wife age 25 through 64	1,550	3
Husband age 25 through 64, wife under age 25	1,250	2
Both spouses under age 25	1,150	2
Other	500	1
Couples Excluded by Earnings but Not Age		
Both spouses have zero earnings	1,650	3
At least one spouse reports negative earnings	100	a
Couples Excluded by Both Age and Earnings		
Both spouses age 65 or over	5,650	10
Husband age 65 or over, wife age 25 through 64	1,100	2
Husband age 25 through 64, wife under age 25	50	a
Both spouses under age 25	50	a
Other	200	a
Married Couples Selected for Analysis[b]	40,100	73

SOURCE: Congressional Budget Office tabulations of data from the March 1996 Current Population Survey.

a. Less than 0.5 percent.

b. Both spouses age 25 through 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-2.
Percentage of Couples with Two Earners: All Married Couples and Working-Age Married Couples with Positive Earnings in 1969, 1979, 1989, and 1995

Population Group	1969	1979	1989	1995
All Married Couples with Earnings	45.2	51.7	58.0	58.4
Working-Age Married Couples with Positive Earnings	48.3	59.6	70.5	71.8

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

Table H-3.
Distribution of Working-Age and All Married Couples by Division of Earnings Between Spouses in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Lower-Earning Spouse Had Some Earnings but Less Than One-Third of Couple's Earnings	Neither Spouse or Only One Had Earnings	All Couples
	Thousands of Working-Age Married Couples			
1969	5,600	10,100	16,700	32,400
1979	7,500	12,700	13,700	34,000
1989	11,800	15,100	11,300	38,200
1995	13,600	15,200	11,300	40,100
	Percentage of All Working-Age Married Couples			
1969	17.2	31.2	51.7	100.0
1979	22.2	37.4	40.4	100.0
1989	30.9	39.5	29.5	100.0
1995	33.9	37.9	28.2	100.0
	Thousands of Married Couples			
1969	7,200	13,200	24,700	45,100
1979	9,300	15,900	23,600	48,800
1989	13,300	17,600	22,400	53,300
1995	14,800	17,100	22,800	54,700
	Percentage of All Married Couples			
1969	16.0	29.2	54.8	100.0
1979	19.2	32.6	48.3	100.0
1989	25.0	33.0	42.0	100.0
1995	27.1	31.3	41.6	100.0

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-4.
Percentage Distribution of Working-Age and All Married Couples with Two Earners by Total Income in 1969, 1979, 1989, and 1995

	Couple's Income (1995 dollars)				
Year	Less Than $20,000	$20,000- $50,000	$50,000- $100,000	More Than $100,000	All Incomes
			Working-Age Married Couples		
1969	28.5	46.0	62.7	43.0	48.3
1979	29.5	56.3	73.4	56.7	59.6
1989	38.0	66.6	82.7	78.7	70.5
1995	30.9	69.7	87.0	78.6	71.8
			All Married Couples		
1969	21.5	49.1	63.5	42.7	45.2
1979	17.7	58.8	73.6	56.3	51.7
1989	18.3	67.4	82.3	78.1	58.0
1995	15.4	69.6	86.4	78.0	58.4

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-5.
Percentage Distribution of Working-Age and All Married Couples by Division of Earnings Between Spouses and Total Earnings in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
	Working-Age Married Couples		
	All Income Categories		
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
	Income Less Than $20,000		
1969	7.1	21.4	71.5
1979	9.7	19.9	70.5
1989	12.3	25.7	62.0
1995	11.6	19.3	69.1
	Income $20,000 to $50,000		
1969	14.9	31.1	54.0
1979	20.3	36.0	43.7
1989	27.3	39.4	33.4
1995	32.1	37.6	30.3
	Income $50,000 to $100,000		
1969	27.4	35.4	37.3
1979	29.3	44.1	26.6
1989	40.2	42.5	17.3
1995	44.4	42.7	13.0
	Income More Than $100,000		
1969	9.9	33.1	57.0
1979	16.0	40.6	43.3
1989	32.5	46.3	21.3
1995	32.5	46.1	21.4

(Continued)

Table H-5.
Continued

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
	All Married Couples		
	All Income Categories		
1969	16.0	29.2	54.8
1979	19.2	32.6	48.3
1989	25.0	33.0	42.0
1995	27.1	31.3	41.6
	Income Less Than $20,000		
1969	5.3	16.2	78.5
1979	5.1	12.6	82.3
1989	5.5	12.8	81.7
1995	5.3	10.1	84.6
	Income $20,000 to $50,000		
1969	16.3	32.7	50.9
1979	21.6	37.2	41.2
1989	27.7	39.7	32.6
1995	31.9	37.6	30.4
	Income $50,000 to $100,000		
1969	28.3	35.2	36.5
1979	29.7	44.0	26.4
1989	39.9	42.5	17.7
1995	43.8	42.6	13.6
	Income More Than $100,000		
1969	9.7	33.0	57.3
1979	15.7	40.6	43.7
1989	31.8	46.3	21.9
1995	31.4	46.6	22.0

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTES: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Incomes measured in 1995 dollars.

Table H-6.
Percentage Distribution of Working-Age and All Married Couples with Two Earners by Age of Older Spouse in 1969, 1979, 1989, and 1995

	Age of Older Spouse				All Age
Year	25-34	35-44	45-54	55-64	Groups
		Working-Age Married Couples			
1969	46.5	49.5	51.2	44.8	48.3
1979	67.7	63.5	59.8	44.8	59.6
1989	76.0	74.2	71.8	54.0	70.5
1995	76.7	74.1	74.2	57.9	71.8
		All Married Couples			
1969	54.4	49.5	50.9	29.4	45.2
1979	69.0	63.3	58.8	25.5	51.7
1989	74.6	73.4	70.5	27.4	58.0
1995	74.9	72.8	72.6	28.3	58.4

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-7.
Percentage Distribution of Working-Age and All Married Couples by Division of Earnings Between Spouses and Age of Older Spouse in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
Working-Age Married Couples			
All Age Groups			
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
Older Spouse 25-34 Years Old			
1969	15.2	31.4	53.5
1979	27.4	40.3	32.3
1989	36.2	39.8	24.0
1995	39.9	36.7	23.3
Older Spouse 35-44 Years Old			
1969	14.7	34.8	50.5
1979	21.9	41.6	36.5
1989	32.2	42.0	25.8
1995	34.8	39.3	25.9
Older Spouse 45-54 Years Old			
1969	19.5	31.7	48.8
1979	21.0	38.7	40.2
1989	31.0	40.8	28.2
1995	33.8	40.4	25.8
Older Spouse 55-64 Years Old			
1969	19.3	25.4	55.2
1979	17.8	27.0	55.2
1989	21.4	32.6	46.0
1995	25.8	32.1	42.1

(Continued)

Table H-7.
Continued

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
	All Married Couples		
	All Age Groups		
1969	16.0	29.2	54.8
1979	19.2	32.6	48.3
1989	25.0	33.0	42.0
1995	27.1	31.3	41.6
	Older Spouse 25-34 Years Old		
1969	19.2	35.2	45.6
1979	27.4	41.6	31.0
1989	34.7	40.0	25.4
1995	37.0	37.9	25.1
	Older Spouse 35-44 Years Old		
1969	14.5	35.0	50.5
1979	21.5	41.8	36.7
1989	31.4	42.0	26.6
1995	34.1	38.7	27.2
	Older Spouse 45-54 Years Old		
1969	19.1	31.8	49.1
1979	20.2	38.6	41.2
1989	30.0	40.6	29.5
1995	33.0	39.6	27.4
	Older Spouse 55-64 Years Old		
1969	11.8	17.6	70.6
1979	9.9	15.6	74.5
1989	10.4	17.0	72.6
1995	12.0	16.3	71.7

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-8.
Percentage Distribution of Working-Age and All Married Couples with Two Earners by Number of Children in 1969, 1979, 1989, and 1995

Year	No Children	One Child	Two or More Children	All Couples
		Working-Age Married Couples		
1969	53.0	53.3	43.2	48.3
1979	59.9	65.0	56.4	59.6
1989	70.4	75.9	67.2	70.5
1995	71.6	76.9	69.1	71.8
		All Married Couples		
1969	43.4	54.0	43.0	45.2
1979	44.5	63.9	55.2	51.7
1989	48.4	72.8	65.3	58.0
1995	48.4	74.2	67.4	58.4

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.

Table H-9.
Percentage Distribution of Working-Age and All Married Couples by Division of Earnings Between Spouses and Number of Children in 1969, 1979, 1989, and 1995

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
Working-Age Married Couples			
All Couples			
1969	17.2	31.2	51.7
1979	22.2	37.4	40.4
1989	30.9	39.5	29.5
1995	33.9	37.9	28.2
No Children			
1969	24.4	28.6	47.0
1979	27.0	32.9	40.1
1989	34.3	36.2	29.6
1995	36.3	35.3	28.4
One Child			
1969	19.3	34.1	46.7
1979	24.6	40.4	35.0
1989	34.9	41.1	24.1
1995	37.6	39.4	23.1
Two or More Children			
1969	11.3	31.9	56.8
1979	16.3	40.1	43.6
1989	25.0	42.2	32.8
1995	29.2	39.9	30.9

(Continued)

Table H-9.
Continued

Year	Each Spouse Earned at Least One-Third of Couple's Earnings	Both Spouses Had Earnings and One Spouse Contributed More Than Two-Thirds of Couple's Earnings	Neither Spouse or Only One Had Earnings
		All Married Couples	
		All Couples	
1969	16.0	29.2	54.8
1979	19.2	32.6	48.3
1989	25.0	33.0	42.0
1995	27.1	31.3	41.6
		No Children	
1969	19.7	23.7	56.6
1979	19.9	24.7	55.5
1989	23.0	25.4	51.6
1995	23.8	24.6	51.6
		One Child	
1969	18.0	36.0	46.0
1979	22.8	41.1	36.1
1989	32.1	40.8	27.2
1995	35.5	38.7	25.8
		Two or More Children	
1969	10.9	32.1	57.0
1979	15.7	39.6	44.8
1989	23.9	41.4	34.7
1995	28.2	39.2	32.6

SOURCE: Congressional Budget Office tabulations of data from the March Current Population Surveys for 1970, 1980, 1990, and 1996.

NOTE: Working-age married couples include only those in which both spouses are between ages 25 and 64, neither spouse has negative earnings, and at least one spouse has positive earnings.