

**DESCRIPTION OF A CHAIRMAN'S MARK OF
THE MARRIAGE TAX RELIEF ACT OF 2000**

Scheduled for Markup

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SENATE COMMITTEE ON FINANCE

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Prepared by the Staff

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CONTENTS

	<u>Page</u>
INTRODUCTION	1
I. MARRIAGE TAX RELIEF PROVISIONS	2
A. Standard Deduction for Married Couples Set at Two Times the Standard Deduction for Single Individuals	2
B. 15-Percent Rate Tax Bracket for Married Couples Set at Two Times the 15-Percent Rate Tax Bracket for Single Individuals	4
C. Increase the Beginning Point and Ending Point of the Earned Income Credit Phase-out for Married Couples	6
D. Preserve Family Tax Credits from the Alternative Minimum Tax	8

INTRODUCTION

This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of a chairman's mark of "The Marriage Tax Relief Act of 2000," scheduled for markup by the Senate Committee on Finance on March 30, 2000.

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of a Chairman's Mark of The Marriage Tax Relief Act of 2000* (JCX-34-00), March 28, 2000.

I. MARRIAGE TAX RELIEF PROVISIONS

A. Standard Deduction for Married Couples Set at Two Times the Standard Deduction for Single Individuals

Present Law

Marriage penalty and bonus in general

A married couple generally is treated as one tax unit that must pay tax on the couple's total taxable income. Although married couples may elect to file separate returns, the rate schedules and other provisions are structured so that filing separate returns usually results in a higher tax than filing a joint return. Other rate schedules apply to single persons and to single heads of households.

A "marriage penalty" exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A "marriage bonus" exists when the combined tax liability of a married couple filing a joint return is less than the sum of the tax liabilities of each individual computed as if they were not married.

While the size of any marriage penalty or bonus under present law depends upon the individuals' incomes, number of dependents, and itemized deductions, as a general rule married couples whose incomes are split more evenly than 70-30 suffer a marriage penalty. Married couples whose incomes are largely attributable to one spouse generally receive a marriage bonus.

Under present law, the size of the standard deduction and the tax bracket breakpoints follow certain customary ratios across filing statuses. The standard deduction and tax bracket breakpoints for single filers are roughly 60 percent of those for joint filers.² Thus, two single individuals have standard deductions whose sum exceeds the standard deduction for a married couple filing a joint return.

Basic standard deduction³

Taxpayers who do not itemize deductions may choose the basic standard deduction (and additional standard deductions, if applicable), which is subtracted from adjusted gross income ("AGI") in arriving at taxable income. The size of the basic standard deduction varies according

² This is not true for the 39.6-percent rate. The beginning point of this rate bracket is the same for all taxpayers regardless of filing status.

³ Additional standard deductions are allowed with respect to any individual who is elderly (age 65 or over) or blind.

to filing status and is indexed for inflation. For 2000, the size of the basic standard deduction for each filing status is shown in the following table:

Table 1.–Basic Standard Deduction Amounts

<u>Filing status</u>	<u>Basic standard deduction</u>
Single return	\$4,400
Head of household return	\$6,450
Married, joint return	\$7,350
Married, separate return	\$3,675

For 2000, the basic standard deduction for joint returns is 1.67 times the basic standard deduction for single returns.

Description of Proposal

The proposal would increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for a single individual beginning in 2001. The basic standard deduction for a married taxpayer filing separately would continue to equal one-half of the basic standard deduction for a married couple filing jointly.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2000.

**B. 15-Percent Rate Tax Bracket for Married Couples Set at Two Times
the 15-Percent Rate Tax Bracket for Single Individuals**

Present Law

To determine regular income tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. The income bracket amounts are indexed for inflation. Separate rate schedules apply based on an individual's filing status. In order to limit multiple uses of a graduated rate schedule within a family, the net unearned income of a child under age 14 may be taxed as if it were the parent's income. For 2000, the individual regular income tax rate schedules are shown below. These rates apply to ordinary income; separate rates apply to capital gains.

Table 2.--Federal Individual Income Tax Rates for 2000

If taxable income is:	Then income tax equals:
	<i>Single individuals</i>
\$0-\$26,250	15 percent of taxable income
\$26,250-\$63,550	\$3,937.50, plus 28% of the amount over \$26,250
\$63,550-\$132,600	\$14,381.50 plus 31% of the amount over \$63,550
\$132,600-\$288,350	\$35,787 plus 36% of the amount over \$132,600
Over \$288,350	\$91,857 plus 39.6% of the amount over \$288,350
	<i>Heads of households</i>
\$0-\$35,150	15 percent of taxable income
\$35,150-\$90,800	\$5,272.50 plus 28% of the amount over \$35,150
\$90,800-\$147,050	\$20,854.50 plus 31% of the amount over \$90,800
\$147,050-\$288,350	\$38,292 plus 36% of the amount over \$147,050
Over \$288,350	\$89,160 plus 39.6% of the amount over \$288,350
	<i>Married individuals filing joint returns⁴</i>
\$0-\$43,850	15 percent of taxable income
\$43,850-\$105,950	\$6,577.50 plus 28% of the amount over \$43,850
\$105,950-\$161,450	\$23,965.50 plus 31% of the amount over \$105,950
\$161,450-\$288,350	\$41,170.50 plus 36% of the amount over \$161,450
Over \$288,350	\$86,854.50 plus 39.6% of the amount over \$288,350

⁴ Married individuals filing separately must apply a separate rate structure with tax rate brackets one-half the width of those for married individuals filing joint returns.

Description of Proposal

The proposal would increase the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for a single individual. This increase would be phased-in over six years as shown in the following table. Therefore, this provision would be fully effective (i.e., the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return would be twice the size of the 15-percent regular income tax rate bracket for an single individual) for taxable years beginning after December 31, 2006.

<u>Taxable year</u>	<u>Percentage of 15-percent rate bracket for unmarried individuals</u>
2002	170.3
2003	173.8
2004	183.5
2005	184.3
2006	187.9
2007 and thereafter	200

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2001.

C. Increase the Beginning Point and Ending Point of the Earned Income Credit Phase-out for Married Couples

Present Law

Certain eligible low-income workers are entitled to claim a refundable earned income credit (“EIC”) on their income tax return. A refundable credit is a credit that not only reduces an individual’s tax liability but allows refunds to the individual of amounts in excess of income tax liability. The amount of the credit an eligible individual may claim depends upon whether the individual has one, more than one, or no qualifying children, and is determined by multiplying the credit rate by the individual’s earned income up to an earned income amount. The maximum amount of the credit is the product of the credit rate and the earned income amount. The credit is phased out above certain income levels. For individuals with earned income (or modified AGI, if greater) in excess of the beginning of the phase-out, the maximum credit amount is reduced by the phase-out rate multiplied by the earned income (or modified AGI, if greater) in excess of the beginning of the phase-out. For individuals with earned income (or modified AGI, if greater) in excess of the end of the phase-out, no credit is allowed. In the case of a married individual who files a joint return, the income for purposes of these tests is the combined income of the couple.

The parameters of the credit for 2000 are provided in the following table.

Table 3.--Earned Income Credit Parameters (2000)

	Two or more qualifying children	One qualifying child	No qualifying children
Credit rate (percent)	40.00	34.00	7.65
Earned income amount	\$9,720	\$6,920	\$4,610
Maximum credit	\$3,888	\$2,353	\$353
Phase-out begins	\$12,690	\$12,690	\$5,770
Phase-out rate (percent)	21.06	15.98	7.65
Phase-out ends	\$31,152	\$27,413	\$10,380

Description of Proposal

The proposal would increase the beginning point of the phase-out of the EIC for married couples filing a joint return by \$2,000. Because the rate of the phase-out would not be changed by the proposal, the ending point of the phase-out would also be increased by \$2,000. The effect of the increase in the beginning of the phase-out would be to increase the EIC for taxpayers in the income phase-out by an amount up to \$2,000 times the phase-out rate. For example, for couples with two or more qualifying children, the maximum increase in the EIC as a result of the proposal would be \$2,000 times 21.06 percent, or \$421.20. The proposal would also expand the

number of married couples eligible for the EIC. Specifically, the \$2,000 increase in the ending point of the phase-out would make married couples with earnings up to \$2,000 beyond the present-law phase-out eligible for the EIC. The beginning and ending points of the phase-out range of the EIC (including the \$2,000 increase for joint returns) would continue to be indexed for inflation, as under present law.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2000.

D. Preserve Family Tax Credits from the Alternative Minimum Tax

Present Law

In general

Present law provides for certain nonrefundable personal tax credits (i.e., the dependent care credit, the credit for the elderly and disabled, the adoption credit, the child tax credit, the credit for interest on certain home mortgages, the HOPE Scholarship and Lifetime Learning credits, and the D.C. homebuyer's credit). Except for taxable years beginning during 1998-2001, these credits are allowed only to the extent that the individual's regular income tax liability exceeds the individual's tentative minimum tax, determined without regard to the minimum tax foreign tax credit. For taxable years beginning during 1998 and 1999, these credits are allowed to the extent of the full amount of the individual's regular tax (without regard to the tentative minimum tax). For taxable years beginning during 2000 and 2001, the nonrefundable personal credits may offset both the regular tax and the minimum tax.⁵

An individual's tentative minimum tax is an amount equal to (1) 26 percent of the first \$175,000 (\$87,500 in the case of a married individual filing a separate return) of alternative minimum taxable income ("AMTI") in excess of a phased-out exemption amount plus (2) 28 percent of the remaining AMTI, if any. The maximum tax rates on net capital gain used in computing the tentative minimum tax are the same as under the regular tax. AMTI is the individual's taxable income adjusted to take account of specified preferences and adjustments. The exemption amounts are: (1) \$45,000 in the case of married individuals filing a joint return and surviving spouses; (2) \$33,750 in the case of other unmarried individuals; and (3) \$22,500 in the case of married individuals filing a separate return, estates and trusts. The exemption amounts are phased out by an amount equal to 25 percent of the amount by which the individual's AMTI exceeds (1) \$150,000 in the case of married individuals filing a joint return and surviving spouses, (2) \$112,500 in the case of other unmarried individuals, and (3) \$75,000 in the case of married individuals filing separate returns or an estate or a trust. These amounts are not indexed for inflation.

Reduction of refundable credits by alternative minimum tax

Refundable credits may offset tax liability determined under present-law tax rates and allows refunds to an individual in excess of income tax liability. However, the refundable child credit (beginning in taxable years beginning after December 31, 2001) and the earned income credit are reduced by the amount of the individual's alternative minimum tax.

⁵ The foreign tax credit is allowed before the personal credits in computing the regular tax for these years.

Description of Proposal

The proposal would permanently extend the provision that allows the personal nonrefundable credits to offset both the regular tax and the minimum tax.⁶

Also, the proposal would permanently repeal the reduction of the refundable credits by the amount of an individual's alternative minimum tax.

Effective Date

The proposals would be effective for taxable years beginning after December 31, 2001.

⁶ The foreign tax credit will continue to be allowed before the personal credits in computing the regular tax.