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Marriage Tax Penalty Relief Provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001

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Summary

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) contains three marriage tax penalty relief provisions. It increases the standard deduction for joint returns to twice the size of the standard deduction for single returns. This change is phased in over a 5-year period starting in calendar year 2005. The 2001 Act also increases the width of the 15% marginal income tax bracket for joint returns to twice the width of the 15% tax bracket for single returns. This change is phased in over a 4-year period starting in calendar year 2005. Finally, the 2001 Act increases the earned income tax credit phaseout start and end points for joint returns by $3,000 with the increase phased in over a 7-year period starting in calendar year 2002. The Joint Committee on Taxation estimates that the combined cost of all of the marriage penalty relief provisions will be $63 billion over the fiscal year period 2002 through 2011.

All of the EGTRRA tax cuts, including the marriage tax relief provisions, are scheduled to expire at the end of calendar year 2010. In the 107th Congress, the House passed several bills that would have extended the EGTRRA tax cuts beyond 2010. The Senate, however, did not adopt these bills. It is likely that the 108th Congress will revisit the issue of making the EGTRRA tax cuts permanent.

Additionally, in response to continued sluggish economic performance, President Bush unveiled a new tax stimulus plan in early January 2003. As part of his stimulus plan, President Bush has proposed accelerating the phase-in of some of the EGTRRA tax cut provisions. The President's proposal includes accelerating the increase in the standard deduction for joint returns and the increase in the width of the 15% tax bracket for joint returns. The Treasury Department estimates that the 10-year revenue cost of these two changes would be $58 billion.

This report will be updated as legislation action warrants.

Background

Defining the married couple as a single tax unit under the federal individual income tax tends to violate the goal of marriage neutrality. Marriage neutrality means that the tax system should not influence the choice of individuals with regard to their marital status. However, under the current federal income tax system, some married couples pay more income tax than they would as two unmarried singles (a marriage tax penalty) while other married couples pay less income tax than they would as two unmarried singles (a marriage tax bonus).

The three most important structural features affecting the marriage neutrality of the income tax are the earned income tax credit (EIC), the standard deduction, and the tax rate schedules. Under the current income tax system, single individuals, heads of households, and married couples are subject to different standard deductions and tax rate schedules. The EIC amounts and phaseout ranges also vary according to filing status. These differences give rise to structural marriage tax penalties and bonuses.

Because of these asymmetries, when the income of one spouse is added to the income of the other spouse, a married couple might find themselves paying either more federal income tax (a marriage penalty) or less tax (a marriage bonus) than they would by filing as two singles. Two singles (or some combination of singles and heads of households) contemplating marriage might find that their federal income tax liability increases (a marriage tax penalty) or decreases (a marriage tax bonus) by filing a joint return.

In general, the division of income, or income split, of the two individuals determines whether they will have a marriage tax bonus or penalty. The largest marriage tax bonuses occur when one spouse earns 100% of the income. The more evenly divided the income, the more likely a married couple will experience a marriage tax penalty. The largest tax penalties occur where the income is evenly divided between the two spouses, a 50/50 income split.

For example, consider the case of two married couples where each couple has $60,000 of income. One couple is a one-earner household where one spouse earns all the income while the other couple is a two-earner household where each spouse earns $30,000. Under the federal income tax rate structure in effect in 2001, the one-earner couple has a marriage tax bonus of $4,326 (that is, they pay $4,326 less filing a joint return than they would if they filed as two single individuals) while the two-earner couple has a marriage tax penalty of $406 (that is, they pay $406 more filing a joint return then they would if they filed as two single individuals).

Eliminating marriage tax penalties and bonuses and creating a marriage neutral income tax are elusive equity goals. Marriage neutrality conflicts with two other concepts of equity: progressivity and equal taxation of couples with equal incomes. Regardless of how these three concepts of equity are juggled, an income tax can achieve any two of these goals but cannot, under current definitions, simultaneously achieve all three.

Over time, Congress has switched emphasis among these three equity goals of marriage neutrality, progressivity, and equal taxation of couples with equal incomes.[1] The changes in the 2001 Act, which are described below, will provide a tax reduction to all married couples filing a joint return regardless of whether or not they currently incur a marriage tax penalty. Married couples who currently experience a marriage tax bonus (they pay less filing a joint return than they would filing two single returns) will see their bonus increase. Married couples who currently experience a marriage tax penalty will see their marriage tax penalty reduced or eliminated.

The 2001 Act

The Economic Growth and Tax Relief Reconciliation Act of 2001 (H.R. 1836) was approved by both chambers of Congress on May 26, 2001 and signed by President George W. Bush on June 7, 2001 (P.L. 107-16). The Act contains three provisions designed to reduce marriage tax penalties.

First, the Act increases the standard deduction for joint returns to twice the amount of the standard deduction for single returns. (The standard deduction for joint returns is currently equal to 167% of the standard deduction for single returns.) This change is phased in over a 5-year period starting in calendar year 2005. The Joint Committee on Taxation (JCT) estimates that this change will reduce federal income tax revenues by approximately $15 billion over the fiscal year period 2005 through 2011. **Table 1** shows how the change will be implemented.

Table 1. Phase-In Schedule for Increase in the Standard Deduction for Joint Returns

Calendar Year	Standard Deduction for Joint Returns as a Percentage of the Standard Deduction for Single Returns
2005	174%
2006	184%
2007	187%
2008	190%
2009 and later	200%

Second, the 2001 Act increases the width of the 15% marginal income tax bracket for joint returns to twice the width of the 15% marginal income tax bracket for single returns. (The 15% tax bracket for joint returns is currently 167% of the width of the 15%

[1] For more information on the historical tax treatment of marital status and background on the extent and magnitude of marriage tax penalties and bonuses see CRS Report RL30800, *The Federal Income Tax and the Treatment of Married Couples: Background and Analysis,* by Gregg Esenwein.

tax bracket for single returns.) This change is phased in over a 4-year period starting in calendar year 2005. The JCT estimates that this change will reduce federal income tax revenue by approximately $33 billion over the fiscal year period 2005 through 2011. **Table 2** shows how this change will be implemented.

Table 2. Phase-In Schedule for Increase in the Width of the 15% Tax Bracket for Joint Returns

Calendar Year	End Point of 15% Tax Bracket for Joint Returns as a % of the End Point of the 15% Bracket for Single Returns
2005	180%
2006	187%
2007	193%
2008 and later	200%

Third, the 2001 Act increases the earned income tax credit phaseout start and end points for joint returns by $3,000, with the increase phased in over a 7-year period starting in calendar year 2002. The $3,000 amount will be adjusted on an annual basis for inflation beginning after 2008.[2] The JCT estimates that this provision will reduce federal income tax revenues by $15.6 billion over the fiscal year period 2002 through 2011. **Table 3** shows the schedule for the increase in the phaseout start point for the EIC for taxpayers filing joint returns.

Table 3. Phase-In Schedule for Increase in EIC Phaseout Start and End Points for Joint Returns

Calendar Year	EIC Start and End Point Increased By:
2002	$1,000
2003	$1,000
2004	$1,000
2005	$2,000
2006	$2,000
2007	$2,000
2008 and later	$3,000

[2] The 2001 Act also simplifies the definition of earned income by excluding nontaxable employee compensation from the calculation of earned income and repeals the income tax provisions that reduce a taxpayer's EIC by the amount of their alternative minimum tax. For more information on the EIC see CRS Report RL30991, *The Earned Income Tax Credit: Current Issues and Benefit Amounts*, by Melinda Gish.

The JCT estimates that the combined cost of all of the marriage penalty relief provisions will be $63 billion over the fiscal year period 2002 through 2011.

However, all of the changes in the Economic Growth and Tax Relief Reconciliation Act of 2001(including the marriage tax relief provisions) will expire (sunset) after 2010. Congress included the sunset in EGTRRA to avoid a Byrd rule violation in the Senate. The Byrd rule prohibits "extraneous matter" in reconciliation legislation. Under the rule, extraneous matter includes, among other things, language that would cause an increase the budget deficit (or reduce budget surpluses) in a fiscal year beyond those covered by the reconciliation legislation. As a result of the Byrd rule, EGTRRA contained language providing for the expiration of all of its provisions at the end of calendar year 2010.