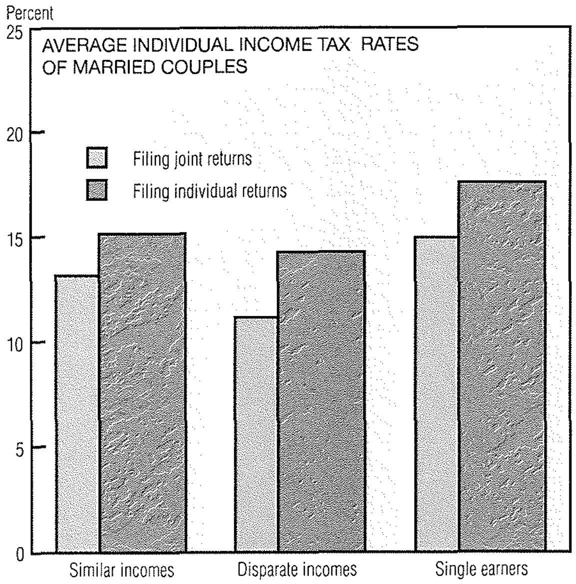
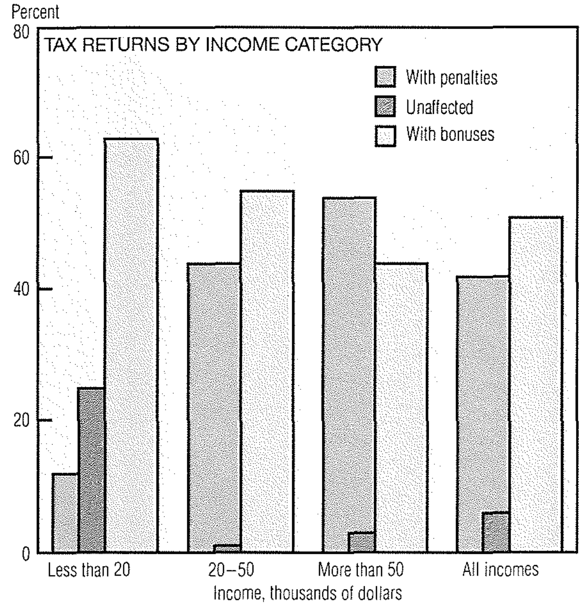
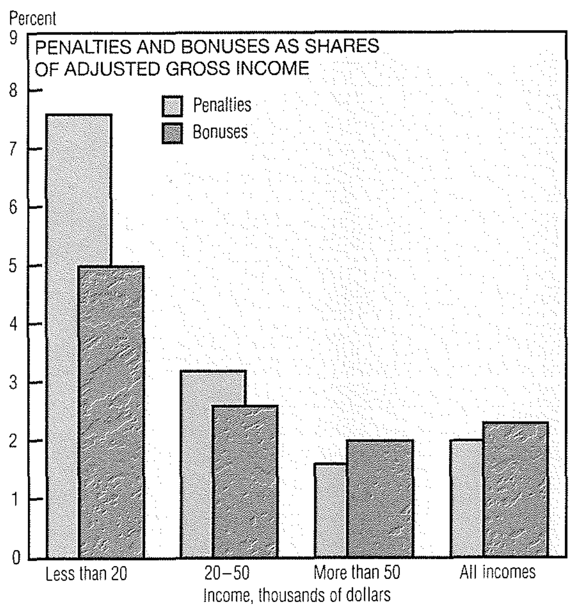
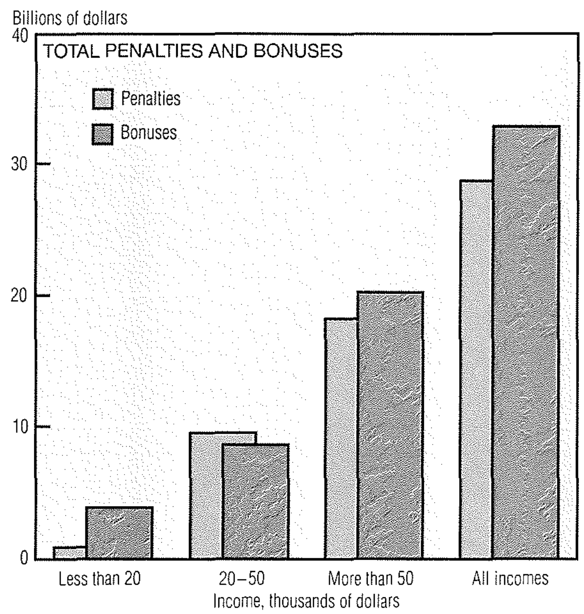
Marriage Penalties and Bonuses









NOTE: All charts show projected data for 1996.
SOURCE: Congressional Budget Office.

Several features of the current income tax code result in marriage "penalties" and "bonuses." Single-earner couples who file jointly pay lower average tax rates than those filing individually, and two-earner couples with spouses earning similar-sized incomes face higher average tax rates than couples earning dissimilar incomes.

Marriage penalties and bonuses arise because of separate rate schedules and standard deductions for married versus single filers and because the earned income tax credit (EITC) is applied irrespective of marital status. Generally, couples earning similar incomes take lower deductions, pay higher marginal and average tax rates, and lose a major portion of their EITC. Such issues can affect individual behavior regarding labor force participation, hours of work, marriage, and divorce.

Today, more married couples are subject to marriage penalties than ever before. The reason? Despite a decline in the share of married couples among all family and individual tax units, the share of two-income couples among all married people has increased. Also, a larger fraction of two-income couples have spouses with similar incomes.

For 1996, the share of households facing marriage penalties is projected to increase with household income, whereas the share enjoying bonuses should be greater for lower-income households. Both penalties and bonuses are a larger fraction of income for the lowest-income families than for the more affluent. Although a larger number of families are subject to marriage penalties, the Treasury still loses more money on bonuses than it makes on penalties: Projections show that tax-code features generating marriage penalties and bonuses will cost about $4.1 billion in 1996.