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Abstract 1 on *A Comprehensive Approach to Removing the Marriage Penalties*

Steuerle, C. Eugene. "A Comprehensive Approach to Removing the Marriage Penalties."  
The Urban Institute. Available WWW: [http://www.gwu.edu/~ccps/pop\\_marpen.html](http://www.gwu.edu/~ccps/pop_marpen.html).

What is a marriage penalty? How big is the impact of the penalty? What are the proposed remedies for the problem? These are the questions C. Eugene Steuerle attempted to answer in writing *A Comprehensive Approach to Removing the Marriage Penalties*. Steuerle is a communitarian proponent of removing or at least reducing the marriage penalty tax because "it violates traditional notions of fairness, and weakens the natural tendency to rely upon marriage as an institution for mutual support."

What is the marriage penalty? The marriage penalty occurs when a couple filing joint tax returns experiences a greater tax liability than would occur if each of the two people were to file as single individuals. This definition appears rather simple; however, understanding why the penalty occurs is much more complex. Steuerle acknowledges the complexity of the U.S. tax system saying, "Few elected officials understand when or how they are creating marriage penalties. It's not enough simply to be against marriage penalties if one doesn't understand what causes them in the first place." Marriage tax penalties (or bonuses) arise when a tax meets the following conditions: a tax is assessed on the basis of household resources (income mainly) and different marginal tax rates exist at different levels of the resources. Steuerle goes on saying, "The primary problem arises in a modern welfare state that attempts to provide a variety of benefits to households, but then wants to

limit costs by confining eligibility (thereby creating conditions 1 and 2).” One of the easiest ways to explain these complicated conditions is through one of his examples:

One of the worst cases involves a low-income single head of household earning about \$10,000 a year -- exactly the situation to which recent welfare reform encourages heads of households to move. Such an individual does succeed in moving out of traditional welfare (defined as Aid to Families With Dependent Children or its replacement, Temporary Assistance to Needy Families), but still receives a variety of other supplements, such as food stamps and earned income tax credits. The problem is that if this benefit recipient now marries a single person earning \$20,000 a year, their combined income would fall by almost 30 percent, or close to \$9,000, because of the marriage alone! What happens is that the income of the new partner, normally taxed at a rate of about 15 to 30 percent through federal and state income taxes and Social Security tax is suddenly taxed at a rate of 70 percent or more simply because it is combined with the income of the benefit recipient to force further phase out of income assistance.

How big is the impact of the penalty? The marriage penalty is an important issue to address because many individuals including Steuerle believe the penalty is unfair and has a corrosive effect on the institution of marriage. Most view the penalty as unfair because it results in married couples paying higher taxes simply because they are married, not because they are making any more money. Statistically, according to the Congressional Budget Office 26.8 million couples pay additional income tax due to marriage. Marriage also drastically reduces individuals' benefit from welfare and other government expenditure programs. According to Steuerle and others, the marriage penalty also undermines the institution of marriage. Steuerle claims the penalty is one reason why many couples are simply not marrying. Marriage has become an economic burden. He attributes the penalty to divorce saying, “Almost every couple is faced with potential rewards from divorce.” Thus divorce becomes an easier decision for some couples to

make creating more broken families in the U.S. He claims the penalties also discourage responsible parenting and faithfulness to partners. Steuerle says, “It tells them [parents] they can support their children better remaining unmarried,” however, this usually leads them to feeling less responsible for their children. Being unmarried can also lead much more easily to promiscuity and unfaithfulness due to the lack of commitment in marriage. All of these problems exemplify the importance of removing or at least reducing the marriage penalty.

Three counterpoints that are used to rationalize the marriage penalty are important to realize before proceeding to the topic of removing the penalty. First, sharing is a process that adds nontaxable economic benefit. For example, only one computer may be needed for one family instead of a computer for each individual member. This rationale relates to cohabitation, which it is important to point out, occurs in many places such as dormitories, apartments, and nursing homes without invoking any penalties. Second, married couples are compensated already for the costs of raising children through child tax exemptions. It is important to remember, however, that not all married couples have children and the amount of the credit is dependent on the number of children. Third, in some cases with usually wealthy married couples, the income tax codes can actually create a marriage bonus, which is a reduction in taxes as a married couple as opposed to the individuals. Bonuses are sometimes viewed as an offset to marriage penalties. Overall, however, Steuerle intently believes that the devastating consequences of the tax, especially to low-income families, outweigh all of the marriage penalty’s rationale.

What are the proposed remedies for the tax penalty? Steuerle says, “To reduce or eliminate marriage penalties essentially involves addressing either of the two conditions --

household filing or multiple rates -- that create the penalties. There are several complex approaches or options, and sometimes they can be combined.” One option would be flattening the combined tax rate schedule, meaning income would face the same rate whether one was married or not. A second would be income splitting. An example of income splitting would be in effect each married individual filing a single return having exactly one-half of the couples total combined income, but everything would be calculated and filed through one form. A third option would be mandatory individual filing, which would avoid all income tax marriage penalties under current law. A final option would be optional individual filing, which allows couples to calculate and choose filing individually or jointly depending on which is cheaper. Steuerle also offers several hybrid combinations of the above options that are clearly better choices than any single one of the mentioned options. However, the complexity of these plans inhibits their relevance to this short abstract of his article. Most importantly, Steuerle proves that there are indeed alternatives to the current tax system that must be considered when discussing the marriage penalty.

I agree with Steuerle that the marriage tax penalty is indeed unjust. He gives a very convincing argument illustrating that it is simply a poor, unfair tax policy. I believe U.S. tax code should be neutral and neither encourage nor discourage marriage. It is apparent that the current system forces millions of American couples to pay higher taxes simply because they are married. The idea of equity or fairness in the tax code is completely undermined by this penalty with all its harmful economic consequences to married couples. Also, the tax has the effect of making it clearly more difficult for several married couples to achieve their economic objectives as opposed to if they were individuals. This clearly appears to be a contradiction to America’s slogan as the “land of opportunity.”

I also found this article interesting and impressive, because this issue could be attractive to communitarians as well as groups such as utilitarians and libertarians alike, although for mainly different reasons. The former relish at the opportunity to increase the bonds of marriage and family values, while simultaneously increasing equality. The latter simply appeals to the economic implications of the issue, meaning a potential tax cut. I believe Steuerle made excellent points on the injustice of marriage laws, and was less unimpressed by his tie of the issue to the institution of marriage. Regardless, I still believe he made many excellent observations that were well justified through easy to follow examples. It indeed became clear after reading his article that the marriage penalty “violates traditional notions of fairness, and weakens the natural tendency to rely upon marriage as an institution for mutual support.”