The Marriage Penalty

Policy Watch

EE364 Gender Economics (Semester 1/2022)

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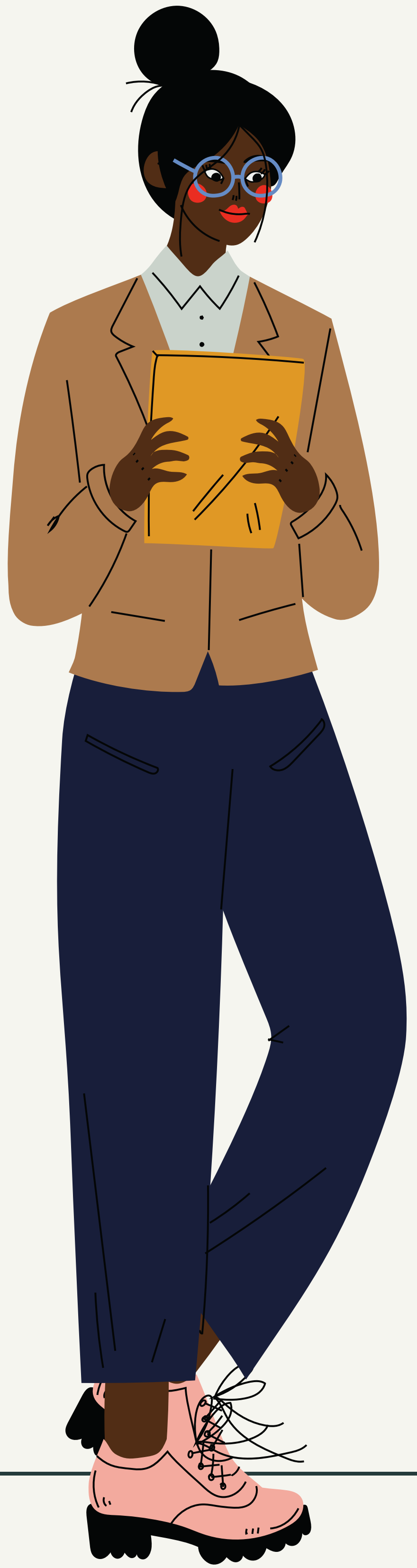
Today's Agenda

- 1.Introduction
- 2.Why does the Marriage Penalty Exist?
- 3.Who faces Marriage Penalties and Subsidies?
- 4.What are the Behavioral Effect from Marriage Penalties and Subsidies?
- 5.What are the Tradeoffs in Reducing the Marriage Penalty?

Introduction

Many government programs have implicit penalties or subsidies for mariage. In this recent years a rise in the number of dual earner couples and a narrowing in the earnings gender gap have heightened the impact of, and the interest in, the marriage penalty. Thus, in this article discuss about the marriage penalty with a particular focus on tax and transfer programs.



- Why does it exist?
- Who faces it?
- To what extent does it affect marriage and labor market behavior?
- What tradeoffs are involved in reducing it?

Why Does the Marriage Penalty Exist?

1 • A marriage "penalty" or "subsidy" occurs when a change in marital status generates a change, negative or positive, in disposable income.

2 • Generally, the tax or a transfer program can create a marriage penalty or subsidy if two conditions are assured.

3 • The federal individual income tax system has features that vary by legal marital status.To indicate the marriage penalty in the income tax, consider two individuals each with adjusted gross income.

4 • When people with similar earnings marry, their combined income pushes them into higher tax brackets than they face as singles, and they pay correspondingly higher income taxes with marriage.

Table 1

Marriage Penalties and Subsidies for Hypothetical Couples, 1998[a]

AGI of Other Spouse	*AGI of One Spouse*							
	0	*20,000*	*40,000*	*60,000*	*80,000*	*100,000*	*150,000*	*200,000*
0	0	**−833**	**−1834**	**−3764**	**−4113**	**−4713**	**−6119**	**−7197**
20,000		*209*	**−122**	**−122**	**−471**	**−915**	**−1800**	**−1644**
40,000			*1477*	1477	*1284*	*1284*	*1477*	*1866*
60,000				*1633*	*1884*	*1884*	*3388*	*3777*
80,000					*2135*	*2712*	*4950*	*5339*
100,000						*3946*	*6261*	*7155*
150,000							*9082*	*10,664*
200,000								*12,075*

[a] Italicized and positive numbers denote an increase in income taxes with marriage (a "marriage tax"), while bold and negative numbers denote a decrease in income taxes with marriage (a "marriage subsidy"). All calculations assume zero dependents and the use of the relevant standard deduction.

Why Does the Marriage Penalty Exist?

- Temporary Aid to Needy Families (TANF) provides cash to families with dependent children and an absent, incapacitated, or unemployed parent.
- The program generally assumes that unrelated individuals do not contribute financially to the TANF unit, even if they are cohabiting with the head of the household.
- These features result in some seemingly inconsistent TANF grant penalties due to marriage.

To illustrate a marriage penalty

- To illustrate a marriage penalty from income transfers, suppose that a single woman living in Pennsylvania (a state with TANF benefits of median generosity) in 1998 with two children and zero earnings receives a maximum of $3756 per year in food stamps and $5052 in TANF benefits.
- If the father of the children lives alone, has a $15,000 annual earned income, and does not support his children, he is no longer eligible for food stamps because the children are deprived of parental support.
- This family experiences a marriage transfer penalty of $6093($5052 from TANF plus $1041 from food stamps).

Table 2
Marriage and Cohabitation Penalties and Subsidies for Low-income Hypothetical Couples, 1998a

	Dissimilar Incomes: Woman with $0 and Man with $15,000 Earnings				*Similar Incomes: Woman with $10,000 and Man with $15,000 Earnings*	
	Father		*Unrelated Male*		*Father*	
	Cohabit[b]	*Marry*	*Cohabit*[c]	*Marry*	*Cohabit*	*Marry*
Total Penalty	*$ 1809*	*$ 1711*	*$1041*	*$ 1711*	*$ 2764*	*$ 5379*
Total Penalty as Percent of Joint Pre-tax Income	*12.1%*	*11.4%*	*6.9%*	*11.4%*	*11.4%*	*21.5%*
Source of Penalty:						
Federal Income Tax (excluding the EITC)	**−1110**	**−1208**	0	**−1208**	**−652**	**−143**
EITC	**−3174**	**−3174**	0	**−3174**	*582*	*2688*
TANF	*5052*	*5052*	0	*5052*	0	0
Food Stamps	*1041*	*1041*	*1041*	*1041*	*2834*	*2834*

[a] Italicized and positive numbers denote an increase in income tax liability or a decrease in transfer benefits (a "marriage penalty"), while bold and negative numbers denote a decrease in income tax liability or an increase in transfer benefits (a "marriage subsidy"). All calculations assume two dependents, the use of the relevant standard deduction, and Pennsylvania residency. The changes arising from cohabitation or marriage assume that the couple was not living together prior to the cohabitation or marriage.
[b] When cohabiting, the man is assumed to file as head of household, and the woman is assumed to file a single tax return.
[c] The woman is assumed to file as head of household, and the cohabiting male is assumed to provide less than half of the support for children (otherwise this is the same case as if the male is the father). Note that the food stamp unit is the household, so the man's income is counted against the food stamp grant.

Behavioral Effects

From Marriage Penalties and Subsides

The standard economic theory of marriage predict

- Increase in the marriage penalty will reduce the likelihood of individuals choosing to get or stay married

> The aggregate marriage rate in the United States falls as the average tax penalty increases. Using individual longitudinal data from the Panel Study of Income Dynamics

>Further find that probability of marriage falls as the marriage penalty increases;

What are the Behavioral Effects?

FIRST

- *Effect the timing of the marriage decision.*

Several studies have found that couples in the United States have timed their marriages to avoid one year of the tax penalty.

SECOND

- *Effect of the transfer system on marriage decisions,*

Empirical studies conducted consistently found that welfare exerted a small, positive, and significant effect on the likelihood that a household would be headed by an unmarried woman.

THIRD

- *Effect the labor supply decisions of married individuals.*

The marriage penalty thus discourages both labor force participation and hours worked of the secondary earner.

What are the Tradeoffs in Reducing the Marriage Penalty?

marriage penalties currently are imposed on a significant share and number of couples in the country.It also should be noted that the marriage penalty affects more people today than ever before because two-earner households have become increasingly common, and the average earnings differentials between spouses has tended to narrow over time.

the largest marriage penalty will occur when incomes within the marriage are equal.

Reserchers found that the aggregate marriage rate in Us falls as the average tax penalty increase and the marriage penalty affect the probability of divorce,especially in women and low income individual

What are the Tradeoffs in Reducing the Marriage Penalty?

Marriage penalties and subsidies distort marital and labor supply decisions, thereby creating excess burdens. Large marriage penalties may lessen respect for laws, which can in turn contribute to a host of illegal and undesirable behaviors

it is typically thought that a single-earner couple has a greater ability to pay than a two-earner couple because the nonworking spouse provides household services that are not taxed.

Reducing the marriage penalty comes with a lot of trade-offs, such as raising revenue, providing support to low-income families, minimizing work and marriage disincentives, reducing compliance and administrative costs, treating like families equally, maintaining progressivity, strengthening the family

Who Faces Marriage Penalties and Subsidies?

- The research focuses on marriage penalties and subsidies for low-income households by **Alm and Whittington**
- A calculation of the marriage tax penalty and subsidy based on data from the Panel Study of Income Dynamics for a sample of married taxpayers
- A magnitude has increased, dropped, and recently risen over time, and has approximated upwards of $350 in past years

Average Tax Penalties and Subsidies, 1967 - 1994