



CONGRESSIONAL BUDGET OFFICE
U.S. CONGRESS
WASHINGTON, DC 20515

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Director

September 18, 1998

Updated Estimates of Marriage Penalties and Bonuses

At the request of congressional staff, the Congressional Budget Office (CBO) has prepared this projection of the size and distribution of marriage penalties and bonuses in the federal individual income tax in 1999. This memorandum updates information provided in CBO's June 1997 study, *For Better or For Worse: Marriage and the Federal Income Tax*.

The measures of marriage penalties and bonuses reported in the 1997 study were based on tax data for 1993, projected forward to 1996, and on the tax code effective in 1996. The Taxpayer Relief Act of 1997 (TPRA97) created several additional sources of marriage penalties and bonuses that will affect the tax liabilities of many married couples. Most important among them are the child credit, the HOPE and Lifetime Learning education credits, and lower tax rates on long-term capital gains. This update estimates the size and distribution of marriage penalties and bonuses based on tax data for 1995, projected forward to 1999, and on the tax code that will be effective in 1999 under current law.

As was the case in the 1997 study, the calculation of income taxes in this memorandum does not include the effects of the alternative minimum tax. Furthermore, although the earlier study only incorporated the earned income credit in its measure of tax liabilities, the values reported here include the effects of four additional credits: the dependent care credit, the child credit, and the HOPE and Lifetime Learning credits. Finally, the measures of income tax liability in this memorandum have been simulated directly from the 1995 Statistics of Income data adjusted to reflect the anticipated growth of income between 1995 and 1999.

The 1997 study calculated the penalty or bonus a couple bears as the difference between the taxes they would pay when filing jointly under 1996 law and the taxes they would owe if they filed singly under the following assumptions:

- o A couple's income other than earnings is divided between spouses in proportion to their earnings. Each spouse pays taxes on his or her share of adjusted gross income (AGI). Couples with no earnings are treated like one-earner couples, and thus all of their income is assigned to one spouse.
- o Spouses claim the couple's itemized deductions in proportion to their individual incomes. A spouse claims the appropriate standard deduction if it exceeds his or her share of the couple's itemized deductions.
- o All childless couples file two single returns.
- o If a couple has one child, the higher-earning spouse claims the child as a dependent and files as a head of household. The other spouse files a single return.

- o If a couple has two or more children, the lower-earning spouse claims one child as a dependent and files as a head of household. The other spouse claims all other children and also files as head of household.
- o Both spouses can claim the earned income tax credit if eligible.

Under these assumptions, 52 percent of married couples will get marriage bonuses in 1999 and 43 percent will incur penalties (see Table 1). The remaining 5 percent of joint filers will not have their tax liabilities affected by their marriage. Although the percentages are virtually the same as those for 1996, the average penalty and bonus will be larger. Bonuses in 1999 will average \$1,600, compared to \$1,300 in 1996, and the average 1999 penalty of \$1,480 will exceed the 1996 value of \$1,380. Bonuses will total nearly \$43 billion in 1999, nearly \$10 billion more than in 1996. Penalties will increase less—from \$29 billion in 1996 to \$32 billion in 1999. The net bonus will thus have more than doubled from \$4 billion to \$10 billion. The increase in the size of bonuses results largely from the new child credit and from growth of incomes in the top income brackets.

Estimates of marriage penalties and bonuses are highly sensitive to the assumptions made about the taxes couples would pay if they were not required to file joint returns. In particular, the assignment of children and unearned income to individuals significantly affects the estimates. The 1997 study offered one alternative suggested by other analysts, a “divorce model” that assigns all children to the lower-earning spouse.¹ More couples receive bonuses and fewer incur bonuses under the divorce model than under the basic model, largely because assigning children to the lower-earning spouse increases the tax liability of the higher-earning spouse under individual filing. In 1999, under the divorce model, 60 percent of couples will get bonuses averaging \$2,400 and 37 percent will incur penalties averaging \$1,260 (see Table 2). In the aggregate, total bonuses of \$73 billion will more than offset penalties totaling \$24 billion, leaving a net bonus of nearly \$50 billion. That net bonus is nearly \$20 billion greater than the \$30 billion estimated for 1996 in the earlier study. Again, much of the increase in bonuses results from the new child credit enacted in 1997.

It is important to note that other assumptions about how children and unearned income are divided between spouses to calculate individual tax liabilities could yield estimates of marriage penalties and bonuses markedly different from those reported above.

1. See Appendix F in Congressional Budget Office, *For Better or For Worse: Marriage and the Federal Income Tax* (June 1997).

Table 1. Estimated Marriage Penalties and Bonuses Under the Basic Measure, by Income Category, 1996 and 1999

Adjusted Gross Income	Joint Returns		Net Penalties/ Bonuses (\$billions) ^a	Percentage with Penalties	Total Penalties (\$billions)	Percentage with Bonuses	Total Bonuses (\$billions)	Percentage Unaffected
	(thousands)	(Percent)						
1996								
All Income Categories	49,300	100	-4.1	42	28.8	51	32.9	6
Under \$20,000	9,200	19	-3.0	12	0.9	63	3.9	25
\$20,000 - \$50,000	18,400	37	0.9	44	9.6	55	8.7	1
\$50,000 - \$100,000	16,700	34	-2.4	54	11.1	43	13.5	3
\$100,000 and over	5,000	10	0.4	54	7.2	46	6.8	0
1999								
All Income Categories	50,500	100	-10.3	43	32.2	52	42.5	5
Under \$20,000	7,700	15	-2.2	14	0.8	59	3.0	26
\$20,000 - \$50,000	16,500	33	-1.0	41	8.4	58	9.4	1
\$50,000 - \$100,000	18,900	37	-8.3	51	11.1	48	19.4	1
\$100,000 and over	7,500	15	1.3	56	11.8	44	10.6	0

SOURCE: Congressional Budget Office estimates based on data from the 1993 and the 1995 Statistics of Income. Estimates for 1996 are reproduced from Congressional Budget Office, *For Better or For Worse: Marriage and the Federal Income Tax* (June 1997), pp. 31-32.

NOTES: Income categories and dollar measures are in dollars of the respective years and therefore not fully comparable.

Taxes in 1996 are measured before credits except for the earned income credit (EITC); taxes in 1999 are measured net of the EITC, the dependent care credit, the child credit, and the HOPE and Lifetime Learning credits.

See text for a full description of the assumptions used to estimate marriage penalties and bonuses.

a. Positive values indicate net marriage penalties; negative values indicate net bonuses.

Table 2. Estimated Marriage Penalties and Bonuses Under a Divorce Model, All Joint Income Tax Returns, 1996 and 1999

Year	Joint Returns (thousands)	Net Penalties/ Bonuses (\$billions) ^a	Percentage with Penalties	Total Penalties (\$billions)	Percentage with Bonuses	Total Bonuses (\$billions)	Percentage Unaffected
1996	49,300	-30.0	39	25.2	57	55.2	4
1999	50,500	-48.8	37	23.8	60	72.6	3

SOURCE: Congressional Budget Office estimates based on data from the 1993 and the 1995 Statistics of Income. Estimates for 1996 are reproduced from Appendix F in Congressional Budget Office, *For Better or For Worse: Marriage and the Federal Income Tax* (June 1997).

NOTES: Income categories and dollar measures are in dollars of the respective years and therefore not fully comparable.

Taxes in 1996 are measured before credits except for the earned income credit (EITC); taxes in 1999 are measured net of the EITC, the dependent care credit, the child credit, and the HOPE and Lifetime Learning credits.

Under a divorce model, all children are assigned to the lower-earning spouse for the purposes of calculating the couple's taxes under individual filing. See text for other assumptions made in estimating marriage penalties and bonuses.

a. Positive values indicate net marriage penalties; negative values indicate net bonuses.