

The Uncertain Support Behind 'Marriage Penalty' Relief

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The issue of the marriage penalty is not going to go away. Already it appears to be one of the items on which the White House is willing to compromise should any tax bill go forward. And some of the presidential candidates have also raised the issue as part of campaign 2000.

At this stage, it's not at all clear how either party will line up. Although the Republicans in Congress took the lead in 1999 in attempting to reduce the so-called marriage penalty, both parties have supporters and opponents of marriage penalty relief.

Among the supporters of marriage penalty relief, neither party seems willing to get rid of all marriage penalties, so each can accuse the other of not going far enough—but then get whipsawed by the same criticism. To remove most marriage penalties would require tax and welfare reform of a magnitude that neither party has come close to suggesting. The issue is also fairly complex: As long as many elected officials don't understand what causes marriage penalties, they won't fully understand when they are creating them or what else they are changing when they try to remove them.

Regardless of his or her personal views, it is hard for any politician to vote against marriage penalty relief as long as it is posed only as an issue of tax reduction. Politics plays to the issue of winners and losers. If marriage penalty relief simply means giving some people more and no one else less—the natural rhetoric of politics—then why not favor it?

But if marriage penalty relief means that someone else has to pay, then it becomes a different matter. Consider the Clinton administration's opposition to the tax bill recently passed by Congress: It would be too costly, and it would use money that should be spent on paying down the national debt. The administration may or may not play that same tune in response to a smaller bill that still includes marriage penalty relief as a component. Nonetheless, the administration's strategy demonstrates that given a choice between what now appear to be two good things—marriage penalty relief and debt relief—politicians will divide.

Supply-siders generally dislike the type of marriage penalty relief contained in the recent tax bill—especially when it comes in the form of increasing the standard deduction—because it will affect so few taxpayers at the margins. If the relief doesn't lower marginal tax rates much, they would argue, then it doesn't have much supply-side effect. Many on the left, who do not consider themselves supply-siders, would agree with that argument. They also see in the current proposal a limited impact on incentives to work and save, so to them there's little gain in economic efficiency. They would also protest that since the overall impact of the bill does not do much to increase the income of lower-income individuals, the poor are getting little of the redistribution favored by non-supply-siders. I would venture to say that most economists (but not including myself) fall somewhere in these two camps.

Perhaps the real test of support for marriage penalty relief is whether its proponents would be willing to engage in a revenue neutral exchange. That is the ultimate test for most tax reformers. If it's the right thing to do, then do it, and the rate schedules can be adjusted elsewhere to make up for the revenues. Unlike a tax cut, this type of reform makes losers more easily identifiable. (Among the possibilities is a revenue-neutral, distributionally neutral set of proposals set forth by Robert S. McIntyre and Michael J. McIntyre. See their article, "Fixing the 'Marriage Penalty' Problem," *Valpariso Law Review*, forthcoming, 1999.)

In a revenue-neutral exchange, marriage penalty relief usually means that those who are not married are going to pay a higher share of the total tax burden. Also, most of the popular designs for marriage penalty relief tend to favor married couples whose earnings are fairly evenly split, as they are the ones who pay the greatest penalties. Those with very uneven splits currently tend to get marriage bonuses. Among married couples, therefore, marriage penalty relief would also tend to shift the share of the tax burden away from

those with two earners and toward those with one earner.

If you make the decisions concerning marriage penalty relief on the basis of a set of principles, these shifts in burdens may not be a concern. But if the game is trying to appeal to all interest groups, then politicians get a lot more wary of visibly hurting one group in favor of another.

The current tax bill deals with some marriage penalties, but leaves many off the table. Outside of the income tax rate schedules and standard deduction, the fundamental cause of marriage penalties is one of the favorite tax tools of presidents and members of Congress: The phasing out of credits, deductions, allowances, or preferences. Phaseouts create strange effective tax rates that tend to vary between single individuals and those who are married. The biggest and most important phaseouts apply at low-income levels, and many are in the expenditure system as well as the tax system. There is almost a bipartisan consensus not to tackle fully the marriage penalty issue at those low-income levels.

The real challenge for those attempting to provide marriage penalty relief is dealing with its many causes. However, every time Congress proposes to phase out one tax benefit item, it usually creates another marriage penalty. Republicans, as well as Democrats, love these phaseouts as a way to take away some benefit from the rich or to concentrate benefits on the poor. So these lawmakers are not merely reluctant to tackle existing phaseouts as a way to provide relief, they are proposing new phaseouts all the time.

Many who favor marriage penalty relief at this very moment have their names on proposals or bills creating new marriage penalties. For example, measures to provide health credits to the nonelderly have been proposed by members of both parties, and a great many of these bills create marriage penalties in the ways they try to phase out benefits as income increases.

No major political leader yet—not President Clinton, not the leaders of Congress, and not any leading presidential candidate—has yet suggested getting rid of all or even most of the marriage penalties. For example, there is some work afoot to try to reform the earned income tax credit (EITC), but most of this effort is liable to end up moving up the earnings levels at which EITC phaseouts occur for couples —still leaving many with marriage penalties.

Getting rid of marriage penalties will largely mean getting rid of phaseouts—or at least phaseouts that apply to households rather than individuals. Such a bold step would go far beyond anything being considered in the current tax bill, whatever its merit.

It will be interesting to see how the issue plays out over the next few years. For politicians, the pitfalls are many. They can't be too accusatory of others as long as they love to add new phaseouts and indirectly create new marriage penalties of their own. Removing most of the marriage penalties would be hard work, and right now the laborers are few.

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