



Working Poor Won't Get Quick Relief

Earned Income Tax Credit Imposes Marriage Penalty on Low-Income Couples

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"Instead of gradually reducing the marriage penalty, we should do it now... If this tax relief is good for Americans three, or five, or seven years from now, it is even better for Americans today." — President George W. Bush, January 2003, State of the Union address.

The president's 2003 tax proposals include accelerating the so-called "marriage penalty" relief for middle- and upper-class married couples, rather than phasing in the change over a decade.

Yet, for the largest source of cash assistance to low-income working families—the Earned Income Tax Credit—the administration has elected to ignore quicker remedies to the marriage penalty.

The Earned Income Tax Credit is a refundable credit for the working poor—individuals who would otherwise owe very little or no federal income tax. A percentage of each dollar of income is matched by the government up to a certain level and then the percentage declines as incomes rise.

The size of a worker's credit depends on his or her marital status and number of children, with the largest EITC benefits targeted to low-income workers with children. In fact, the EITC is the largest source of federal spending on children.

While the tax credit is a vital mechanism for helping the working poor escape poverty, it imposes substantial marriage penalties on low-income couples. For example, consider a single mother—let's call her Leslie—with one child who works full time at a day care center. For 2002, when she was struggling to make ends meet with income from her \$8-an-hour job, she would have received an EITC benefit of \$2,337. But if she had married her hypothetical boyfriend Frank, who also earns \$8 an hour as a short-order cook, their combined income would have allowed for an EITC of only \$12. By marrying, the couple would lose about 8 percent of their combined income.

The president's 2001 tax cut will eventually reduce these marriage penalties. Although there are still some flaws with the EITC marriage penalty relief, that tax cut represents real progress in removing marriage penalties.

But the president's pending proposal ignores the need for increased EITC marriage penalty relief now. It, however, does accelerate marriage penalty relief for wealthier Americans. The Tax Policy Center estimates that the top 20 percent of taxpayers would receive 81 percent of the benefit from

the administration's marriage penalty relief proposal, while the bottom 60 percent of taxpayers would receive only 6 percent.

The president's silence on marriage penalty relief for a vital program aimed at the working poor is puzzling in light of the administration's broader social agenda that promotes both marriage and work incentives for low-income Americans. It, for example, often touts the importance of work and the benefits of two-parent families on the lives of children. The president's welfare proposals continue these themes, offering both stronger work requirements and a controversial \$300 million spending program to encourage marriage for welfare recipients.

The president definitely believes that marriage is an effective anti-poverty tool. And, indeed, statistics show that children of single parents are much more likely to live in poverty than children of married parents.

But if he is truly serious about leaving no child behind, he should provide consistent support for healthy and stable relationships for parents of the nation's most vulnerable children. Ensuring that the EITC does not penalize marriage for members of the working poor should be the cornerstone of compassionate conservatism.

Instead, the president seeks to promote marriage in the nation's most well-known anti-poverty program, while it continues to discourage marriage for those in the largest anti-poverty program.

When he tries to sell his newest tax proposals with the logic that if the 2001 tax provisions were beneficial in the future, they are even better today, Ohioans should beware. Unfortunately, this is a compassionate conservative who seems not to believe that the working poor should receive his compassion now.