

Marriage Penalty Relief: Democratic vs. GOP Proposals

Democratic Proposal – Optional Separate Filing. Democrats have a simple proposal that permits married couples to calculate their tax liability jointly or as single individuals. The legislation eliminates the marriage penalty for couples making \$100,000 or less, and reduces it for couples making between \$100,000 and \$150,000.

Advantages of the Democratic Proposal.

- C Targeted to the Marriage Penalty.** The proposal eliminates the marriage penalty, but grants no tax cut to couples experiencing a bonus.
- C Comprehensive.** The proposal completely eliminates all the 65 marriage penalties in the tax code for taxpayers making \$100,000 or less. It reduces marriage penalties for taxpayers making between \$100,000 and \$150,000.
- C Fiscally Responsible.** The Democratic alternative would cost \$29 billion a year when fully phased in. By contrast, the GOP bill when fully phased in would cost \$40 billion a year, even though only 40% of its benefits would go to marriage penalty relief. GOP leaders have stated that their goal is to fully eliminate the marriage penalty and they will return to the issue annually to eliminate other marriage penalties in the tax code. If the GOP plan eliminated all 65 penalties using their bonus-enhancing approach, the cost would be huge.
- C Addresses the Alternative Minimum Tax.** In contrast to the GOP proposal, the Democratic alternative does not allow the AMT to take away the benefits of marriage penalty relief.

GOP Bill. The Republican bill provides only partial marriage penalty relief by increasing the standard deduction for married couples, the 15% and 28% rate brackets, and the earned income tax credit. In addition, the bill includes a provision which is unrelated to the marriage penalty – the permanent exemption of the nonrefundable personal credits (e.g., child credit, Hope credit, etc.) from the alternative minimum tax.

Problems with the GOP Approach.

- C Increases Marriage Bonuses.** The standard deduction and bracket expansion proposals would increase the marriage bonus for millions of couples. The Department of Treasury's analysis of the bill concludes that only 40% of the benefits would actually reduce marriage penalties.
- C Not Comprehensive.** Of the 65 provisions in the Internal Revenue Code that have a marriage penalty effect, the Republican bill eliminates only one (the standard deduction) and partially addresses two others (rate brackets and EITC). It fails to address the marriage penalty in such

areas as the Hope and Lifetime Learning credits, Individual Retirement Accounts, and the taxation of Social Security benefits. If the GOP bill is enacted, we will have made little progress in eliminating discrimination in the tax code based on marital status.

- C** **Increases Widow's (Singles) Penalty.** A marriage bonus is equivalent to a singles penalty. The GOP bill increases the singles penalty because it increases the marriage bonus for people already receiving a bonus. Marriage bonuses cause undue and unfair burdens on singles, including widows and widowers.

- C** **Ignores the Alternative Minimum Tax.** Because the bill does not completely exempt its marriage penalty relief from the alternative minimum tax ("AMT") calculation, approximately 5 million taxpayers would lose some or all of their marriage penalty relief as a consequence of becoming newly subject to the AMT.