The Tax Penalty on Married Workers

NANCY AMMON JIANAKOPLOS

JOHN Doe and Jane Smith *each* earned $15,000 in 1976 and *each* paid $2,403 in Federal personal income taxes.[1] The Internal Revenue Service collected $4,806 from John and Jane. If John and Jane had been married during 1976, however, they would have jointly paid $6,092 in Federal income taxes. Getting married would have cost John and Jane $1,286 in additional 1976 Federal income taxes. This example points out one of the peculiarities of the present Federal income tax structure; under certain circumstances two working people would pay more taxes if they are married than if they are single.

Dealing equitably with households of different sizes, marital status, and number of working family members has been a problem for tax law writers. Even without referring to the economic theory of taxation, however, it is possible to examine the factors which contribute to a possible tax penalty on married workers. The consequences and possible remedies for this apparently inequitable treatment of households can also be considered.

FACTORS CONTRIBUTING TO THE TAX ON MARRIED WORKERS

The task of specifying all possible household situations where a marriage penalty (or benefit) occurs is very difficult, and is not a very rewarding exercise. However, the fundamental characteristics of the situation remain if a few simplifying assumptions are made:

1) the standard deduction is used by all taxpayers;
2) all income is derived from wages and/or salaries;
3) all married couples file joint returns;
4) household adjusted gross incomes are $30,000 or less; and
5) household members have no children.

While these assumptions are limiting, all except the last assumption are fairly widespread. Even the exclusion of children from the example is not that unusual. In March 1976, 15 percent of all husband-wife households were childless and both spouses were employed.[2] With regard to the other assumptions, analysis of 1973 tax returns indicates that 65 percent of all returns utilized the standard deduction.[3] Wages and salaries represented 83 percent of adjusted gross incomes in 1973 and 95 percent of all married couples filed joint returns. The Internal Revenue Service reported that 96 percent of all taxpayers in 1976 had adjusted gross incomes below $30,000.[4]

The basis for calculations of the tax penalty on married workers is the comparison of tax liabilities of a man and woman, holding constant everything except their marital status. This is not a frivolous exercise when consideration is given to the employment statistics dealing with married couples. According to March 1976 data, there were 47.3 million husband-wife families.[5] In 22.3 million (47 percent) of these households both husband and wife worked outside the home. Full-time working wives contributed 39 percent of family income in 1976. Furthermore, the alternative of a man and woman living together without being legally married has been increasingly adopted. The number of households where unrelated adults of the opposite sex shared living quarters doubled between 1970 and 1976, although constituting only 1 percent of all households in 1976.[6]

The marital status of two hypothetical people, John and Jane, for the entire tax year of 1976 is based on their marital status on December 31, 1976. There is one technicality involved with this. The Internal Revenue Service states:

> If you obtain a foreign divorce for the sole purpose of enabling you and your spouse to qualify as unmarried individuals eligible to file separate returns, and if you then remarry each other early in the next tax year, you and your spouse must file as married individuals.[7]

[1]This assumes that they used the standard deduction, claimed no dependents, and all income was derived from wages or salaries.

[2]" 'Typical' Family Not So Typical," *St. Louis Post-Dispatch*, March 14, 1977. For a discussion of the effects of children on the tax penalty on married workers, see Joyce M. Nussbaum, "The Tax Structure and Discrimination Against Working Wives," *National Tax Journal* (June 1972), pp. 183-191.

[3]1973 is the most recent year for which detailed analysis are published. Internal Revenue Service, *Statistics of Income — 1973, Individual Income Tax Returns* (Washington, D.C.: Government Printing Office, 1976), p. 41.

[4]Information obtained from the Internal Revenue Service in Washington, D.C.

[5]" 'Typical' Family Not So Typical."

[6]U.S. Bureau of the Census, "Marital Status and Living Arrangements: March 1976" *Current Population Reports*, Series P-20, No. 306 (Washington, D.C.: Government Printing Office, 1977), pp. 4-5.

[7]Internal Revenue Service, Publication 17, *Your Federal Income Tax — 1977 Edition* (Washington, D.C.: Government Printing Office, 1977), p. 13.

ECONOMIC CONCEPTS OF TAXATION

Among the characteristics of taxes, which are generally considered desirable, are two features of particular importance in evaluating the effect of taxes on households. Taxes should be *equitable* or fair among households and *neutral* towards most economic decisions.[1] Defining these terms, however, is no easy matter. In economic theory two types of equity are usually defined — vertical equity and horizontal equity. Vertical equity is defined to mean that taxpaying units, such as individuals or households, with greater incomes should pay more taxes than units with less income. By horizontal equity we mean, units of equal income should pay equal taxes.

These simple recipes, once again, contain terms which are not easily defined. What is the appropriate taxpaying unit? Is it the legal recipient of the income or the whole household which is supported by the income? For example, consider three possible households:

Household	Income
Mr. A	$30,000
Mrs. A	0
Total Household A	$30,000
Mr. B	$15,000
Mrs. B	$15,000
Total Household B	$30,000
Mr. C	$30,000
Total Household C	$30,000

In household A, Mr. A makes $30,000 a year, while Mrs. A stays at home (and maybe raises a family). In household B, Mr. B earns $15,000 as does Mrs. B. In household C, there is only Mr. C, who earns $30,000. How much tax should each household pay?

If the appropriate taxing unit is the individual income earner, Mr. A and Mr. C should pay the same taxes. Mr. and Mrs. B should each pay less tax, which together might not equal the taxes paid by Mr. A or Mr. C. If the appropriate taxing unit is the household, then it can be argued that all three households should pay the same amount of taxes. Under 1976 tax laws Mr. C pays the most taxes, Mr. and Mrs. B pay less taxes, and Mr. and Mrs. A pay the least taxes, assuming all other circumstances are equal.

The other term which presents difficulty in determining equitable tax treatment is the definition of income. The concept of income is frequently dealt with in terms of "ability to pay." Thus, households with the same dollar income, but of different sizes and different expenses incurred in earning the income, have different abilities to pay. Currently, households are allowed a certain amount of income exempt from taxation for each member of the household (personal exemptions), which can be justified as a measure of the differing abilities to pay of different sized households. Furthermore, the cost of earning income can vary from household to household. For example, the expenses incurred if only one member of the household is employed outside the home will usually be less than if two members of the same household work. For this reason the deduction of child care expenses can be rationalized as a measure of differing expenses incurred in earning income and, hence, differing abilities to pay among households.

The term neutrality, applied to the concept of taxes, means that tax provisions should be chosen to minimize interference in market decisions, such as whether to work or how to spend income. However, there are tax provisions which explicitly promote certain behavior. Tax preferences reduce income subject to taxation, for example, if the household contributes to charity, buys a house, or invests in new business equipment. Apparently, these are activities which society finds beneficial and promotes through tax preferences (deductions).

[1]For a more complete discussion of the desirable aspects of taxes and actual characteristics of taxes, see Richard and Peggy Musgrave, *Public Finance in Theory and Practice* (New York: McGraw-Hill Company, 1973).

Even the Internal Revenue Service apparently recognizes the possible benefits of filing as single taxpayers.

Household Characteristics

Table I shows the tax penalties and benefits of marriage in 1976 for John and Jane, given the simplifying assumptions. To use this table, select any combination of the two adjusted gross incomes which equals $30,000 or less. Follow the horizontal line representing Jane's income to the right until it intersects with the vertical column corresponding to John's income. If the number at the intersection is negative, John and Jane must pay that amount in additional Federal taxes if they are married, rather than single. If the number is positive, John and Jane would benefit from a tax saving of that amount if they are married, rather than single. For example, if Jane makes $10,000 and John makes $12,000, they pay $483 more taxes if they are married than if they are single. In contrast, if Jane makes $15,000 and John makes $1,000, they save $339 in taxes by getting married.[8]

The outlined area of the table indicates those combinations of incomes which are associated with a tax

[8]This neglects the loss of any welfare payments or earned income tax credits John would lose by marrying Jane.

Table I

TAX PENALTIES AND BENEFITS FOR MARRIED WORKERS

Jane's Adjusted Gross Income (Dollars)	John's Adjusted Gross Income (Dollars): 0	1,000	2,000	3,000	4,000	5,000	6,000	7,000	8,000	9,000	10,000	11,000	12,000	13,000	14,000
30,000	1,701														
29,000	1,618	1,258													
28,000	1,566	1,218	858												
27,000	1,486	1,166	818	499											
26,000	1,406	1,086	766	459	254										
25,000	1,329	1,009	689	410	217	22									
24,000	1,264	949	629	350	185	2	-190								
23,000	1,158	878	563	284	119	-36	-216	-396							
22,000	1,078	798	518	244	79	-76	-228	-396	-566						
21,000	1,002	722	442	203	43	-112	-264	-404	-562	-716					
20,000	932	662	382	143	18	-132	-284	-424	-554	-696	-836				
19,000	847	597	327	88	-37	-152	-299	439	-569	-683	-811	-957			
18,000	787	537	287	58	-67	-182	-294	-429	-559	-673	-773	-907	-1,065		
17,000	705	480	230	21	-94	-209	-321	-421	-546	-660	-760	-866	-1,012	-1,156	
16,000	625	415	190	-19	-114	-219	-331	-431	-521	-630	-730	-836	-954	-1,086	-1,216
15,000	526	339	129	-55	-150	-235	-337	-437	-527	-601	-696	-802	-920	-1,024	-1,142
14,000	486	310	123	-46	-116	-201	-283	-373	-468	-537	-597	-698	-816	920	-1,010
13,000	454	256	80	-66	-121	-181	-263	-333	-413	-487	-547	-613	-726	-830	-920
12,000	446	238	40	-95	-127	-172	-229	-299	-359	-423	-483	-549	-627	-726	-816
11,000	426	244	36	-121	-142	-164	-206	-251	-311	-355	-405	-471	-549	-613	-698
10,000	382	212	30	-137	-180	-191	-210	-240	-275	-319	-349	-405	483	-547	-597
9,000	332	162	-8	-149	-202	-235	-243	-250	-270	-289	-319	-355	-423	-487	-537
8,000	296	126	-44	-173	-200	-243	-273	-269	-266	-270	-275	-311	-359	-413	-468
7,000	265	106	-64	-193	-208	-225	-265	-283	-269	-250	-240	-251	-299	-333	-373
6,000	247	85	-74	-203	-218	-223	-237	-265	-273	-243	210	206	-229	-263	-283
5,000	233	79	-83	-201	-216	-221	-223	-225	-243	-235	-191	-164	-172	-181	-201
4,000	196	68	-86	-207	-211	-216	-218	-208	-200	-202	-180	-142	-127	-121	-116
3,000	41	41	-87	-200	-207	-201	-203	-193	-173	-149	-137	-121	-95	-66	-46
2,000	0	0	0	-87	-86	-83	-74	-64	-44	8	30	36	40	80	123
1,000	0	0	0	41	68	79	85	106	126	162	212	244	238	256	310
0	0	0	0	41	196	233	247	265	296	332	382	426	446	454	486

NOTE: The figures represent the tax liability of the combined income of two single workers minus the tax liability of two married workers with the same joint income. Calculations assume two workers with no dependents. All income is derived from wages or salaries. Taxpayers claim the standa deduction and 1976 individual tax credit.

penalty on marriage, under the assumptions used here. As the numbers indicate, the penalty is a function of the size of combined income and the degree of equality between the two incomes. This means that the closer Jane's income is to John's income and/or the more John and Jane earn, the larger is the tax penalty on marriage. Since the tax penalty increases with the size of combined income, increases in income which merely represent increases due to inflation increase the tax penalty on married workers.[9]

[9]Nancy Jianakoplos, "Paying More Taxes and Affording It Less," this *Review* (July 1975), pp. 9-13.

Tax Provisions

Aware of the family characteristics which contribute to the marriage penalty, one can examine the specific provisions of the tax structure which produce this result. Table II compares and contrasts how John's and Jane's taxes are calculated when each is single and when they are married. In both cases, their adjusted gross incomes (AGI) are $15,000 each. If they are married, their joint income equals $30,000. A first step in tax computation is to deduct their personal exemption allowances. As single taxpayers, John and Jane are each entitled to a $750 personal exemption.

(Positive figures indicate tax savings John and Jane receive if they are married rather than single. Negative figures indicate extra taxes John and Jane pay if they are married rather than single.)

15,000	16,000	17,000	18,000	19,000	20,000	21,000	22,000	23,000	24,000	25,000	26,000	27,000	28,000	29,000	30,000
-1,286															
-1,142	-1,216														
-1,024	-1,086	-1,156													
-920	-954	-1,012	-1,065												
-802	-836	-866	-907	-957											
-696	-730	-760	-773	-811	-836										
-601	-630	-660	-673	-683	-696	-716									
-527	-521	-546	-559	-569	-554	-562	-566								
-437	-431	-421	-429	-439	-424	-404	-396	-396							
-337	-331	-321	-294	-299	-284	-264	-228	-216	-190						
-235	-219	-209	-182	-152	-132	-112	-76	-36	2	22					
-150	-114	-94	-67	-37	18	43	79	119	185	217	254				
-55	-19	21	58	88	143	203	244	284	350	410	459	499			
129	190	230	287	327	382	442	518	563	629	689	766	818	858		
339	415	480	537	597	662	722	798	878	949	1,009	1,086	1,166	1,218	1,258	
526	625	705	787	847	932	1,002	1,078	1,158	1,264	1,329	1,406	1,486	1,566	1,618	1,701

SOURCE: Computed from 1976 Federal income tax schedules.

This reduces each of their AGI's to $14,250, for a combined total of $28,500. As married taxpayers, they can also deduct $750 apiece as personal exemptions, leaving a household AGI of $28,500. Thus, the personal exemption has not contributed directly to either a tax benefit or penalty on marriage.

Next, each single taxpayer can subtract the standard deduction equal to 16 percent of AGI, but not less than $1,700 or greater than $2,400. As a single taxpayer, 16 percent of John's AGI is $2,400, the maximum allowable standard deduction. Jane can also deduct $2,400 as a single taxpayer. If single, John and Jane each take standard deductions which total $4,800, leaving taxable incomes of $11,850 each ($23,700 combined). In contrast, as married taxpayers, their maximum allowable standard deduction is $2,800 leaving taxable income of $25,700. Thus, the standard deduction benefits the two taxpayers more when they are single than when they are married.

Next, the tax rates are applied to taxable income in order to determine the tax liability. It is important to note that there are four different tax rate schedules.

Single taxpayers with dependents use the "head of household" tax schedule. Single people who do not qualify as a head of household must use the tax rates for single taxpayers. Married taxpayers may either file a joint or separate return. The tax schedule for married taxpayers filing separately differs from the rates applied to single taxpayers. The "married separate" schedule applies "married joint" rates to half the income that would be taxed at each level on the "married joint" schedule. Consequently, the tax rate progression is much steeper on the "married separate" schedule. Unless one spouse has a large amount of tax preferred income, such as capital gains or medical expenses, a married couple usually minimizes their tax liability by filing a joint return.

John and Jane, as single taxpayers must pay taxes on $11,850 of income each. This puts them in the 27 percent marginal bracket of the tax rate schedule for single taxpayers. Consequently, John and Jane each have tax liabilities of $2,583 for a total of $5,166.[10] As married taxpayers, John and Jane have $25,700 of joint taxable income, which puts them in the 36 percent marginal tax bracket for married taxpayers filing joint returns. Their joint tax liability is $6,272 or $1,106 more than their combined tax liabilities as single taxpayers. Thus, tax rates benefit two single taxpayers more than two married taxpayers.[11]

Finally, as single taxpayers John and Jane can each claim an individual tax credit equal to the greater of $35 each or 2 percent of taxable income ($11,850 apiece) limited to $180. Thus, John and Jane are each entitled to reduce their tax liabilities by $180, for a final tax of $2,403 each or $4,806 total. If John and Jane are married, their *joint* tax credit is limited to $180, as opposed to $180 *each* when single. Their final joint tax liability is $6,092, which is $1,286 greater than the combination of their single tax liabilities.

In summary, given the simplifying assumptions made above, the standard deduction, the tax rate schedules, and 1976 tax credits contribute to the additional Federal income taxes paid by married working taxpayers simply because of their marital status.

[10]These figures are taken from the 1976 Tax Table, which the IRS prepares. Since 1976 taxes are calculated over $50 income intervals for incomes less than $20,000, the liability is slightly lower, than if calculated from the tax rate schedules.

[11]The fact that single taxpayers have less taxable income as a result of larger combined standard deductions does bias downward the applicable tax bracket. However, because the tax rate schedules differ between married and single taxpayers, tax rates still contribute to the generally lower tax liability for two single taxpayers, whose combined incomes equal a married couple's joint income.

Table II

COMPARISON OF 1976 TAX CALCULATIONS BETWEEN SINGLE AND MARRIED STATUS*

	Single			Married
	John	Jane	Combined	Joint
Adjusted Gross Income	$15,000	$15,000	$30,000	$30,000
Personal Exemption	750	750	1,500	1,500
	$14,250	$14,250	$28,500	$28,500
Standard Deduction	2,400	2,400	4,800	2,800
Taxable Income	$11,850	$11,850	$23,700	$25,700
Marginal Tax Bracket		27%		36%
Tax Liability	$ 2,583	$ 2,583	$ 5,166	$ 6,272
Tax Credit	180	180	360	180
Tax	$ 2,403	$ 2,403	$ 4,806	$ 6,092

*Assumes no dependents and all income is from wages or salaries.

CONSEQUENCES

There are several important consequences of the tax penalty imposed on two married workers. One readily apparent effect of this differential tax treatment is that 1976 tax laws made it more expensive for two married people to work. The disincentive to work provided by tax laws affects the money standard of living which a household will achieve. If the tax laws make it more expensive to work, other things held constant, households will achieve a lower money income than would be otherwise possible.

The work disincentive of the tax laws is of particular importance in the decision of married women to enter the labor force. Since it is traditionally (but not always correctly) assumed that the husband is the primary breadwinner, the wife is typically considered to have greater latitude in deciding to enter the labor force. In making a rational decision to go to work, a wife would balance (either explicitly or implicitly) the added costs of going back to work, such as child care expenses, transportation costs, appropriate clothes, etc., against the additional income she will earn. The additional income will be her salary after taxes and other deductions. The tax penalty on married workers reduces her salary more than if she were single.

For example, if her husband makes $10,000, the last dollar of his income is taxed at 19 percent.[12] When

[12]This figure assumes that the standard deduction is used, all income is derived from wages or salaries, and the married couple has no dependents and files a joint return.

the wife goes to work, since her husband is already working and paying taxes, the *first* dollar of her income is taxed at 19 percent. That is, her income does not benefit from exemptions, deductions, or lower marginal tax rates applicable on initial amounts of income. Consequently, the tax structure has a negative influence on the labor force participation of married women. Of course, other factors can and have offset this influence, as evident from the increase in the labor force participation rate of married women in recent years.

Another effect of the disparity between the tax treatment of workers who are married and those who are single is an increase in Government revenue. The Government collects more taxes, under the circumstances outlined above, when two workers marry rather than remain single. In addition, when married workers receive cost-of-living adjustments, the Government also benefits, as mentioned earlier, since the extra tax liability on married workers increases as their incomes increase. Thus, the tax penalty on married workers makes the Government's deficit less than it would be otherwise.

A final consideration is that the differentiation of tax liability based only on marital status tends to undermine the equity which many people expect to find in the tax system. The less "just" a tax, the more incentive there is to find ways to avoid paying the tax, and this in turn reduces tax revenues or increases the cost of enforcing tax laws.

POSSIBLE REMEDIES

Considering the traditionally high value placed on marriage, family, and work in American society, it is likely that steps will eventually be taken to reduce the tax penalty imposed on married workers. The existence of this penalty is itself the result of previous Congressional actions which attempted to correct apparent inequities in the tax structure. Prior to 1948, husbands and wives in community property states could each claim half of their household income for tax purposes, even if only one of the spouses actually earned all of the income. For example, if one spouse earned $20,000 and the other was not employed outside the home, each claimed $10,000 of income. Given the progressively higher marginal tax rates, two incomes of $10,000 were taxed less than one $20,000 income. In noncommunity property states, this benefit was not available. A provision referred to as income-splitting was added to the Federal income tax structure in 1948 to make this benefit available to all married taxpayers. This was done by doubling the income ranges for married taxpayers associated with each tax rate. For example, if the first $500 of income were taxed at 14 percent for a single person, the first $1,000 of income for married couples would be taxed at 14 percent.

While the income-splitting provision extended tax benefits to married couples in all of the states, single taxpayers were now subject to much higher marginal tax rates than a married person making the same income, but able to benefit from the income-splitting provision. Perceiving the harsher tax treatment of single people, lawmakers lowered the tax rates for singles in 1971. As Table III shows, prior to 1971, single taxpayers with the same taxable income (income after subtracting personal exemptions and deductions) as married taxpayers filing jointly could pay as much as 42 percent more taxes than a married couple. The 1971 rate changes for single taxpayers reduced this differential to 20 percent. In reducing rates for single taxpayers, however, a tax penalty for households in which both spouses are employed resulted.

Measures already enacted to change 1977 tax laws alter the standard deductions allowed single and married taxpayers, thereby partially reducing the tax penalty on married workers. In 1976 the maximum

Table III

SINGLE TAXPAYER LIABILITIES AS A PERCENTAGE OF MARRIED TAXPAYER LIABILITIES[1]

Taxable Income[2]	1970	1976
$ 1,000	3.6%	3.6%
5,000	12.3	11.2
10,000	20.3	14.8
15,000	30.9	16.9
20,000	38.6	19.4
22,000	40.0	19.3
24,000	41.9	20.0
26,000	41.5	19.0
28,000	42.1	19.6
30,000	41.5	19.2
40,000	37.3	18.5
60,000	29.1	18.3
80,000	25.3	18.1
100,000	22.8	17.5
1,000,000	2.2	1.8

[1]Maximum tax on earned income, 1970 tax surcharge, and 1976 tax credit are ignored. Assumes married couple files joint return.

[2]Taxable income is that income, after exemptions and deductions, on which tax liability is computed.

Source: Calculated from statutory tax rates.

standard deduction was $2,800 for a married couple and $4,800 for two single workers, a $2,000 difference. The 1977 law provides a $3,200 standard deduction for joint returns and $2,200 ($4,400 combined) for singles. This reduces the difference to $1,200.[13]

Recent proposals by the Treasury Department call for a special tax deduction to be granted to families where both spouses work outside the home, to deal explicitly with the tax penalty on married workers.[14] Under this proposal, the spouse with the lower income would be allowed to deduct 10 percent of the first $6,000 of earnings. This proposal would benefit lower income couples relatively more than couples with higher incomes.

An alternative method, not included in the Treasury proposals, would completely eliminate the tax penalty on married workers. Married individuals who both work could be given the option of using the single tax rate schedule. Couples could compute their taxes using the "married joint," "married separate," and "single" schedules and use the status which minimizes their joint tax liability, with the provision that both spouses must use the same schedule.

[13]Handbook for Tax Reduction and Simplification Act of 1977, *Federal Taxes*, Report Bulletin 25, Section 2 (Englewood Cliffs, New Jersey: Prentice Hall, 1977), p. 5.

[14]David E. Rosenblum, "Most Families Would Pay Less Under Tax Plan," *New York Times*, September 30, 1977.

CONCLUSION

Two individuals, who both work, can be taxed more if they are married than if they are single. The more equal their incomes and the larger their incomes, the greater the tax penalty on married workers. The standard deduction, tax rate schedule, and individual tax credit provisions contributed to the greater tax liability for married couples in 1976. The tax penalty can be viewed as either a disincentive for working, single people to marry, or as a disincentive for married people to work. While Congressional intent has never shown an active interest in influencing such decisions, the tax structure imposes a tax penalty or benefit on households depending on the marital and employment status of the household members.

In a broader context, the tax penalty on married workers is illustrative of the complex and sometimes unintended consequences of tax provisions. Tax credits and reductions have been prescribed from time to time to "stimulate" the economy, reduce energy consumption, promote capital formation, and aid various other social and economic causes. While the intended objectives of these tax provisions may be worthwhile and laudable, the unintended consequences may be unacceptable and contrary to social values. The tax penalty on married workers illustrates the necessity of careful consideration of all of the possible consequences of tax proposals.