

**THE DISTRIBUTIONAL IMPACT OF THE JOBS  
AND GROWTH TAX RELIEF RECONCILIATION  
ACT OF 2003: A LONGITUDINAL STUDY  
OF THE MARRIAGE PENALTY TAX**

A Dissertation

by

FREDERICK J. FEUCHT

Submitted to the Office of Graduate Studies of  
Texas A&M University  
in partial fulfillment of the requirements for the degree of

DOCTOR OF PHILOSOPHY

December 2004

Major Subject: Accounting

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**ABSTRACT**

The Distributional Impact of The Jobs and Growth Tax  
Relief Reconciliation Act of 2003: A Longitudinal Study  
of the Marriage Penalty Tax.

(December 2004)

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This dissertation quantifies the magnitude of the marriage penalty tax and measures its distributional effects on the general population. Estimates of the marriage penalty tax were calculated based on the effects of the most recent tax act on all taxpayers according to class of income. The study measures the distribution of the marriage penalty tax using income tax data for the year 2000 and projects changes that result from the Jobs and Growth Tax Relief Reconciliation Act of 2003. Data for analysis was obtained from the Internal Revenue Service's Statistics of Income (SOI) database and the Census Bureau's year 2000 Current Population Survey (CPS) database. On signing the new tax act, President Bush said that the current tax code frequently taxes couples more after they get married and that the marriage tax contradicts American values and any reasonable sense of fairness. However, even after passage of the new tax act, results of the study indicate that while the marriage penalty tax is reduced, it continues to negatively affect the American family.

## DEDICATION

First and foremost, I give thanks to God for blessing me and making this attainable.

To my parents, Joseph and Gertrude, the source of my inspiration, who instilled in me the virtues of persistence and hard work, and who taught me the importance of maintaining traditional family values—thank you.

By learning you will teach; by teaching you will understand.  
Latin Proverb

Let us run with perseverance the race that is set before us.  
Hebrews 12:1b

## ACKNOWLEDGEMENTS

I would like to thank my dissertation committee for their unwavering confidence in me and my abilities, and for their continuous care, support, counsel, and guidance throughout this project: Dr. Murphy Smith for sharing his ideas with me, for believing in me, for encouraging me to forever “keep my priorities straight—God, family, and career,” and for providing me with exceptional scholarly and spiritual inspiration along the way; Dr. Robert Strawser for knowing when to challenge me, when to motivate me, and for his continual reminder that I “get it wrote”; and to Dr. David Kerr, Dr. Stanley Kratchman, and Dr. Robert Hall for their advice, feedback, and thoughtful revisions through successive drafts of this manuscript.

I gratefully acknowledge the support and kindness of: Dr. Austin Daily for his ardent support and for his unrelenting belief in me; Dr. Lorence Bravenec for sharing his many refreshing stories, life experiences, and insightful tax comments; and to my fellow doctoral colleagues—Michelle Diaz, Jap Efendi, Ryan Huston, William Strawser, and others—for always taking time from their hectic schedules to answer my questions, to lend advice, and to share some humor along the way. A very special thanks to Andy McLelland, my good friend, for always taking time out of his busy life to point me in the proper direction and to serve as a catalyst for my progress—I will forever be grateful.

I wish to express gratitude to the participants who attended the workshops that forged this idea into what it is now—thank you for your comments and recommendations.

On a personal note, I want to recognize some very special people who, knowingly or unknowingly, willingly or unwillingly, have made significant contributions to my success in life through their inspiration, encouragement, and mere existence in it:

My friends and family—especially my sister JoAnn, her husband Ron, my other sister Caroline, and my godmother Aunt Henia;

The old gang back East—John Dehner, Charlie DiGiovanni, Dave King, and Paul Rainey—thanks for your friendship, for the excellent memories, and for providing lots of humor when I needed it the most;

My good friends and neighbors in Texas, especially Steve Leshner and his family—thank you for welcoming me to this great state and for inviting me into your homes—thanks for the dinners and the laughs;

And my sincerest of appreciation to a very special person, Christi Dowd, whose friendship has been a breath of fresh air—may all her dreams come true and may she complete her book someday.

May God bless everyone, their families, and their friends in whatever path they choose to walk in life.

By the way,

Yes, dreams do come true.

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## CHAPTER I

### INTRODUCTION

The marriage penalty tax has been a heated topic of discussion and debate by politicians, academicians, researchers, legislators, and, of course, individual taxpayers ever since Congress allowed a husband and wife to file an income tax return using the ‘married filing jointly’ status in 1913. A marriage penalty tax occurs when the total tax liability incurred by a married couple on their combined income is greater than that which would be calculated had they filed as separate/single individuals. To engender public trust, tax policy must be fair and equitable and policy makers must consider political, equitable, as well as social implications in the formation and subsequent modification of tax law.

The objective of this study is to investigate empirically the impact of recent changes in tax law to determine if, in fact, the new tax act truly accomplishes what Congress and the President intended. To fully evaluate the impact of the new tax law, one must accurately identify the distributional effects of the new law on each income class of taxpayers. The results of this study will enable policy makers and tax researchers to assess the net impact of changes in newly instituted tax policy on income redistribution regarding the marriage penalty tax in the United States of America. This study extends the previous marriage tax literature by empirically assessing the impact of

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This dissertation follows the style and format of *The Accounting Review*.

recent changes in tax law on the marriage penalty tax.

The study attempts to answer the question: Does the new tax act fundamentally reduce the negative societal impact created by the marriage penalty tax? Further, the study considers the effects on and consequences of the marriage penalty tax to society as a whole.

On June 7, 2001, President George W. Bush signed into law The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA 2001) asserting that, among other changes, this Act was intended to reduce the marriage penalty tax. Relief was to be administered in two forms – a phase-in of an increase in the standard deduction for married couples and expansion of the income subject to the 15 percent rate (an amount equal to twice that of single taxpayers). However, the phase-in schedule for the increase in the standard deduction was delayed – not to begin until 2005 (at 174% of the single standard deduction) and gradually increasing to 190% in 2008. The expanded 15% rate bracket for married couples filing joint returns will increase from 180% of the single bracket in 2005 to 200% in 2008 and thereafter.

On May 28, 2003, in an effort to spur a lagging economy, President Bush signed the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA 2003) into law. JGTRRA 2003 accelerates many of the provisions of the EGTRRA 2001 and also increases the child care tax credit, doubles the standard deduction for married couples (temporarily), and attempts to address the inequity of the marriage penalty tax.

In a recent address to the Nation, President George W. Bush stated:

My tax cut plan is not just about productivity, it is about people. Economics is more than narrow interests or organized envy. A tax plan must apply market principles to the public interest. And my plan sets out to make life better for average men, women, and children. The current tax code is full of inequities. Many single moms face higher marginal tax rates than the wealthy. Couples frequently face a higher tax burden after they marry. High marginal tax rates act as a tollgate, limiting the access of low and moderate-income earners to the middle class. *The current tax code frequently taxes couples more after they get married. This marriage tax contradicts our values and any reasonable sense of fairness [emphasis added]* (White House 2003).

With the enactment of the above two most recent pieces of significant tax legislation, President Bush has thus asserted that the burden of the marriage tax in the American tax system will be reduced substantially. As noted accounting scholar Dr. William R. Kinney (2003) appropriately stated, “In policy related research, if the government says something is true, we, as accounting researchers, should test to see if it actually is true.”

This study utilizes aggregate data from the Statistics of Income (SOI) department of the Internal Revenue Service (2004). The data consists of actual income tax returns filed by married filing joint taxpayers for the year 2000. Additionally, census data as maintained by the Census Bureau’s year 2000 Current Population Survey (CPS) is utilized to allocate consistently the various items of income, expenses, dependency

deductions, credits, and other items (Census Bureau 2000). This aids in extrapolating data necessary to calculate and compare the marriage penalty tax before and after the recent tax law changes. Research questions are designed to address whether recent tax legislation enacted by the Bush administration does, in fact, significantly reduce the marriage penalty tax.

This study is of significance to legislators, policy makers, researchers, and individual taxpayers. Additional exploration and discussion of these tax law changes is strongly encouraged in order to derive a clearer view of their impact on taxpayers' family situations. The availability of more current income tax data, significant shifts in spousal employment trends, and recent changes in tax legislation suggest that knowledge of the marriage penalty tax should be updated accordingly.

The remainder of the paper is organized as follows. Chapter II provides background and literature review. Chapter III presents the research design and hypotheses development. Chapter IV describes methodology. Chapter V presents the data and analysis. Chapter VI includes discussion of the benefits of providing incentives for intact families. Chapter VII summarizes the conclusions and offers ideas for future research.

## **CHAPTER II**

### **BACKGROUND AND LITERATURE REVIEW**

This chapter includes discussion on the history of the marriage penalty tax, tax rate schedules and standard deduction information, and a literature review of prior empirical research.

#### **History of the Marriage Penalty Tax**

Marriage tax penalties (bonuses) arise when the total tax liability incurred by a married couple on their combined income is greater (less) than that which would be calculated had they filed as single/separate individuals. However, calculating the net marriage penalty or bonus can be difficult in certain circumstances. Researchers have long studied marriage penalty/bonus questions and found that several assumptions must be made regarding the division of the various pockets of income to estimate closely the amount of tax liability a married couple would have incurred had they been permitted to file as two single/separate individual taxpayers.

Numerous factors contribute to the disparity in tax liabilities between individuals filing as single versus married filing jointly. Tax rates, tax brackets, allowable standard deductions, child care credits, and other factors all cause a shift in tax liabilities. The intricacies of the earned income tax credit and the various phase-in/out thresholds further complicate analysis. Essentially, while holding income and investment decisions constant, research has shown that the act of getting married by itself accounts for a disparity in an individual's income tax liability. While married couples may face

differences in overall cash-flow outlays or spending not encountered by single individuals, this study will limit its investigation to the disparity (i.e., marriage penalty tax) which arises due to marital status. In addition, the social costs associated with the marriage penalty tax will be considered.

McIntyre and McIntyre (1999) reflect that marriage penalties have been in place since the adoption of the modern federal income tax in 1913. At that time, a personal exemption of \$3,000 was granted to a single person and \$4,000 (or \$2,000 per capita) to a married couple. Thus, a single individual received a personal tax exemption which was \$1,000 or fifty-percent greater than that of a married individual. In 1948, most significant marriage penalties were temporarily eliminated with the adoption of full income splitting for married couples. The Revenue Act of 1969 reintroduced marriage penalties by abandoning full income splitting in favor of marital joint filing with partial income splitting. The Tax Reform Act of 1986 reduced significantly most marriage penalties, primarily by a substantial reduction in tax rates. The Revenue Reconciliation Acts of 1990 and 1993 increased marriage penalties for high-income married couples while lowering marriage penalties for some low-income married couples with children. However, the 1990 and 1993 tax acts increased penalties for many other low-income couples with children through the imposition of limitations of income on earned income tax credits (EITC).

### **Tax Rate Schedules and the Standard Deduction**

The U.S. employs a voluntary income tax system based on progressive rates. That means that once taxable income is properly derived, the rate of tax increases as

taxable income increases. Taxability in the U.S. subjects four classes of taxpayers (married filing jointly, married filing separately, single, and head of household) to progressive gradient levels, or brackets, of tax rates as found in the Internal Revenue Service tax rate schedules.

Additionally, to arrive at taxable income, Congress allows taxpayers a deduction for specific expenses (itemized deductions) paid throughout the tax year for medical costs, certain taxes, mortgage interest, charitable contributions, casualty losses, job expenses, and certain expenses incurred in connection with the production or collection of income (reportable on Federal Form Schedule A). For those taxpayers who do not have sufficient expenses in which they can deduct on Schedule A, Congress allows a standard deduction, a different amount to each class, to each group of taxpayer in lieu of claiming their actual itemized deductions. Thus, taxpayers have a choice: they may take a deduction for their actual itemized expenses or for the standard deduction applicable for that tax year, whichever is greater. Congress views the allowance of the standard deduction to the taxpayers as an efficiency technique useful in minimizing subsequent tax administration since the deduction is deemed to be *de minimis* in nature. Exhibit 1 shows tax rate schedules and standard deductions allowed for income tax years 2000 and 2003 (post JGTRRA 2003).

In general, the marriage penalty tax arises due to disparity in the bracketed amounts of the graduated tax rate schedules as well as in the standard deductions allowed for married vs. non-married taxpayers, *ceteris paribus*. Since the tax rate brackets and standard deductions for married couples filing jointly are not exactly twice



that as allowed for single individuals, a difference occurs and that difference tends to create a penalty for the couple filing as married jointly. President Bush, with the newly enacted JGTRRA 2003, attempts to mitigate this disparity, at least temporarily, in the lower brackets by setting the brackets of the married joint tax rates equal to twice that of the single taxpayer for the first two tax rate levels (10% and 15%). However, disparity is evident once again when one compares the subsequent four tax rate brackets for each class of taxpayer.

Regarding the standard deduction, for tax years 2003 and 2004, Congress allows the married filing joint taxpayer a deduction equal to twice that of the single person yet, in subsequent years the comparability of the deduction falls to 174% in year 2005, slowly gaining to 200% in year 2009, again, creating an inequality between the taxpayers. Interesting to note is that Congress will allow these reductions in the marriage penalty tax to ‘sunset’ or expire after the year 2010. Why is there a sunset provision? Perhaps Congress wants to evaluate the impact of the tax law prior to proposing a substantial reduction in or eventual elimination of the marriage penalty tax once and for all. Academic research can help resolve this issue.

### **Prior Empirical Research**

Historically, interpretations of marriage tax penalties (bonuses) vary greatly from study to study. To gain an understanding of the perceived magnitude of the topic area, McIntyre and McIntyre (1999) state that Congress’ estimates of total elimination of the marriage penalty tax would cost approximately \$42 billion per year (stated in 1998 dollars). Bull et al. (1999) in a study conducted by the Office of Tax Analysis find that

marriage tax penalties (bonuses) were more easily defined than could be accurately measured. Brozovsky and Cataldo (1994) state that there is a current trend toward increasing the marginal tax rates and, should this trend continue, it will eventually lead to subsequent increases in the marriage penalty tax. Wiggins et al. (1986) determine that marriage tax penalties are incurred primarily by middle- and upper- income couples. Yet recent research shows that marriage penalties are incurred by all classes of taxpayers, and may even affect low-income couples most of all (Whittington and Alm 2001; Cook et al. 2001; Smith et al. 1999).

Research of the marriage tax has expanded to related areas. Studies have examined the impact of tax and transfer programs on social behavior, analyzed how changes in tax policy affect individual behavior, and attempted to quantify the true costs to society. Alm and Whittington (1995) explored how changes in the marriage tax affect the probability of marriage or divorce using time-series analysis. Smith et al. (1999) examined the effect U.S. tax policies have on marital stability – more specifically, how anti-family provisions (e.g., marriage penalty tax) affect the welfare of American families. Gelardi (1996) investigated the timing of marriages in relation to tax law changes and found that a proposed change in tax law prompted a significant drop in the relative number of marriages occurring in the last half of one year and led to an unusually high increase in the first half of the subsequent year concluding that changes in tax laws do affect individual behavior.

Since marital filing status for federal income tax purposes is determined on the last day of the calendar year, some couples planning to marry may actually plan for the

event to take place pre- or post- January 1. Strategically, if only one person of the couple earns income, the marriage would benefit by arranging the ceremony on or before December 31 whereas, if both individuals earn income, they could avoid the marriage penalty tax by considering a post-January 1 wedding, *ceteris paribus*.

Researchers agree that many factors affect the imposition of the marriage penalty tax (bonus). Among these factors are the current tax rate schedules, standard deduction, child care credit, earned income tax credit, alternative minimum tax, and individual family situations.

In an effort to quantify the net effect of the marriage penalty tax throughout the various changes in tax law, many prior studies have empirically calculated average marriage tax penalties and marriage tax benefits (a benefit of lesser tax paid by married couples vs. that paid by two single taxpayers, *ceteris paribus*) among all the income groups per bracketed amount. After comparing the net penalty with the net benefit, a “real” *net* penalty was calculated. Exhibit 2 reports a summary of the net marriage penalty tax for the period 1980 – 1999.

Consistent with prior research, Holtzblatt and Reberlein (2000) measured the effect of the earned income tax credit (EITC) on marriage tax penalties and bonuses by employing a ‘resource pooling’ measurement method using the Treasury Department’s Individual Tax Model (a micro-simulation model based on the Statistics of Income sample of tax returns for 1995). They measure the effect on the married filing jointly income tax returns for the 2000 tax year (stratifying the results into five classes by adjusted gross income) and, subject to various assumptions, estimate that marriage tax

penalties will increase by at least \$3.1 billion (10.4 percent) while marriage bonuses will decrease by \$439 million (1.5 percent). The most notable detrimental effect on marriage penalties occurs in those situations where couples find that they are ineligible for EITC because their combined incomes exceed \$30,000 (maximum phase-out).

Feenberg and Rosen (1995) utilized a Tax Simulation Model (TAXSIM) maintained by the National Bureau of Economic Research to test a stratified random sample (96,589) of actual tax returns filed in 1989 and 'aged' the data using a nominal per capita income growth (consistent with the Congressional Budget Office predictions) to 1993/1994 levels. Further, since the original data did not indicate the division of the earnings by couples, the researchers divided family earnings between the husband and wife using assumptions and data collected from the March 1990 Current Population Survey (CPS) thus separating the joint liability of the couple into two separate liabilities. Assumptions were made for the division of passive income, dependents, and other factors between the spouses. They found that the new law will cause some married couples to incur approximately \$33 billion in additional tax penalties while other married households will receive approximately \$27 billion in tax subsidies. They extrapolate their findings to the population and conclude that, on-average, fifty-two percent of American families will be paying \$1,244 in marriage taxes while another thirty-eight percent of the families should receive \$1,399 in marriage subsidies.

The U.S. Congressional Budget Office (1997), using 1996 tax data, found that among married couples, there was a significant rise in two wage-earner households in the last two decades. The CBO found also that there was a trend of increasing equality of

the incomes of husbands and wives, particularly in households with higher incomes, thus contributing to a substantial increase in the share and the magnitude of couples incurring marriage tax penalties. The CBO estimated that 42 percent of couples had an average marriage penalty tax of roughly 2 percent of adjusted gross income (range 7.6% - 1.6%) with higher estimates calculated if itemized deductions and dependents were awarded to the higher income spouse (based on a hypothetical divorce).

Prior research provides also for discussion on how changes in tax policy affects the behavior of individuals and their decision to marry or not to marry, such as, how the marriage penalty affects single couples contemplating marriage (or possible postponement – temporarily or permanently) and/or married couples contemplating divorce. Moffit et al. (1998) find strong evidence that economic considerations in the welfare system favor unmarried individuals thereby encouraging low-income partners to cohabit rather than formally marry, which results in socially detrimental consequences on children (such as higher school dropout rate and higher teen pregnancy rate).

Sjoquist and Walker (1995) examined the impact of the marriage tax on the rate and timing of marriage, as did Alm and Whittington (1995, 1996, and 1999). Alm and Whittington (1999) extrapolate that an increase in the marriage penalty tax by a mere \$465 would decrease the probability of a first-time marriage for women in a low-income couple by approximately 3% whereas, wealthy professional couples experiencing up to a 99% increase in the marriage penalty tax could experience a decrease in the probability of first-time marriage for the female partner as much as 23%.

Researchers also attempt to identify and quantify the “true” long-term cost to society associated with changes in public policy and measure the impact of those changes on human behavior. Smith et al. (1999) provide an analysis of the impact of societal ethics, cultural trends, divorce law and public policies on the institution of marriage. They posit that public policy (i.e., tax and transfer programs) may affect marital stability and they state that one would expect government policy makers to be more pro-child, pro-family (or at least neutral) and should advance legislation that promotes the family. Estimates are that marriage penalties cost American couples and families approximately \$33 billion in the year 2000. This is an explicit tax cost that can be identified as being borne by married taxpayers and their families.

Researchers are continually trying to ascertain the ‘true’ cost to society, that is, the other costs paid by the American taxpayers to support governmental programs on federal, state, and local levels. For instance, studies have shown that children raised in single-parent homes have a higher probability for negative social outcomes such as under-education, delinquency, and incarceration (Demuth and Brown 2004; Olshewsky et al. 2001; Smith et al. 1999). Consequently, this places an increased burden on society to contribute funds necessary to support the public and private organizations that maintain related rehabilitation programs and infrastructure. Can a reduction in or the possible elimination of the marriage penalty assist in changing human behavior? Research suggests the answer is yes.

Some researchers posit that public policy can change human behavior. In previous studies, unfavorable tax consequences of being married were associated with

divorce and lower marriage rates (Smith et al. 1999; Keely 1987). One explanatory theory behind these findings is simply that the extra tax burden is a financial stress, and as such causes marital difficulties that can contribute to divorce. Again, the damaging effect of the marriage penalty would be greater in a lower income family where the dollar amount has greater weight relative to all available resources. Along these lines, the marriage penalty tax not only discourages contemplated marriages, but also presents a danger to existing marriages.

A consequence of the marriage penalty is that it encourages a single-parent (or divorced) rather than married family condition for the taxpayer. Compounding the problem, the tax code provides financial incentives to taxpayers to have children outside of marriage. A favorable filing status, child credit, and a higher scaling of the EIC, all are available to the single taxpayer as a result of having children. As such, the current tax system promotes a single-parent family over a two-parent family. Given the negative social outcomes associated with single-parent families, this is an illogical and presumably unintended consequence of the current tax system. Elimination of the marriage penalty tax would be a step toward correcting this problem.

If we look to the nature of the earnings distribution within families to determine which couples specifically incur the marriage penalties, we find that in instances where both couples are earning roughly similar levels of incomes, these couples actually pay a higher tax collectively (higher than two individuals filing as single). In families where the married spouses have larger differences between husband and wife earnings, the

marriage penalty tax is less than in instances where the husband and wife earn similar amounts of income.



### **CHAPTER III**

#### **RESEARCH DESIGN AND HYPOTHESIS DEVELOPMENT**

The research objectives of this paper are to determine whether a shift in the amount and the distribution of the marriage penalty tax (bonus) occurs between the tax laws established prior to the Bush administration (i.e., the tax laws in effect before the EGTRRA 2001 tax act) and the changes recently enacted by the new JGTRRA 2003 tax act. By obtaining aggregate data from actual income tax returns filed for the year 2000, directional sign predictions are made based on the changes expected by using the criteria from the most recent tax act. Research methodology is similar to that employed by Feenberg and Rosen (1995). A decrease in the amount and the distribution of the marriage penalty tax is anticipated as a result of the recent tax act.

In addition to the changes enacted by JGTRRA 2003, a shift in the proportion of families that are two-wage earning couples will also affect the distribution of the marriage penalty tax. Summary data of actual individual income tax returns filed for the year 2000 is available from the Statistics of Income (SOI) Division of the IRS. Using the SOI data, the analysis will be useful to approximate and quantify the marriage penalty under the pre-2001 and 2003 tax acts and stratify the effect across the various tax rate brackets of married filing jointly tax payers. Consistent with prior research, this study will use actual income tax return data and perform empirical testing based on the IRS's SOI data. Data will also be obtained from the 2000 Census Bureau Current

Population Survey (CPS) to evaluate the impact of the tax law changes on the marriage penalty tax in proportion to the CPS earnings.<sup>1</sup>

The research questions are as follows, as stated in the alternate form:

**RQ<sub>1</sub>:** There will be a substantial real decrease between the net effect of the marriage penalty tax in year 2000 and the projected net effect of the marriage penalty tax as the result of JGTRRA 2003.

With the passage of the new tax act, Congress specifically intended to focus on a substantial reduction in the marriage penalty. Thus, Research Question 1 posits that there should be empirical evidence of a decreasing shift or complete elimination in marriage penalty situations resulting from the new tax act.

**RQ<sub>2</sub>:** There will be a substantial real decrease between the distribution of the marriage penalty tax in year 2000 and the projected distribution of the marriage penalty tax throughout all classes of jointly filed income tax returns as the result of JGTRRA 2003.

Research Question 2 addresses the distributional effects between the income brackets and looks to the fairness (e.g., horizontal equity) of the reduction in the marriage penalty. If Congress truly intended to maintain horizontal equity amongst the various classes of income tax payers, there should be evidence of true parity between the taxpayers of similar classes of income.

## **CHAPTER IV**

### **METHODOLOGY**

As described earlier in this paper, this study primarily utilizes aggregate data from the Statistics of Income (SOI) Division of the Internal Revenue Service and the 2000 Current Population Survey (CPS) data as compiled by the U.S. Census Bureau. The SOI data consists of actual income tax returns, presented in aggregate form, as filed by married filing joint taxpayers for the year 2000. Base year tax liabilities are calculated and verified using the tax law information in effect for the year 2000 and then compared to the tax liabilities as re-calculated under the newly-enacted JGTRRA 2003 tax law. Then, consistent with prior research, this study splits the income, deductions, and dependents of the married couple, according to various assumptions, as though a divorce occurs, and re-calculates the income tax liabilities of the couple as that of two separate single individuals.

Since SOI data does not contain information that is specific on the division of income and expenses between spouses, data from the Current Population Survey (CPS) is employed to allocate consistently the various items of income, expenses, dependency deductions, credits, and other items. CPS data is provided on a monthly basis and is derived from a collaboration of data between the Bureau of Labor Statistics and the Bureau of the Census. CPS data contains employment, earnings, and demographic data. Use of CPS data is important to this study since, when splitting the income and deductions between spouses, certain assumptions must be made. Allocation assumptions

in earlier studies performed the division of the various individual tax items via a strategy whereby the dependents and deductions were awarded to the spouse with the higher income. This study allocates dependency exemptions and deductions in accordance to the symmetry found in the CPS data.

## **CHAPTER V**

### **DATA AND ANALYSIS**

To better understand the where and the how of the detrimental effect(s) of the marriage penalty tax on specific family situations, Exhibit 3 shows the impact of the marriage penalty tax that occurs between one-wage earner and two-wage earner married couples filing jointly versus filing separately under various income splits, both couples with two dependents.

Exhibit 3 illustrates how the changes in earnings ‘mix’ between Spouse 1 and Spouse 2, and the re-allocation of the dependents in the case of filing separately affects the distribution of the marriage penalty tax in each of the situations. The greatest detriment is borne collectively by the taxpayers in situations where the dependents are awarded to the second spouse who has little to no income and files as Head of Household – precisely the group of taxpayers that logically most need the additional financial resources.

Olszewsky et al. (2001) in a study of education, employment, health costs, and crime levels (socioeconomic status) approximate, through a series of extensive extrapolations, that the elimination of the marriage penalties could, possibly, reduce the number of single-parent families by as much as 36%. Thus, hypothetically, the government would give up the collection of \$33 billion in marriage penalties but would save even more annually in curtailment of direct and indirect social program

expenditures (e.g. drug rehabilitation and prison facilities). Of more importance is the success of the people, arguably a happier, more well-adjusted nation as a whole.

Exhibit 4 sets forth an approximation of marriage penalty tax (bonus) for the tax year 2000. Estimates of combined wages per taxpayer group were selected to represent taxpayers within each marginal income tax rate bracket for that tax year. Marriage penalty tax (bonus) estimates are calculated for couples with two dependents filing as married filing jointly versus hypothetical alternative calculations should the couples choose to separate and file as single/head of household. The two alternatives consider the allocation of the two dependents of the couple wholly to Spouse 2 (Alternative 1) and in another situation by awarding one dependent to each of the separated parents (Alternative 2).

Exhibit 5 provides a similar basic analysis of tax liabilities of married filing joint couples with zero dependents, presented by marginal income tax rate brackets for the tax year 2000, versus tax liabilities of those same taxpayers should they divorce and subsequently file as two separate single taxpayers. Dependency exemptions were not included Exhibit 5 in order to isolate and identify only the effect of the substantial variance caused by the marriage penalty tax. It can be noted in Exhibit 5 that married taxpayers who earn similar levels of income are significantly impacted by the marriage penalty tax. Extreme variances are noted within the classes of income depending on the mix of income earned between the spouses.

To assess the net impact of the changes of the new tax act, this study calculated the differences in the net marriage penalty tax for the years 2000 and 2003. Estimated tax rates for the year 2003 were employed based on the published rates announced post the May 28, 2003 tax act. To calculate the net impact of marriage penalty or benefit to taxpayers in the various income tax brackets, intervals were established which matched the taxable income levels corresponding to the 2000 and 2003 income tax brackets.

Taxable income for each interval was calculated first as Single taxpayers and secondly as Married Filing Jointly (MFJ) essentially “marrying” the two individual taxpayers (i.e., combined incomes as husband and wife). Taxable income was calculated for each taxpayer group by deducting the personal exemption(s) and standard deduction allowed for each of the specific years from Adjusted Gross Income (AGI) and applying the tax rates in effect for those years. This study also accounted for the Earned Income Tax Credit (EITC) that was allowable per year for each qualifying taxpayer.

In an effort to maintain integrity of the findings and to later be able to extrapolate the effect of net marriage penalty tax to the population as a whole, this study chose combined income levels representative of comparable income tax brackets for 2000 and 2003. Using data obtained from the Internal Revenue Service Statistics of Income (SOI) Division (Yau, et al. 2004), midpoints of the income intervals were chosen from the data to represent the average taxpayer for that group. This data also provides the number of men and women who filed joint income tax returns in the year 1999, the corresponding

gross amount of income reported for each group, and thus, average salaries and wages for men and women taxpayers were calculated for each interval.

Exhibit 6 presents an extrapolation of the Internal Revenue Service Statistics of Income data by income interval, number of men and women joint filing taxpayers, total income, and average income. Exhibit 6 provides a percentage mix of the earnings between husband and wife in jointly filed income tax returns per income interval.

The distributional effect between men and women was derived by hypothetically “marrying” the average male filing a joint income tax return with the average female who also filed a joint income tax return for each interval and subsequently calculating the proportionate share of earnings for the couple in each interval. The measurement of this distributional ‘mix’ will better serve to allow for the calculation of marriage penalty tax for 2000 and 2003 so the results may be compared to prior research. This will also allow for the net effect of the change in the tax law to be extrapolated to the population as a whole. This improves on prior research that mostly use samples of tax returns filed while the current study uses aggregate data for all actual tax returns filed.

Consistent with prior research, calculations were performed at the various marginal income tax brackets for the year 2000 in order to determine if a net marriage penalty tax or benefit exists within each income interval, and overall. To calculate the income for the individuals that file on a single basis, income was split between the couples of each interval using the mix derived from the preceding distribution of wages information. Exhibit 7 reports a summary of the marriage penalty tax in each of the tax



brackets for the year 2000 for a couple filing married filing joint versus the same couple filing Single, separately with zero dependents.

As mentioned earlier, SOI data does not contain information that is specific on the division of income and expenses between spouses, thus various assumptions need to be made to assess the magnitude of the marriage penalty tax. Initially, our tests were conducted using data found in the 2000 Supplementary Survey Profile of the U.S. Census Bureau. Median earnings for male full time, year round workers was estimated at \$38,244 (57% of the two-wage earner couple's joint income) and median earnings for female full time, year round workers was estimated at \$28,720 (43% of the two-wage earner couple's joint income). Additionally, the Census survey estimated that approximately 52.57% of all married couples have both the husband and wife in the labor force. Simply using the 57% husband / 43% wife ratio to re-allocate the total income between the couples in the single tax calculations to calculate the marriage penalty tax within each tax rate bracket is too simplistic and its use will not provide a meaningful generalization to the population as a whole. Thus, this study employs the income division percentages within each income interval to more accurately project the net marriage penalty tax.

Exhibit 8 reports the results of the marriage penalty tax for married filing joint couples with zero dependents using the new tax rates for the year 2003. The findings indicate that the marriage penalty tax, while substantially reduced by the new tax act, is still very much evident in the lower and higher marginal tax rate brackets.

Exhibit 9 shows the difference between the marriage penalty (bonus) tax for the pre- and post- JGTRRA 2003 calculations. As indicated earlier, income (combined wages) has been stratified by income intervals in each of the marginal tax rate brackets and; based on assumptions, marriage penalty amounts are evident throughout the tax brackets for years 2000 and 2003. While a reduction in the net marriage penalty was noted for the year 2003, penalty amounts still exist within various marginal tax rate brackets. The greatest reduction overall in married penalty amounts is noted in the middle-income brackets. The smallest decrease in the marriage penalty took place in the lowest tax bracket (\$113, a 16.9% reduction) and in the highest marginal tax bracket (\$3,859, a 29.4% reduction).

Exhibit 10 extrapolates the impact of results of the change in the marriage penalty tax, as calculated earlier for the years 2000 and 2003, to the population using the SOI data of the number of men and women joint filers per income interval. The new tax act reduces the marriage penalty tax by approximately \$41.9 billion, resulting in an overall marriage tax bonus of \$4.2 billion. While it appears that this is positive news for families; however, this benefit is only temporary as the new tax law changes reflect that the standard deduction for married couples electing to file jointly (currently 200% of that

allowed for single filers for tax years 2003 and 2004) will, again, be reduced to 174% beginning for tax year 2005. Full parity between the single versus married filing jointly taxpayers is not scheduled to be realized by the married filing jointly tax payers until tax year 2009 (barring any further tax legislation) when the standard deduction for the married filing jointly taxpayers will be increased to 200% of that allowed for the taxpayers filing a Single.

For situations in which couples in two-earner households have more evenly split incomes than the average, those couples will incur substantially higher marriage penalties. For example, the average income split for the couple with combined wages of \$37,500 is 63.7 percent for the husband and 36.3 percent for the wife (IRS 2003). However, there are couples with \$37,500 of combined wages who have a 50-50 income split and would therefore incur an even higher marriage penalty tax.

Based on the assumptions used in this study, testing of Research Question 1 shows that there was a significant change (decrease) in the marriage penalty tax overall from the year 2000 to the year 2003 as the result of JGTRRA 2003. The total change was calculated in Exhibit 10 and the impact of the change was extrapolated to the population by income interval. The change resulted primarily from increased parity between the standard deduction amounts and tax rate bracket income levels for married filing joint versus single individuals.

Testing of Research Question 2 reveals that while there has been a reduction in the marriage penalty amounts overall, significant disparity still exists among the various classes of income. Differences between the marriage penalty amounts for each of the

marginal tax rate brackets for the year 2000 versus the year 2003 reveal that, on average, the net marriage penalty has decreased, even resulting in an overall net marriage bonus in the middle income tax rate brackets. On the other hand, the marriage penalty was only moderately reduced in the lower and upper brackets, and the average couple in these brackets still pays a penalty. Furthermore, depending on the income split between the working spouses, some couples in all the income brackets still incur a marriage penalty tax. The closer the taxable income split between the spouses is to 50-50, the higher the marriage penalty tax will be.

## **CHAPTER VI**

### **IMPLICATIONS OF PROVIDING INCENTIVES FOR INTACT FAMILIES**

Interestingly, much tax policy research investigates the application of horizontal equity and how it applies across various income levels. Horizontal equity refers conceptually to an idea of perceived fairness whereby ‘those with equal status or income should be treated equally.’ Hence, as it applies to taxes, taxpayers in similar classes of income should pay essentially the same amounts of total tax and should also be able to enjoy the same amounts of benefits. These benefits conceivably are in the form of goods and services that taxpayers receive from the government. Conceptually, a fair or equitable tax policy would be one in which the combined income of a married couple would yield the same tax liability as the combined income of two single individuals. However, this is not as simple as it may appear, as the calculations are complicated by other factors such as different tax rate brackets, dependents, and the EITC.

The premise of a government’s duty of fiduciary care to its taxpayers and its responsibility to provide those taxpayers with the best utilization of collected revenues and minimization of overall costs forces one to consider many questions. In the case of the marriage penalty tax, what is the impact of the perceived fairness of the marriage penalty tax for providing incentives or disincentives to preserving an intact family unit? Related to this is the question of whether it is fair to allow married individuals to receive a so-called bonus, by allowing them to be taxed as if each earned exactly one-half of the

combined income (even when one taxpayer earned all the combined income of the couple). Ultimately, this is a question of social justice.

What is just for society? The primary justification to eliminating tax disincentives and to providing tax incentives that encourage intact families is that married couples (husband and wife) provide the optimum environment for raising children, the next generation of taxpayers. In balancing the scales of justice, on one side are single taxpayers, who may call for equal taxation of income of all individual taxpayers, married or not. Applying this view would eliminate the married filing jointly option. This would eliminate the marriage penalty tax but also the benefits of taxing combined, and equally apportioned, income associated with the married filing jointly option.

On the opposite side of the scales are the needs and rights of children. The evidence of human history, natural law, and current scientific studies reveal that the role of a mother and a father in the family are complimentary. Children raised in a two-parent home are several times more likely to avoid negative social outcomes such as under-education (McLanahan 1996; Dawson 1991), violent crimes (Parker and Johns 2002), substance abuse (Deleire and Kalil 2002; Hoffman and Johnson 1998), incarceration (Jackson 1997; Morse 2003), and illegitimate births (Demuth and Brown 2004).

## **Under-Education**

In a testament on the positive benefits of maintaining an intact family (husband and wife) during childrearing, Princeton psychologist Sara McLanahan somberly states that children in one-parent families have poorer school attendance records and lower grade point averages than children raised in two-parent families. The school dropout rate for children in single-parent families is twice that of children in two-parent families. Further, children from single-parent homes are less likely to graduate from college and are more likely to become single-parents themselves (McLanahan 1996). McLanahan was a single parent herself for ten years. Ironically, she developed an interest in this area of research in an attempt to support her conviction that single parents can do “just as good a job of raising children as married moms.” In the end, she concluded that evidence overwhelmingly supports that, on average, children do much better when raised in two-parent families.

Research has shown that children of broken homes perform less well in reading, spelling, and math. They are more likely to repeat a grade, have higher dropout rates, and have lower rates of college graduation. As compared to children from intact, two-parent families, children from single-parent or broken homes exhibit more conduct problems, more symptoms of psychological mal-adjustment, lower academic achievement, more social difficulties, and poorer self-concepts (Massachusetts 2004). Dawson (1991), in her review of the National Health Interview Survey of Child Health, reported that “children from disrupted marriages were over seventy percent more likely than those living with both biological parents to have been expelled or suspended.”

Children from broken homes are twice as likely as children from intact families to drop out of school and are more likely to exhibit more health, behavioral, and emotional problems, are involved more frequently in crime and drug abuse, and have higher rates of suicide (Zill et al 1993).

### **Violent Crimes**

Researchers have been studying the relationship between family structure and delinquency for years. As far back as 1925, researchers interested in juvenile delinquency have found that almost twice the number of institutionalized (or delinquent) youths came from broken homes (Burt 1925). Criminology literature reiterates that *family* is an essential source of community – providing stability and supervision to form a barrier against violence and that children from broken homes are more delinquent than those from intact families. Parker and Johns (2002) posit that the family is a mechanism of social control and is the essential element needed for reducing crime in urban areas (specifically homicide). They identify constructs of social control occurring in cases of family disruption (i.e., divorce and single-parent households).

### **Substance Abuse**

In addition to experiencing lower educational achievement and higher crime involvement, studies have shown that children from broken or single-parent homes are more likely to engage in drug and alcohol abuse. Deleire and Kalil (2002) explored this premise and, using data from the National Educational Longitudinal Study, observed that teenagers from single-parent families were more likely to initiate smoking or drinking, more likely to initiate sexual activity, and less likely to graduate from high school or to



attend college than were children from two-parent families. Hoffman and Johnson (1998) concluded that children raised in traditional married-parent homes engaged in fewer harmful behaviors such as, delinquency, substance abuse, suicide, and premarital sex.

### **Incarceration**

Research notes repeatedly that incarceration of one (or both) of the parents has particularly disastrous consequences to the future development of the children. Colson (2003) states that more than half of the inmates in prison come from broken families as inmates typically lack the male and female role models. These role models (father and mother) are the moral influences that inform the child's consciences early in life; thus, any influence that causes family breakdown will increase crime and social disorder.

In *Parents or Prisons*, Jennifer Morse (2003) speculates that for some people, prisons are substitutes for parents. Obviously, prisons are a poor substitute for the love and guidance from two caring, nurturing parents. As she states, without two parents, a child is more likely to end up in the criminal justice system at some point in their life, and the prison will perform the parental function of supervising and controlling that child's behavior. Basic development of self-control, reciprocity, conscience, trust, and empathy takes place inside the family. Morse comments that a free society needs people with consciences. The great majority of people must obey the law voluntarily. If people fail to conform themselves to the law, someone will either have to compel them to do so or protect the public when they do not. Thus, without two parents working together as a

parental team, the child has more difficulty learning the moral basics and may have to be rehabilitated, incarcerated, or restrained or re-trained.

In her book, in a section titled “The Cost of Controlling People”, Morse (2003) provides an interesting, yet startling, analysis of the estimated cost of incarceration to society. Using the state of California as an example, the Department of Corrections allocation accounted for approximately six percent (\$5.2 billion) of the entire state’s budget in 2002-2003. This equates to approximately \$26,700 per adult inmate per year and about \$49,200 per person per year for the juvenile justice system. She poses an interesting question: What if the minors in the juvenile system were functioning well enough that they could be a normal part of society and thus be a part of the educational system rather than the juvenile delinquency program – how much would this save the taxpayers?

Morse (2003) extrapolates that the taxpayers pay about \$8,568 per year per student K-12 and another \$4,376 per student at a community college, or, at most, \$17,392 if they were intellectually bright enough to attend the University of California system. Trading school for prison is a tremendous savings for the taxpayers and everyone in society. Of course, society receives many other benefits from reduced crime, e.g., the actual tangible economic savings from less theft and robbery, but also the intangible benefits of not being a victim hurt by crime or the freedom derived from living in less fear because criminal activity is reduced.

## **Illegitimate Births**

Current research shows, that more than one-half of children will spend some time in a single-parent family. Demuth and Brown (2004), using data from the 1995 National Longitudinal Survey of Adolescent Health, estimate that nearly one-third of all children are born illegitimately to unmarried mothers. Their study identified similar constructs through which living with a single parent increases delinquency and their results indicate that adolescents in single-parent families are certainly more likely to engage in more serious forms of negative behavior.

Fourteen years ago, then-Vice-President Dan Quayle sparked controversy when he made a comment which criticized the main character of the television show Murphy Brown for having a child out of wed-lock (CNN 2002). The show portrayed the trials and tribulations of a single-parent female role model and it prompted controversy regarding traditional family values and concerns of raising a fatherless child.

McLanahan (1994) states that children who grow up with only one of their biological parents are disadvantaged across a broad array of outcomes. These children are twice as likely to drop out of high school, two and a half times as likely to become teen mothers themselves, and one hundred-forty percent more likely to be idle (out of school and out of work) as are children who grow up with both parents. She also adds that children from one-parent families also have poorer attendance records, lower grade point averages, lower college aspirations, and, as adults, they have higher rates of divorce.

To borrow a quote from the Massachusetts Family Institute on why marriage matters (Massachusetts 2004):

The Massachusetts Family Institute stands firmly on the premise that the optimal way to raise healthy, successful citizens is through a family structure consisting of mother, father, and children. While we recognize that there are caring families which for a variety of reasons are not structured this way, the great body of social science research, as well as rich historical, cultural, and religious traditions, support this premise. There are many pressures and demands on today's families, but the evidence, from social scientists, as well as cultural and religious history, is strong that marriage provides the intimacy and support that make for healthy individuals and a stable, successful society.

McLanahan (1996) points out that out-of-wedlock births have been going up in the United States since the 1940's and suggests that the government do more to help parents cover the costs of raising children. She states emphatically that a better way to encourage marriage is to make sure that parents are not penalized when they do get married – our current system of income transfers and taxation does just that. The question that must be addressed is why does the government continue to impose the marriage penalty tax.

Eliminating the marriage penalty, and allowing a marriage bonus (i.e., taxing a married couple's combined incomes apportioned equally under the married filing jointly

option) results in social justice. Eliminating the marriage penalty tax strengthens the two-parent family and advances society's optimum way to raise future generations.

Estimated costs to society associated with the criminal justice system, prison facilities, treating substance abuse, lost productivity, and under-education attributable to single-parent households have been estimated to exceed \$300 billion (Olszewsky et al. 2001). Eliminating the marriage penalty tax is expected to strengthen two-parent households and thereby reduce the number of children raised in single-parent households.

Research overwhelmingly indicates the societal benefit of average two-parent households over average single-parent households on children. In addition, the benefits of marriage extend beyond children's well-being. Psychologist Neil Warren indicates that numerous studies show that married persons are better off emotionally, physically, financially, and vocationally than are unmarried partners (Warren 2003). Adults benefit from marriage, whether they become parents or not. Essentially, strengthening marriage, by eliminating the marriage penalty tax, is beneficial to society regarding children and adults.

## **CHAPTER VII**

### **LIMITATIONS, CONCLUSIONS AND FUTURE RESEARCH**

While researchers are able to calculate and measure the impact of a change in tax law on the marriage penalty tax among the various classes of taxpayers, it is difficult to ascertain the exact impact of the penalty on marriage itself. Further, the division of income and deduction items found in this body of research is based on various assumptions and, as plausible as these assumptions may seem, they are nevertheless estimates for what could occur, not what will occur. Additionally, in trying to estimate the overall true cost to society as the result of changes in tax law, it is difficult to extrapolate precisely those results to the population as a whole.

The findings of this study will serve as an important contribution to the literature. Congress has voiced publicly its concern to the American taxpayers that it intends to substantially reduce the inequity of the marriage penalty tax. Perhaps Congress can do so on a 'net' basis but apparently has been unable to accomplish this throughout all classes of income. This study confirms that the marriage penalty tax exists still for many married taxpayers.

On signing the new tax act, the Jobs and Growth Tax Relief Reconciliation Act of 2003, President Bush said that the current tax code frequently taxes couples more after they get married and that the marriage tax contradicts our values and any reasonable sense of fairness. Survey data and anecdotal evidence indicate that most

people agree with President Bush. However, as shown by this study, the marriage penalty tax was not eliminated, although it was substantially reduced by the new tax law.

Results of this study indicate that while a significant reduction in the marriage penalty has been observed as the result of the newly enacted tax law, substantial disparity still exists throughout the various class of income. The smaller benefit went to the income tax payers of the lowest and highest marginal income tax rate brackets and the greater proportional benefit to those taxpayers in the middle marginal income tax rate brackets.

The family is widely regarded as the foundation of civilization (Colson 2003; Smith et al. 1999). Considering the positive aspects of marriage on stable family structure, emotional health of children, and physical health of adults (with or without children), placing a higher tax burden on a married couple, simply because they are married, appears contrary to the best interests of society. Some tax researchers may posit that while there are some couples who pay a marriage penalty, this is offset possibly by other couples who receive a marriage benefit. This line of thought is analogous to a beekeeper carelessly dropping a beehive in a crowd of people and concluding that no problem exists because only a few people were stung; the majority walked (or ran) away unscathed. Based on this research, one could infer that Congress via the marriage penalty tax is hurting marriage and the best interests of society, children, and adults.

This study may stimulate further interest in determining how changes in tax policy affect people's behavior such as the public and social costs associated with the

marriage penalty tax. This study may be extended in the future by utilizing various assumptions for re-allocation of tax variables such as income, expense, and dependents. Division of these items may affect the impact of the changes to tax law. Calculations involving the separation of the taxpayers from married to single/head of household may involve awarding the dependents to the highest wage earner, or to the wife, or splitting the dependents equally among the separating ex-spouses. Similarly, income and expense items could be re-allocated amongst the separated taxpayers.

If Congress wants to maintain revenue neutrality, then alternate sources of the revenue should be considered. Researchers might find it interesting to investigate what other sources of tax revenue might replace the tax revenue that would be lost due to the minimization or elimination of the marriage penalty tax.



**ENDNOTES**

1. As an alternative to obtaining the Tax Simulation Model data, Holtzblatt and Rebelein (2000) utilized data from the Treasury Department's Individual Tax Model (ITM).

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**APPENDIX A**  
**LIST OF EXHIBITS**

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## Exhibit 1

### Tax Parameters for Tax Years 2000 and 2003

#### *Tax Rate Schedules*

Taxable Income Brackets (in \$1,000)

Marginal Tax Rate	MF-Joint	MF-Sep	Single	Head of Household
<u>Year 2000</u>				
15%	\$ 0 - 43.85	\$ 0 - 21.925	\$ 0 - 26.25	\$ 0 -35.15
28%	43.85 - 105.95	21.925 - 52.975	26.25 - 63.55	35.15 -90.8
31%	105.95 - 161.45	52.975 - 80.725	63.55 - 132.6	90.8-147.05
36%	161.45 - 288.35	80.725 - 144.175	132.6 - 288.35	147.05-288.35
39.6%	288.35 -	144.175 -	288.35 -	288.35 -
<u>Year 2003</u> (Post 2003 Tax Act, retroactive to 1/1/03)				
10%	0 - 14.0	0 - 7.0	0 -7.0	0 - 10.0
15%	14.0 - 56.8	7.0 - 28.4	7.0 - 28.4	10.0 - 38.05
25%	56.8 - 114.65	28.4 - 57.325	28.4 - 68.8	38.05 - 98.25
28%	114.65 - 174.7	57.325 - 87.35	68.8 - 143.5	98.25 - 159.1
33%	174.7 - 311.95	87.35 - 155.975	143.5 - 311.95	159.1 - 311.95
35%	311.95 -	155.975 -	311.95 -	311.95 -

#### *Standard Deduction*

Year 2000	7,350 (167% of Single)	3,675	4,400	6,450
2003	9,500 (200% of Single)	4,750 (50% of MFJ=S)	4,750	7,000
2004	200%			
2005	174%			
2006	184%			
2007	187%			
2008	190%			
2009	200%			
2010	200%			

Source: CCH Incorporated. 2003 Tax Legislation. Law, Explanation and Analysis. Chicago, IL.

Author's note: Marriage taxpayers who itemize will not benefit from the increased standard deductions and, most likely, fewer married taxpayers will find it necessary to itemize.

## Exhibit 2

### Net Marriage Penalty Tax Based on Prior Research

Study / year published [tax act]	Tax Year	Average Penalty % and \$	Average Benefit % and \$	Net Penalty
OTA 1999	1999	48 and \$1,141	41 and \$1,274	\$31
CBO 1997	1996	42 and \$1,380	51 and \$1,300	-
CBO 1997 (all itemized)	1996	47 and \$1,750	49 and \$1,350	-
Alm and Whittington 1996	1994			\$375*
Feeberg and Rosen 1995 [OBRA 93]	1994	52 and \$1,244	38 and \$1,399	\$124*
Feeberg and Rosen 1995	1993	51 and \$898	38 and \$1,577	\$(143)*
Rosen 1987 [TRA 86]	1988	40 and \$1,091	53 and \$609	\$119**
Rosen 1987	1986			\$529**
Alm and Whittington 1996	1980			\$300*

\* 1994 dollars and \*\* 1988 dollars

### Exhibit 3

#### Impact of MPT (MBT) Within Classes of Income by Combined Wages, Two Dependents

[2000 tax rates, includes effects of EITC and child tax credits]  
Married Filing Jointly vs. Separately

Combined Wages	Spouse 1	Spouse 2	Tax liab. M F Joint	MPT or (MBT) in M F Joint tax liability vs. tax calc. under Alt. # 1 or Alt. #2	
				Alt. # 1 Single + 0 dep H of H + 2 dep	Alt. # 2 H of H + 1 dep H of H + 1 dep
	(in \$1,000's)		Tax due (refund)		
\$20,000	0	20	\$ (2,343)	\$ 0	(1,858)
	5	15		1,406	1,346
	10	10		1,150	2,363
	15	5		(1,507)	1,346
	20	0		(4,267)	(1,858)
\$30,000	0	30	484	555	(1,712)
	7.5	22.5		2,321	2,547
	15	15		2,706	4,444
	22.5	7.5		1,195	2,547
	30	0		(2,940)	(1,712)
\$60,000	0	60	5,221	(1,859)	(3,143)
	15	45		521	2,755
	30	30		3,521	4,829
	45	15		1,438	2,755
	60	0		(6,158)	(3,143)
\$120,000	0	120	22,206	(3,097)	(3,965)
	30	90		2,552	2,746
	60	60		3,747	5,478
	90	30		810	2,746
	120	0		(7,443)	(3,965)
\$240,000	0	240	64,303	(4,040)	(4,403)
	60	180		7,632	9,800
	120	120		9,351	11,961
	180	60		6,541	9,800
	240	0		(8,463)	(4,403)



### Exhibit 4

#### Impact of MPT (MBT) Within Classes of Income by Marginal Tax Bracket, Two Dependents

[2000 tax rates, includes effects of EITC and child tax credits]  
Married Filing Jointly vs Separately

Marg. Tax Brack. %	Combined Wages	Spouse 1	Spouse 2	Tax liab. M F Joint	MPT or (MBT) in M F Joint tax liability vs. tax calc. under Alt. # 1 or Alt. #2		
					(in \$1,000's)	Tax due (refund)	Alt. # 1 Single + 0 dep H of H + 2 dep
15 %	\$40,000	0	40	\$ 2,221			
		20	20				
		40	0				
28 %	\$100,000	0	100	16,113			
		50	50				
		100	0				
31 %	\$160,000	0	160	34,971			
		80	80				
		160	0				
36 %	\$280,000	0	280	79,993			
		140	140				
		280	0				
39.6%	\$600,000	0	600	207,357			
		300	300				
		600	0				

Note: Combined wage amounts selected to yield comparable marginal tax rate brackets per category (MFJ vs. Single).

### Exhibit 5

#### Impact of MPT (MBT) Within Classes of Income by Marginal Tax Bracket, No Dependents

[2000 tax rates, includes effects of EITC and child tax credits]

#### Married Filing Jointly vs Separately

Marg. Tax Brack. %	Combined Wages	Spouse 1	Spouse 2	Tax liab. M F Joint	MPT or (MBT) in M F Joint tax liability vs. tax calc.
		(in \$1,000's)		Tax due (refund)	If both taxpayers file Single + 0 dep
15 %	\$40,000	0	40	\$ 4,061	\$ (1,718)
		20	20		213
28 %	\$100,000	0	100	18,681	(4,776)
		50	50		1,524
31 %	\$160,000	0	160	36,707	(6,614)
		80	80		2,193
36 %	\$280,000	0	280	80,598	(7,274)
		140	140		8,073
39.6%	\$600,000	0	600	207,357	(6,171)
		300	300		17,901

Note: Combined wage amounts selected to yield comparable marginal tax rate brackets per category (MFJ vs. Single).

## Exhibit 6

### Distribution of Wages Between Husband and Wife in Dual Wage-Earner Families

Income Interval by Size \$ of AGI ***	Men, joint filers			Women, joint filers			Distribution of avg earnings in 2 wage-earner MFJ households	
	Number of taxpayers	Total \$ * (in \$1,000's)	Average Salaries and Wages \$	Number of taxpayers	Total \$ * (in \$1,000's)	Average Salaries and Wages \$	Husb	Wife
Under 5K **	269,185	3,625,359	13,468	276,000	2,116,731	7,669	63.7%	36.3%
10,000	1,400,760	11,073,920	7,906	1,208,996	7,768,129	6,425	55.2%	44.8%
20,000	2,725,002	39,239,895	14,400	2,266,236	22,613,860	9,979	59.1%	40.9%
37,500	9,892,261	255,574,311	25,836	8,247,782	121,485,004	14,729	63.7%	36.3%
75,000	15,668,855	681,871,934	43,518	13,868,379	349,627,413	25,210	63.3%	36.7%
150,000	5,197,754	407,510,131	78,401	4,359,367	172,925,267	39,668	66.4%	33.6%
300,000	854,387	146,544,803	171,520	571,900	33,817,488	59,132	74.4%	25.6%
600,000	657,630	156,859,555	238,523	409,501	29,042,946	70,923	77.1%	22.9%
1,000K or more **	136,077	151,594,427	1,114,033	57,928	14,424,850	249,015	81.7%	18.3%
Overall averages (all intervals)	36,801,910	1,853,894,334	50,375	31,266,089	753,821,689	24,110	67.6%	32.4%

\* Monetary amounts are in thousands of dollars, averages are in whole dollars.

\*\* Disregarded interval due to unknown variance (range from \$5,000 to negative and above \$1,000,000 are indeterminate).

\*\*\* Source: Data derived from "Comparing Salaries and Wages of Women Shown on Forms W-2 to Those of Men, 1969-1999", p.283, IRS, SOI Jan. 2004.

### Exhibit 7

#### Impact of MPT (MBT) Within Classes of Income by Marginal Tax Bracket, No Dependents

[2000 tax rates]

Married Filing Jointly (MFJ) vs Separately (as Single)

2000 Marg. Tax Brack. %	Combined Wages	Spouse 1  Husband  (% split)* \$ split	Spouse 2  Wife  (% split)* \$ split	Tax liab. M F J  Tax due (refund)	MPT or (MBT)  M F J vs Single  Assume both taxpayers file Single + 0 dep
		(55.2 %)	(44.8 %)		
15%	\$10,000	5,520	4,480	\$ (27)**	\$ 668**
		(59.1 %)	(40.9 %)		
15%	\$20,000	11,820	8,180	1,061	388
		(63.7 %)	(36.3 %)		
15%	\$37,500	23,888	13,612	3,686	221
		(63.3 %)	(36.7 %)		
28%	\$75,000	47,475	27,525	11,681	767
		(66.4 %)	(33.6 %)		
31%	\$150,000	99,600	50,400	33,607	1,583
		(74.4 %)	(25.6 %)		
36%	\$300,000	223,200	76,800	88,247	5,405
		(77.1 %)	(22.9 %)		
39.6%	\$600,000	462,600	137,400	207,357	13,127
		(67.6 %)	(32.4 %)		
Overall avg.	\$74,485	50,375	24,110	11,527	311
* Source: Data derived from "Comparing Salaries and wages of Women Shown on Forms W-2 to Those of Men, 1969 – 1999", p.283, IRS, SOI, Jan 2004.					
** Due to Earned Income Tax Credit (EITC)					

### Exhibit 8

#### Impact of MPT (MBT) Within Classes of Income by Marginal Tax Bracket, No Dependents

[2003 tax rates]

Married Filing Jointly (MFJ) vs Separately (as Single)

2003 Marg. Tax Brack. %	Combined Wages	Spouse 1  Husband  (% split)* \$ split	Spouse 2  Wife  (% split)* \$ split	Tax liab. M F J  Tax due (refund)	MPT or (MBT)  M F J vs Single  Assume both taxpayers file Single + 0 dep
		(55.2 %)	(44.8 %)		
10%	\$10,000	5,520	4,480	\$ (169)**	\$ 555**
		(59.1 %)	(40.9 %)		
10%	\$20,000	11,820	8,180	443	235
		(63.7 %)	(36.3 %)		
15%	\$37,500	23,888	13,612	2,589	(55)
		(63.3 %)	(36.7 %)		
25%	\$75,000	47,475	27,525	8,476	(862)
		(66.4 %)	(33.6 %)		
28%	\$150,000	99,600	50,400	27,813	(110)
		(74.4 %)	(25.6 %)		
33%	\$300,000	223,200	76,800	76,787	3,377
		(77.1 %)	(22.9 %)		
35%	\$600,000	462,600	137,400	181,882	9,268
		(67.6 %)	(32.4 %)		
Overall avg.	\$74,485	50,375	24,110	8,339	(1,214)
* Source: Data derived from "Comparing Salaries and wages of Women Shown on Forms W-2 to Those of Men, 1969 – 1999", p.283, IRS, SOI, Jan 2004.					
** Due to Earned Income Tax Credit (EITC)					

### Exhibit 9

#### Year 2000 Vs. Year 2003 MPT (MBT) Within Classes of Income by Marginal Tax Bracket, No Dependents

[Married Filing Jointly vs Separately (as Single)]

2003 Marg. Tax Brack. %	Combined Wages	Spouse 1  Husband (% split)* \$ split	Spouse 2  Wife (% split)* \$ split	Net MPT or (MBT)  M F J vs Single Assume both taxpayers file Single + 0 dep		Net change in MPT
				Year 2000	Year 2003	
		(55.2 %)	(44.8 %)			
10%	\$10,000	5,520	4,480	\$ 668**	\$ 555**	(113)
		(59.1 %)	(40.9 %)			
10%	\$20,000	11,820	8,180	388	235	(153)
		(63.7 %)	(36.3 %)			
15%	\$37,500	23,888	13,612	221	(55)	(276)
		(63.3 %)	(36.7 %)			
25%	\$75,000	47,475	27,525	767	(862)	(1,629)
		(66.4 %)	(33.6 %)			
28%	\$150,000	99,600	50,400	1,583	(110)	(1,693)
		(74.4 %)	(25.6 %)			
33%	\$300,000	223,200	76,800	5,405	3,377	(2,028)
		(77.1 %)	(22.9 %)			
35%	\$600,000	462,600	137,400	13,127	9,268	(3,859)
		(67.6 %)	(32.4 %)			
Overall avg.	\$74,485	50,375	24,110	311	(1,214)	(1,525)
* Source: Data derived from "Comparing Salaries and wages of Women Shown on Forms W-2 to Those of Men, 1969 – 1999", p.283, IRS, SOI, Jan 2004.						
** Due to Earned Income Tax Credit (EITC)						

**Exhibit 10**

**MPT (MBT) in 2000, 2003, and Net Change Within Classes of Income  
Extrapolated to the Population by Year and by Interval**

Combined Wages	Tax Year 2000		Tax Year 2003		Net Change in MPT	
	Net MPT (MBT) by Interval	Extrapolated Impact to Population by Interval	Net MPT (MBT) by Interval	Extrapolated Impact to Population by Interval	Net Change (Decrease)	Extrapolated Impact to Population by Interval
\$10,000	\$ 668*	\$ 935,707,680	\$ 555*	\$ 777,421,800	\$ (113)	\$ (158,285,880)
\$20,000	388	1,057,300,776	235	640,375,470	(153)	(416,925,306)
\$37,500	221	2,186,189,681	(55)	(544,074,355)	(276)	(2,730,264,036)
\$75,000	767	12,018,011,785	(862)	(13,506,553,010)	(1,629)	(25,524,564,795)
\$150,000	1,583	8,228,044,582	(110)	(571,752,940)	(1,693)	(8,799,797,522)
\$300,000	5,405	4,617,963,537	3,377	2,885,266,025	(2,028)	(1,732,697,512)
\$600,000	13,127	8,632,704,634	9,268	6,094,911,751	(3,859)	(2,537,792,884)
<b>Totals</b>		<b>\$ 37,675,922,675</b>		<b>(\$ 4,224,405,260)</b>		<b>(\$ 41,900,327,935)</b>
* Due to Earned Income Tax Credit (EITC)						

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