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The House Proposal to Make Marriage Penalty Relief Provisions Permanent

Last year=s tax cut included several provisions targeted towards married couples and the House is now considering legislation that would make those provisions permanent. While the idea of "marriage penalty relief" sounds appealing, this short analysis finds the proposal is problematic.

- According to the official estimates from the Joint Committee on Taxation, the bill would cost about $25 billion in 2012, with nearly two-thirds of the cost resulting from the provision in the bill that only benefits higher-income couples.

- In the ten-year period from 2013-2022 — at a time when the nation's budgetary demands will increase due to the retirement of the baby boom generation — the cost of the bill would total about $330 billion. If the costs of increased interest payments on the debt are included (assuming the funds are not otherwise spent), the total cost rises to $460 billion.

- Much of the tax cut benefits from the bill would go to families that not only face no "marriage penalties" but in fact receive "marriage bonuses." Overall, nearly half of the cost of the bill would increase "marriage bonuses" instead of reducing "marriage penalties."

These figures, moreover, also understate the true cost of the bill and its skewed distributional impact because they assume no legislation to address the encroachment of the Alternative Minimum Tax upon millions of taxpayers. Under more realistic assumptions that include an expected fix to the AMT, the bill would cost several billion dollars more a year and a higher share of the benefits would be directed towards the one-third of married couples with the highest incomes.

The Bill's Three Provisions and Their Beneficiaries

Specifically, the three provisions for married couples in the bill are extensions of:

- A provision that reduces taxes for married couples whose combined income will place them in the upper tax brackets. This provision provides a tax cut to couples by raising the income level at which the 15 percent bracket ends and the 28 percent bracket begins for married filers. (Last year's tax bill lowered the 28 percent bracket to 25 percent, but this change expires after 2010.) It benefits only families with incomes above the income level at which the 15 percent bracket ends (currently $66,550 in adjusted gross income for a married family with two children); only one-third of married couples have incomes this high. The two-thirds of married couples who are in the 15 percent bracket, or lower tax brackets, do not benefit at all from this provision.

- A provision that raises the standard deduction for married couples, setting it at twice the standard deduction for single taxpayers. This provision primarily benefits middle-income families.

- A provision that increases the Earned Income Tax Credit for certain low- and moderate-income married couples (marriage penalties among families that receive the EITC can be particularly severe). This provision increases the beginning and ending income levels for the phaseout of the credit by $3,000 (indexed after 2008).

According to the Joint Committee on Taxation, the extension of these three provisions would cost $25.2 billion in 2012. Expanding the 15 percent bracket would cost $16.3 billion (or 65 percent of the costs of the bill's total costs), raising the standard deduction would cost $6.5 billion, and expanding the EITC would cost $2.5 billion. As noted, however, these estimates fail to account for nearly certain legislation to address the encroachment of the Alternative Minimum Tax upon more taxpayers and thus do not fully represent the bill=s likely fiscal impact and distribution of benefits.

Marriage "Bonuses" Would be Increased as Well

Another factor to consider in assessing an extension of the married couple provisions is that despite how the bill is often described, the provisions do not simply provide Amarriage penalty relief." The provisions would provide tax breaks for married couples, but would also increase Amarriage bonuses@ for about 12 million couples. Overall, nearly half of the benefits of the bill would increase "marriage bonuses" instead of reducing "marriage penalties."[1] Under current law, about as many families receive marriage bonuses as receive marriage penalties. The bill would reduce taxes for most married couples, regardless of whether they face a marriage penalty or bonus.

Costly Bill Would Worsen Already Bleak Long-term Fiscal Outlook

These provisions come at a time when the long-term fiscal outlook is poor. Budget

[1] Donald Kiefer, et. al., Office of Tax Analysis, U.S. Treasury, AThe Economic Growth and Tax Relief Reconciliation Act of 2001: Overview and Assessment of Effects on Taxpayers,@ National Tax Journal, March 2002.

experts including former CBO director Robert Reischauer, Brookings Institution economists William Gale and Peter Orszag, and University of California economist Alan Auerbach project that the non-Social Security budget will remain mired in deficit throughout the decade and beyond. The baby boom generation will begin to retire in large numbers during the second decade of this century and the cost of Social Security, Medicare, and Medicaid long-term care will rise substantially as a result. The extension of the married couple tax cuts, at a cost of $25 billion a year in 2012, and of $330 billion in the subsequent decade, would worsen this already-shaky fiscal outlook.