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8 Tax Notes 731 (June 11, 1979)

FEDERAL INCOME TAX TREATMENT OF MARRIED AND SINGLE TAXPAYERS

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In this article, Stromquist discusses the principles applicable to determination of the relative tax burdens of married and single individuals, the history of attempts to solve married-single tax problems, the current state of the tax law, and possible changes to ameliorate the "marriage penalty."

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The problem of determining the relative tax burdens of married couples and single individuals has been a subject of debate in the United States since the income tax was established in 1913. There has been controversy over what is the proper unit of taxation, individuals or families. There has also been debate over how to recognize the different situations of families with one earner, families with two earners, and single persons.

The controversy revolves around four principles of taxation, each of which is widely accepted in the United States:

1. Progressivity. The higher the income, the higher should be the rate of tax. For example, more tax should be collected from a single person earning $20,000 than would be collected from two single persons earning $10,000 each.

2. Aggregation. A married couple's income should be aggregated for computing their tax, and no distinctions should be made among married couples according to how much of their income is earned by one spouse or the other. For example, all married couples with total incomes of $20,000 should pay the same tax, regardless of whether one spouse earns all of the income or each spouse earns half.

3. No penalty for marriage. Two people who marry should not pay a higher tax as a result. For example, a man and woman earning $10,000 each should pay the same tax whether they are married or single.

4. No penalty for remaining single. A single person should not pay more tax than he would pay if he were married to a person with no income. This means that a single person earning $20,000 should not pay more tax than a married couple earning $20,000, if all of the couple's income is earned by one spouse.

Each of these principles may seem sound at first. The problem for tax policy is that they are in conflict. The conflict is illustrated by Figure 1. Therefore, every system of progressive income taxation must violate one or more of the principles.

The first section of this paper contains a brief history of the Federal income tax as it relates to these four principles. The second section describes the current (1979) tax law, including the way in which it violates the last two principles. A final section mentions some proposals for change.

Historical Development

Each of the principles listed above, except the first, has been violated at one time or another in the history of the Federal income tax.

Prior to 1948, the Federal income tax conformed to all of the principles except the second. People were taxed as individuals, and there was only one rate schedule for both married and single persons. A married couple could file a joint return if they wished, but if both spouses had income, they could reduce their tax by filing separate returns. Because the rate schedule was progressive, the combined tax on two incomes of, say, $10,000 was less than the tax on one $20,000 income. Since one-earner couples could not benefit from separate returns, couples with the same total income paid different amounts of tax.

The difference in tax depended not only on the share of income earned by each spouse, but also on the states in which the couples lived. This curious result was caused by the community property laws of some states. In 1930, the Supreme Court ruled that in states with community property laws, a husband and wife could file separate returns with half of the combined income on each return, regardless of which spouse had actually earned the income. This automatic "income splitting" was unavailable in other states.

THE CONFLICT AMONG THE FOUR PRINCIPLES

[Chart omitted.]

1948: Income Splitting

In 1948, the law was revised to embrace the income splitting principle for married taxpayers in all states. Married couples were encouraged to file joint returns, and a separate rate schedule was designed for these returns. This "joint schedule" was derived from the "single schedule" by doubling the size of each bracket, without changing the rates. The effect was the same as income splitting: a couple -- even a one-earner couple -- paid the same tax as two single persons, each with half the combined income.

This represented no change for spouses who lived in community- property states or whose incomes actually were evenly divided; they simply received the same benefit on their joint returns as was already theirs if they filed separately. But for other couples, the automatic income splitting resulted in substantial savings. For example, consider a couple in which the husband's taxable income was $32,000 and the wife had no income. If they filed a joint return in 1970 (the last year of income splitting), their tax was $8,660. But if the husband had paid tax as a single person on the same taxable income, his tax would have been $12,210. In this case, income splitting saved $3,550.

This was the state of the income tax for the period 1948-1970. The second principle was completely satisfied, since a couple paid the same tax whether both spouses or only one spouse had income. However, to make the tax law conform to the second principle, one of the other principles had to be sacrificed. In 1948, it was the fourth: after the 1948 Act, a single taxpayer generally paid substantially more tax than a married couple with the same income. If a single taxpayer had the same taxable income as the couple in the above example, he paid $3,550, or 41 percent more tax than the couple.

1951-1954: Special Cases

This "single penalty" was especially conspicuous in the case of single taxpayers with children -- typically, widowed or divorced parents. Such taxpayers are hard to classify fairly as single individuals or as married couples. Congress recognized the special status of this group in 1951 by classifying them as "unmarried heads of households" and allowing them half of the benefits of income splitting. A special rate schedule is provided which puts the tax for a qualifying taxpayer about halfway between the amounts paid by a single person and a married couple with the same taxable income.

Even more conspicuous was the case of a person made single by the death of a spouse. Even if the widow (or widower) was able to maintain the income previously received by the couple, he or she lost the benefit of income splitting and thus paid a higher tax. To ease this burden -- at least for taxpayers with children -- Congress provided in 1954 that a surviving spouse who maintains a household for a dependent child may continue to use the joint rate schedule for two full years after the death of her spouse. This provision is still in effect; it is the only circumstance in which an unmarried taxpayer may use the joint rates.

There are many more "heads of households" than "certain surviving spouses." In 1977, the former group filed 5.8 million tax returns; the latter, only 147 thousand. Both groups were small, compared with the total of over 86 million returns filed.

1971: New Single Rates

In spite of the special provisions for these small groups, most single taxpayers still faced a large tax penalty. Until 1971, the tax burden for a single taxpayer without dependents remained up to 41 percent higher than for a married couple with the same taxable income. Because Congress considered the difference to be too large, it enacted a new, lower rate schedule for single taxpayers as part of the Tax Reform Act of 1969. Under the new schedule, which became effective in 1971, a single person's tax on a given taxable income was at most 20 percent higher than a married couple's tax on the same taxable income. For example, in 1971 a single person's tax on a taxable income of $32,000 was reduced from $12,210 to $10,290, which was 18.8 percent more than a couple would pay on the same taxable income.

To prevent two-earner married couples from taking advantage of the new single rates, they were required to use the pre-1971 schedule if they filed separate returns.

The End of Income Splitting

Although the rate schedule for joint returns was not changed in 1971, it could no longer be described as an "income splitting" schedule. A married couple paid a smaller tax than a single taxpayer with the same taxable income. However, the couples' tax was not as small as it would be if they could split their income equally and use the new single schedule. The joint schedule could not be constructed from the new single schedule by widening the brackets, or by any other simple algebraic rule. Following changes in 1977 and 1979, these two rate schedules still have no exact relationship, although they retain the approximate relationship established in 1971.

Reducing the single penalty was an improvement according to one of the four principles, but it could not be obtained without a price in terms of one of the other principles. The 1969 Act sacrificed the third principle -- by introducing, for the first time, a substantial marriage penalty into the tax law.

1970-1979: Striking a Balance

Since the 1969 Act, Congress has attempted to strike a balance between the single penalty and the marriage penalty. As long as the first two principles are honored -- as long as the tax remains progressive and no distinction is made between one-earner and two- earner couples -- it is mathematically impossible to

abolish both penalties. Instead, the tax law has sought a compromise between them.

In this decade the compromise has found expression in several other tax provisions, as well as the rate schedules. The most important of these was the standard deduction, which was a feature of the tax law until 1977. Any taxpayer could elect to give up most of his personal deductions, such as medical expenses or charitable contributions, and claim the standard deduction instead. Most low-and middle-income taxpayers did so. The amount of the standard deduction depended on income, but was limited to a fairly narrow range by minimum and maximum amounts. In 1976, the standard deduction for single returns could range from $1,700 to $2,400, and for joint returns, from $2,100 to $2,800.

The minimum standard deduction was greatly increased by the Tax Reform Act of 1969, to remove tax burdens from most persons below the poverty line. At that time, the minimum was the same for single and joint returns. This added to the marriage penalty, since two single persons could claim two minimum standard deductions; but if they married, they could claim only one. Increases in the standard deduction after 1974, however, were twice as large for married couples as for single persons, so that these increases in themselves did not add to the marriage penalty.

A temporary contributor to the marriage penalty in 1976-78 was the general tax credit. Based on income and family size, the credit was limited to $180 for most tax returns, single or joint. Single persons could each qualify for a $180 credit; a married couple had to share one.

In 1977 Congress repealed the standard deduction. At the same time, "zero brackets" were added to each of the several rate schedules, providing that a certain amount of taxable income is subject to a tax rate of zero percent. In 1979 the zero bracket amounts were increased to $2,300 for single taxpayers, and $3,400 for joint returns. The zero bracket amount presents the same problems as the standard deduction: as long as joint returns receive a higher amount than singles, there is a single penalty; but if the joint amount is less than twice the single amount, there is also a marriage penalty. The present structure, therefore, represents a compromise.

When the standard deduction was repealed, a "floor" was imposed on itemized deductions. This means that a taxpayer may not subtract all of his deductible expenses from income, but only the excess of these expenses over the "floor." The amount of the floor is $2,300 for singles or $3,400 for joint returns -- that is, the amount is the same as the zero bracket. Taken together, the floors and the zero brackets have nearly the same effect as the standard deduction -- in fact, the repeal of the standard deduction has generally been regarded as a mere change in form.

In all of these actions, Congress has taken the first two principles -- progressivity and aggregation -- as given, and has attempted to strike a balance between the marriage penalty and the single penalty. We now review the state of the tax law as it is in 1979, with an emphasis on the way these penalties affect typical taxpayers.

The Income Tax in 1979

In 1979, the income tax continues to reflect the compromise among the principles that was struck in 1971. The tax is progressive, and no distinction is made between one-earner and two-earner married couples. The last two principles are violated, however. A single person generally pays more tax than a married couple with the same income, and two wage earners who are married usually pay more tax than they would if they were single.

The Internal Revenue Code contains four different rate schedules applicable to individuals. One is for single persons, one is for married couples filing joint returns, one is for married persons filing separate returns, and one is for single persons with dependents who qualify as heads of households. Each schedule contains a "zero bracket" and positive rates rangling from 14 to 70 percent. Some facts about the rate schedules are summarized in table 1.

Table 1

SUMMARY OF THE RATE SCHEDULES

Name of Schedule	Taxpayers Covered	Number of 1977 Returns [1]	1979 Zero Bracket Amount
Schedule X	Single persons other than heads of households	35.3 million	$2,300
Schedule Y (part 1)	Joint returns of married couples, and certain surviving spouses	44.1 million	$3,400
Schedule Y (part 2)	Separate returns of married persons	1.3 million	$1,700
Schedule Z	Unmarried heads of households	5.8 million	$2,300

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[1] Total Individual Returns, 86.5 million.

The rate schedules are based on "taxable income," not "total income." For

taxpayers who do not itemize their deductions, taxable income is equal to total income minus exemptions, which are now $1000 per person for both taxpayers and dependets. (Actually, most taxpayers never calculate their taxable incomes. Instead, they use the published "tax tables," which have the exemptions "built in." The figures in the tax tables, of course, are calculated from the rate schedules described here.)

For taxpayers who do itemize, there is one more step on computing taxable income. They may subtract their deductible expenses, but only to the extent that they exceed the "floor," which is the same as the zero bracket amount in the appropriate rate schedule. For example, suppose a family of four has earnings of $25,600 and deductible expenses of $5,000. Then their taxable income is $20,000:

$25,600 total income -4,000 four exemptions -1,600 $5,000 deductions minus $3,400 floor _______ $20,000 taxable income

From schedule Y (for joint returns) we can calculate their tax, which is $3,225.

The Marriage Penalty

If two persons with independent incomes marry, they usually have to pay a higher tax.

For example, assume two persons each have taxable incomes of $15,000 (after subtracting their exemptions) and assume they do not itemize their deductions. If they file as single individuals, they each must pay $2,605 in tax. Their combined tax is therefore $5,210. If they marry and file a joint return, their taxable income is $30,000, and their tax (from schedule Y) is $6,238. Their marriage penalty is $1,028.

Table 2 shows marriage penalties for various levels of taxable income, under the assumptions that the income is evenly divided between the spouses and the couples do not itemize their deductions. Table 3 shows the marriage penalty (and marriage bonus) in cases in which income is not evenly divided between the spouses.

Table 2

MARRIAGE PENALTIES IN 1979 WHEN INCOME IS EVENLY DIVIDED

If two single people, each with adjusted gross incomes of ...	... marry, to give a combined adjusted gross income of ...	... their combined tax increases from ...	... to ...	... for a marriage penalty of ...

$ 5,000	$10,000	$ 500	$ 702	$ 202
10,000	20,000	2,354	2,745	391
15,000	30,000	4,690	5,593	903
20,000	40,000	7,674	9,366	1,692
30,000	60,000	15,308	18,698	3,390

These calculations assume that the taxpayers claim one exemption each and do not itemize their deductions.

MARRIAGE PENALTIES (AND BONUSES)
IN 1979 WHEN INCOME IS UNEVENLY DIVIDED

[Table omitted.]

It is not necessary that the two individual incomes be equal in order for a marriage penalty to arise. Suppose that the two persons have taxable incomes of $22,000 and $8,000, giving the same combined taxable income of $30,000. Filing as single persons, their respective taxes are $4,857 and $977, for a total of $5,834. If they marry and file jointly, their tax is again $6,238, for a marriage penalty of $404. If the income is divided even more unevenly, the marriage penalty will be smaller, or the couple may even save tax by marriage. Roughly speaking, the marriage penalty affects couples where the spouse with the lower earnings contributes at least 20 percent of the combined income.

For taxpayers who itemize, the situation is more complicated, since marriage may change their combined taxable income as well as their tax rates. Two single itemizers, for example, are each subject to $2,300 floor on their deductions, for a combined floor of $4,600. If they marry, they are subject to a floor of only $3,400. In other words, as a married couple, they can use $1,200 more of their itemized deductions than if they were single. This reduces, but does not eliminate, their marriage penalty. This example is an extreme case; at the opposite extreme, when only one spouse has deductible expenses, the effect of the floors is to increase their marriage penalty.

Married persons may file separately if they wish, but they must use the highest of the four rate schedules, and other special provisions occur throughout the tax code to prevent them from saving tax in this way. Allowing such savings would violate the principle of aggregation, since it would create an advantage for two-earner couples. Therefore separate returns are not a defense against the marriage penalty.

The Single Penalty

A single taxpayer usually pays more tax than a married couple with the same income. For example, a single person with a taxable income of $15,000 pays $2,605 tax. But if a married couple has the same taxable income, even if it is all earned by one spouse, their tax is $2,055. In this case the single persons pays 27 percent more tax.

It can be argued that the comparison in this example is not entirely fair, since a couple may have less ability to pay than a single person with the same income. This difference is taken into account by the fact that a couple has two personal exemptions. It may be, however, that the second exemption is too much recognition -- or too little -- of the couple's different situation.

Proposals for Change

The compromise between single penalties and marriage penalties has always been an uneasy one. The marriage penalty, in particular, is one of the most widely criticized weaknesses in our income tax, and it is difficult to find anyone who regards it as good policy. But as long as the first two principles -- progressivity and aggregation -- are adhered to, the marriage penalty cannot be reduced without making the situation for single taxpayers even worse.

Consideration has turned, therefore, to these first two principles. It is unlikely that progressivity will be abandoned. Therefore, any proposal which alleviates both the marriage penalty and the single penalty must violate the aggregation principle: that is, there must be some distinction in the tax law between one-earner and two-earner married couples.

Opponents of the aggregation principle argue that there is an economic difference to support such a distinction: one-earner couples have the benefit of a full-time homemaker. Although the homemaker's services in the home are not measured in dollars, they do increase a couple's economic well-being and ability to pay. Two-earner couples have no such advantage, and, arguably, this should result in a lower tax liability. Among respondents to a recent O.E.C.D. survey, every major democratic nation with an income tax, except the United States, distinguishes between one-earner and two-earner couples.

It is one thing, of course, to support such a distinction and quite another to decide what form it should take. One proposal is to abandon joint returns, requiring separate returns from married persons with no income splitting. Most experts agree that Congress can require that each married person pay tax on his or her own income, determined without regard to state community property laws. Such legislation would eliminate both the marriage penalty and the single penalty. Only the aggregation principle would be violated, as was the case before 1930. The administrative convenience of joint returns could be retained by allowing married couples to file their "separate" returns on two parts of the same standard form, as is now done in some state income tax systems.

An alternative is to allow couples the option of filing jointly under present law, or filing separate returns as single persons. This is the simplest and most straight-forward way to eliminate the marriage penalty, but it would not affect the single penalty. In any system in which married couples are encouraged to file separately, there is a significant technical problem of deciding how a husband

and wife will be allowed to divide their deductions and non-wage income (such as interest or business profits).

If joint returns are retained in their present form, it would still be possible to distinguish between one-earner and two-earner couples, by allowing a special deduction or credit based on the wages of the second earner.

Selecting the best of these proposals will require an extensive public debate. Then, if a reform is enacted, it remains to be seen whether it will provide any more lasting satisfaction than did the reforms of earlier eras.

A TWO-PART SERIES ON MARRIED-SINGLE TAX PROBLEMS

With this article, Tax Notes begins a two-part series of the "married-single problem" and related issues in the federal income tax. The second article, by Professor Michael J. McIntyre of Wayne State University Law School in Detroit, will appear next week.

Reader comments on these articles are welcomed. We will publish them in our letters to the editor column soon after the conclusion of this series. Please note that letters must be signed, and that we reserve the right to edit them in the interest of brevity.