



# Individual Income Tax The Marriage Penalty

Arkansas Tax Reform and Relief Legislative Task Force

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Arkansas Department of Finance and Administration

# Marriage Penalty and Marriage Bonus Overview

# Marriage Penalty/Bonus: Overview

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- A couple incurs a marriage penalty if the two pay more income tax filing jointly as a married couple than they would pay if they were single and filed as individuals. Conversely, a couple receives a marriage bonus if they pay less tax filing jointly than they would if they were single.

# Marriage Penalty: Overview

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- Under a progressive income tax system, marriage penalties and bonuses arise because the household rather than the individual is the unit of taxation. Tax provisions that phase in or out with income also produce penalties or bonuses. Couples receiving bonuses typically outnumber those incurring penalties.
- Marriage penalties and bonuses result from the combination of progressive tax rates and taxing married couples as single units. With progressive taxes, which impose higher rates on higher incomes, and tax brackets that are not twice as wide for couples as for individuals, some married couples' income is taxed at higher rates than if each spouse's income was taxed separately. A married couple is not obliged to file a joint tax return, but their alternative (filing separate returns as a married couple) generally results in greater tax liability at the Federal level.

# Marriage Penalty: Overview

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- Couples in which spouses have similar incomes are more likely to incur marriage penalties than couples in which one spouse earns most of the income, because combining incomes in joint filing can push both spouses into higher tax brackets.

# Marriage Bonuses: Overview

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- Couples in which one spouse earns all of the couple's income never incur a marriage penalty and almost always receive a marriage bonus because joint filing shifts the higher earner's income into a lower tax bracket.

# Federal Marriage Penalty Overview

# Federal Marriage Penalty

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- Before the 2001 Congressional legislation, married couples were already significantly more likely to receive a marriage bonus than to pay a marriage penalty. The Congressional Budget Office in 1997 estimated that 51 percent of married couples received marriage bonuses totaling nearly \$33 billion in 1996, and 42 percent incurred marriage penalties totaling almost \$29 billion.



# Federal Marriage Penalty

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- Congressional legislation since 2001 has substantially reduced marriage penalties and increased marriage bonuses.
- Congress raised the standard deduction for couples to twice that for single filers and set the income ranges for couples in the 10 and 15 percent tax brackets to twice the corresponding ranges for individuals.
- The 2001 Congressional legislation temporarily raised the starting point of the earned income tax credit (EITC) phaseout range for married couples by \$3,000 above that for single filers.

# Federal Marriage Penalty

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- The 2009 American Recovery and Reinvestment Tax Act temporarily boosted the phaseout range increase to \$5,000 and indexed it for inflation, and the American Taxpayer Relief Act of 2012 extended that increase through 2017.
- Before the increase expired, the Protecting Americans from Tax Hikes Act of 2015 made the \$5,000 increase for married couples permanent.

# Federal Marriage Penalty: TCJA

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- Under the Tax Cuts and Jobs Act (TCJA), the final legislation retains the marriage penalty for the highest income earners while eliminating the penalty at lower income brackets.
- Earlier proposals from the House and Senate sought to eliminate the marriage penalty for all Federal taxpayers.
- The TCJA generally eliminates marriage penalties except for couples making over \$600,000 per year.

# Federal Marriage Penalty: TCJA

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- To completely eliminate the marriage penalty at the Federal level, the Internal Revenue Code would have had to make the income thresholds at each marginal tax rate for married couples exactly double those of the thresholds for individuals.
- In the final version of the TCJA this is achieved at every income bracket, except the top bracket. The final agreement between the House and Senate set the top individual tax rate at 37 percent for individuals earning \$500,000 and above and joint filers earning at least \$600,000.

# Federal Marriage Penalty: Other Concerns Under TCJA

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- Under the TCJA, the state and local tax deduction is another area in the final bill that has marriage penalty implications. Taxpayers are allowed to deduct up to \$10,000 of state and local taxes paid (property taxes and either income taxes or sales taxes).
- This cap is the same for married couples filing jointly and single filers providing an advantage to individual taxpayers.

# Arkansas Individual Income Tax for Married Taxpayers

# Arkansas Income Tax: Married Filers

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- Arkansas' individual income tax is comparable to that of the federal income tax system administered by the Internal Revenue Service.
- Arkansas generally adopts most federal income tax provisions, but there are a few key differences between state and federal forms.
- Married couples have the option to file jointly or separately on their state individual income tax return(s). Taxpayers consider both options to determine which option is to their best financial advantage.



# Arkansas Income Tax: Married Filers

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- The filing status of an Arkansas resident does not have to be the same as the federal filing status.
- However, married taxpayers must both elect to use the standard deduction or both spouses must claim itemized deductions even if the spouses file separate returns or file separately on the same return.



# Arkansas Income Tax: Married Filers

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- Arkansas' standard deduction for single filers of \$2,200 is doubled for married filers to \$4,400.
- The \$26 personal credit is also doubled for marriage filers.

# Arkansas Income Tax: Married Filers

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## **2016 Actual Arkansas Return Information Statistics**

- Status 2 - Married Filing Joint **232,484**
- Status 4 - Married Filing Separately on Same Return **305,489**
- Status 5 - Married Filing Separately on Different Return **26,478**

# Conclusion

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- Questions?