DESCRIPTION OF
THE MARRIAGE TAX PENALTY RELIEF ACT OF 2000

Scheduled for Markup

by the

HOUSE COMMITTEE ON WAYS AND MEANS

on February 2, 2000

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

January 31, 2000

JCX-3-00

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of "The Marriage Tax Penalty Relief Act of 2000", scheduled for markup in the House Committee on Ways and Means on February 2, 2000.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Description of The Marriage Tax Penalty Relief of 2000* (JCX-3-00), January 31, 2000.

I. MARRIAGE PENALTY RELIEF PROVISIONS

A. Standard Deduction Tax Relief

Present Law

Marriage penalty

A married couple generally is treated as one tax unit that must pay tax on the couple's total taxable income. Although married couples may elect to file separate returns, the rate schedules and other provisions are structured so that filing separate returns usually results in a higher tax than filing a joint return. Other rate schedules apply to single persons and to single heads of households.

A "marriage penalty" exists when the combined tax liability of a married couple filing a joint return is greater than the sum of the tax liabilities of each individual computed as if they were not married. A "marriage bonus" exists when the combined tax liability of a married couple filing a joint return is less than the sum of the tax liabilities of each individual computed as if they were not married.

While the size of any marriage penalty or bonus under present law depends upon the individuals' incomes, number of dependents, and itemized deductions, as a general rule married couples whose incomes are split more evenly than 70-30 suffer a marriage penalty. Married couples whose incomes are largely attributable to one spouse generally receive a marriage bonus.

Under present law, the size of the standard deduction and the tax bracket breakpoints follow certain customary ratios across filing statuses. The standard deduction and tax bracket breakpoints for single filers are roughly 60 percent of those for joint filers.[2] Thus, two unmarried individuals have standard deductions whose sum exceeds the standard deduction for a married couple filing a joint return.

Basic standard deduction[3]

Taxpayers who do not itemize deductions may choose the basic standard deduction (and additional standard deductions, if applicable), which is subtracted from adjusted gross income ("AGI") in arriving at taxable income. The size of the basic standard deduction varies according

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[2] This is not true for the 39.6-percent rate. The beginning point of this rate bracket is the same for all taxpayers regardless of filing status.

[3] Additional standard deductions are allowed with respect to any individual who is elderly (age 65 or over) or blind.

to filing status and is indexed for inflation. For 2000, the size of the basic standard deduction for each filing status is shown in the following table:

Table 1.–Basic Standard Deduction Amounts

Filing status	**Basic standard deduction**
Married, joint return.................	$7,350
Head of household return..........	$6,450
Single return..............................	$4,400
Married, separate return...........	$3,675

For 2000, the basic standard deduction for joint returns is projected to be 1.67 times the basic standard deduction for single returns.

Description of Proposal

The proposal would increase the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual beginning in 2001. Also, the basic standard deduction for a married taxpayer filing separately would continue to equal one-half of the basic standard deduction for a married couple filing jointly.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2000.

B. Expansion of the 15-Percent Rate Bracket

Present Law

To determine regular income tax liability, a taxpayer generally must apply the tax rate schedules (or the tax tables) to his or her taxable income. The rate schedules are broken into several ranges of income, known as income brackets, and the marginal tax rate increases as a taxpayer's income increases. The income bracket amounts are indexed for inflation. Separate rate schedules apply based on an individual's filing status. In order to limit multiple uses of a graduated rate schedule within a family, the net unearned income of a child under age 14 may be taxed as if it were the parent's income. For 2000, the individual regular income tax rate schedules are shown below. These rates apply to ordinary income; separate rates apply to capital gains.

Table 2.--Federal Individual Income Tax Rates for 2000

If taxable income is:	**Then income tax equals**:
	Single individuals
$0-26,250	15 percent of taxable income
$26,250-$63,550	$3,937.50, plus 28% of the amount over $26,250
$63,550-$132,600	$14,381.50 plus 31% of the amount over $63,550
$132,600-$288,350	$35,787 plus 36% of the amount over $132,600
Over $288,350	$91,857 plus 39.6% of the amount over $288,350
	Heads of households
$0-$35,150	15 percent of taxable income
$35,150-$90,800	$5,272.50 plus 28% of the amount over $35,150
$90,800-$147,050	$20,854.50 plus 31% of the amount over $90,800
$147,050-$288,350	$38,292 plus 36% of the amount over $147,050
Over $288,350	$89,160 plus 39.6% of the amount over $288,350
	Married individuals filing joint returns[4]
$0-$43,850	15 percent of taxable income
$43,850-$105,950	$6,577.50 plus 28% of the amount over $43,850
$105,950-$161,450	$23,965.50 plus 31% of the amount over $105,950
$161,450-$288,350	$41,170.50 plus 36% of the amount over $161,450
Over $288,350	$86,854.50 plus 39.6% of the amount over $288,350

[4] Married individuals filing separately must apply a separate rate structure with tax rate brackets one-half the width of those for married individuals filing joint returns.

Description of Proposal

The proposal would increase the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return to twice the size of the corresponding rate bracket for an unmarried individual. This increase would be phased-in over six years as shown in the following table. Therefore, this provision would be fully effective (i.e., the size of the lowest regular income tax rate bracket for a married couple filing a joint return would be twice the size of the lowest regular income tax rate bracket for an unmarried individual) for taxable years beginning after December 31, 2007.

Taxable year	Percentage of 15-percent rate bracket for unmarried individuals
2003	1.703
2004	1.752
2005	1.835
2006	1.890
2007	1.944
2008 and thereafter	2.0

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2002.

C. Marriage Penalty Relief Relating to the Earned Income Credit

Present Law

Certain eligible low-income workers are entitled to claim a refundable earned income credit ("EIC") on their income tax return. A refundable credit is a credit that not only reduces an individual's tax liability but allows refunds to the individual of amounts in excess of income tax liability. The amount of the credit an eligible individual may claim depends upon whether the individual has one, more than one, or no qualifying children, and is determined by multiplying the credit rate by the individual's earned income up to an earned income amount. The maximum amount of the credit is the product of the credit rate and the earned income amount. The credit is phased out above certain income levels. For individuals with earned income (or modified AGI, if greater) in excess of the beginning of the phase-out range, the maximum credit amount is reduced by the phase-out rate multiplied by the earned income (or modified AGI, if greater) in excess of the beginning of the phase-out range. For individuals with earned income (or modified AGI, if greater) in excess of the end of the phase-out range, no credit is allowed. In the case of a married individual who files a joint return, the income for purposes of these tests is the combined income of the couple.

The parameters of the credit for 2000 are provided in the following table.

Table 3.--Earned Income Credit Parameters (2000)

	Two or more qualifying children	One qualifying child	No qualifying children
Credit rate (percent)	40.00	34.00	7.65
Earned income amount	$9,720	$6,920	$4,610
Maximum credit	$3,888	$2,353	$353
Phase-out begins	$12,690	$12,690	$5,770
Phase-out rate (percent)	21.06	15.98	7.65
Phase-out ends	$31,152	$27,413	$10,380

Description of Proposal

The proposal would increase the beginning point of the phase-out range of the EIC for married couples filing a joint return by $2,000. Because the rate of the phase-out range would not be changed by the proposal, the end-point of the phase-out range would also increased by $2,000. The effect of the increase in the beginning of the phase-out range would be to increase the EIC for taxpayers in the phase-out range by an amount up to $2,000 times the phase-out rate. For example, for couples with two or more qualifying children, the maximum increase in the EIC as a result of the proposal would be $2,000 times 21.06 percent, or $421.20. The proposal would also expand the number of married couples eligible for the EIC. Specifically, the $2,000 increase in the end of the phase-out range would make married couples with earnings up to $2,000 beyond the present-law phase-out range eligible for the credit. The beginning and ending points of the phase-out range of the EIC (including the $2,000 increase for joint returns) would continue to be indexed for inflation, as under present law.

Effective Date

The proposal would be effective for taxable years beginning after December 31, 2000.