TECHNICAL EXPLANATION OF THE MARRIAGE TAX PENALTY RELIEF RECONCILIATION ACT OF 2000
H.R. 4810

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

July 11, 2000
JCX-67-00

CONTENTS

I. INTRODUCTION

This document[1], prepared by the staff of the Joint Committee on Taxation, provides a "Technical Explanation of the Marriage Tax Penalty Relief Reconciliation Act of 2000." The bill complies with the instruction to the Ways and Means Committee, regarding tax relief, under the concurrent resolution on the budget for fiscal year 2001.[2]

[1] This document may be cited as follows: Joint Committee on Taxation, *Technical Explanation of the Marriage Tax Penalty Relief Reconciliation Act of 2000* (JCX-67-00), July 11, 2000.

[2] The Ways and Means Committee reported a similar bill (the "Marriage Tax Penalty Relief Act of 2000") on February 7, 2000 (H. Rept. 106-493).

II. SUMMARY AND BACKGROUND

A. Summary

Standard deduction tax relief.--The bill increases the basic standard deduction for a married couple filing a joint return to twice the basic standard deduction for an unmarried individual for taxable years beginning after December 31, 2000.

Expansion of the 15-percent rate bracket and repeal of reduction of refundable credits.--The bill increases 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 is phased in over six years effective for taxable years beginning after December 31, 2002. The increase is fully effective for taxable years beginning after December 31, 2007. The bill repeals the provisions that reduce the refundable child credit and the earned income credit by the amount of the individual's alternative minimum tax, effective for taxable years beginning after December 31, 2001.

Marriage penalty relief relating to the earned income credit.--The bill increases the beginning point of the phase-out range of the earned income credit for a married couple filing a joint return by $2,000. This provision is effective for taxable years beginning after December 31, 2000.

B. Background

The bill provides reconciliation pursuant to section 103(a)(1) of the concurrent resolution on the budget for fiscal year 2001. The provisions, as previously approved by the Committee on Ways and Means, are intended to reflect the need for tax relief for married couples (e.g., the provisions will reduce the increase in tax liability that can occur under present law when two individuals marry).

III. EXPLANATION OF THE BILL

A. Standard Deduction Tax Relief
(sec. 2 of the bill and sec. 63 of the Code)

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.[3] Thus, two unmarried individuals have standard deductions whose sum exceeds the standard deduction for a married couple filing a joint return.

Basic standard deduction[4]

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 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:

---

[3] 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.

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

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 bill increases 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. The basic standard deduction for a married taxpayer filing separately will continue to equal one-half of the basic standard deduction for a married couple filing jointly.

Effective date.--The provision is effective for taxable years beginning after December 31, 2000.

B. Expansion of the 15-Percent Rate Bracket and Repeal of Reduction of Refundable Tax Credits (sec. 3 of the bill and secs. 1, 24, and 32 of the Code)

Present Law

Rate brackets

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[5]	
$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

Reduction of refundable credits by alternative minimum tax

Refundable credits may offset tax liability determined under present-law tax rates and allow refunds to an individual in excess of income tax liability. However, the refundable child credit (beginning in taxable years beginning after December 31, 2001) and the earned income credit are reduced by the amount of an individual's alternative minimum tax.

The Committee believes that families should be able to use the refundable credits without limitation by reason of the minimum tax. In addition, eliminating the reduction of the refundable credits by the minimum tax will result in significant simplification.

[5] 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

Rate brackets

The bill increases 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 is phased in over six years as shown in the following table. Therefore, this provision is fully effective (i.e., the size of the 15-percent regular income tax rate bracket for a married couple filing a joint return will be twice the size of the 15-percent 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	170.3
2004	173.8
2005	183.5
2006	184.3
2007	187.9
2008 and thereafter	200.0

Reduction of refundable credits by alternative minimum tax

The bill repeals the provisions that reduce the refundable child credit and the earned income credit by the amount of an individual's alternative minimum tax.

Effective date.--The provision relating to the 15-percent rate bracket is effective for taxable years beginning after December 31, 2002. The repeal of the present-law reduction in the child credit and the earned income credit is effective for taxable years beginning after December 31, 2001.

C. Marriage Penalty Relief Relating to the Earned Income Credit (sec. 4 of the bill and sec. 32 of the Code)

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 bill increases 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 is not changed by the bill, the end-point of the phase-out range is also increased by $2,000. The effect of the increase in the beginning of the phase-out range is 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 provision will be $2,000 multiplied by 21.06 percent, or $421.20. The bill also expands the number of married couples eligible for the EIC. Specifically, the $2,000 increase in the end of the phase-out range will 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) will continue to be indexed for inflation, as under present law.

Effective date.--The provision is effective for taxable years beginning after December 31, 2000.