NAVIGATING THE MARRIAGE TAX PENALTY: INSIGHTS FROM HIGH AND LOW-INCOME TAXPAYERS

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ABSTRACT

While the marriage tax penalty is often associated with higher incomes due to the progressive tax rate structure, it can also significantly impact lower-income households—especially those where both spouses earn similar wages. In our work as tax consultants, we've seen that policies designed to limit tax benefits for high-income earners can inadvertently intensify the marriage penalty. On the other hand, in the process of assisting low-income taxpayers at voluntary income tax assistance (VITA), we have observed that the marriage penalty can affect low-income taxpayers in several key areas. The core issue is that when two eligible individuals combine their incomes, the resulting total can inadvertently push them into less favorable tax brackets or phase-out ranges—thereby reducing credits and increasing taxable income. This paper investigates the marriage penalty, analyzing its impact on taxpayers across both low- and high-income brackets. It also explores policy reforms designed to alleviate the issue.

INTRODUCTION

The marriage tax penalty (MTP), is a significant concern for two-earner couples, with distinct impacts across income levels. The marriage tax penalty occurs when married couples, particularly those with two earners, face higher tax liabilities than they would if they remained unmarried and filed as single individuals. This phenomenon has long been a topic of interest among economists and policymakers due to its potential to influence decisions regarding marriage, labor supply, and family structure. This paper adopts the term "marriage tax penalty (MTP)" to denote what Feucht et al. (2009, p. 104) describes as the excess tax liability a married couple incurs by filing jointly compared to what they would owe if they filed as separate or single taxpayers. Aside from the introduction and literature review, all discussions and illustrations herein will employ the abbreviation MTP.

Feucht et al. (2008) traces the origin of the MTP to the fact that neither the tax-bracket thresholds nor the standard deductions for married couples filing jointly are exactly double those available to single filers. They further argue that legislative measures such as the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) attenuated—but did not eliminate—the MTP, allowing it to persist as a factor undermining marital stability and generating broader social costs.

In their subsequent analysis, Feucht et al. (2009) warns that the MTP imposes a disproportionate burden on families, especially by elevating the cost of raising children and thereby diminishing social welfare.

Casey and Maldonado (2012) expand on this point by showing that U.S. single-parent families face the highest rates of poverty and uninsured children—among 17 peer high-income countries—and receive child support less often than families elsewhere. They attribute this paradox of high employment yet deep poverty to the prevalence of low-wage work and lack of paid leave, a situation exacerbated by the MTP's outsized impact on dual-earner, lower-income households.

A parallel concern arises in the United Kingdom. Harris (2011), drawing on research from a Cambridge-based think tank, highlights that formal marriage among biological parents dramatically improves relationship stability: married couples are six times less likely than cohabiting or unmarried parents to separate before their child's fifth birthday. If marriage so strongly buttresses family cohesion, tax policy should likewise reinforce—not penalize—that institution.

Indeed, the combined weight of the MTP in the United States has become so onerous that some couples resort to tactical divorce and remarriage solely to sidestep its financial penalty. *Boyter v. Commissioner* (1981) is a notable tax case that centers on a couple's attempt to avoid the marriage tax penalty through strategic divorce and remarriage. The taxpayers—H. David Boyter and Angela M. Boyter—had been married since 1966 and traditionally filed returns as married. Realizing that filing as single could reduce their overall federal income tax liability due to lower tax rates for single filers, they orchestrated a plan to divorce at the end of the tax year and subsequently remarry immediately afterward. Their goal was to be considered unmarried on December 31, thus avoiding the marriage penalty that applies when spouses file joint or separate returns as married.

For the tax years in issue (1975 and 1976), the Boyters obtained divorces in foreign jurisdictions—Haiti in December 1975 and the Dominican Republic in November 1976—with the intent that these divorces would be recognized as valid at the close of each year. Shortly after each divorce, they remarried in Maryland, their domicile. On the basis that they were legally unmarried on December 31, they filed tax returns for those years as if they were single, thus attempting to avoid the marriage tax penalty and claim the tax benefit associated with a single filer's status. Unfortunately for the Boyters, the IRS as well as the tax court considered their divorces "sham" divorces—arrangements entered into solely for securing a tax benefit rather than reflecting a genuine change in marital status. Under the substance over form doctrine, even if a divorce might technically be valid, if its sole purpose is to achieve a tax benefit without reflecting a bona fide change in the marital relationship, it may be challenged by the Internal Revenue Service (IRS) as a sham transaction.

Boyter v. Commissioner (1981) illustrates the judiciary's willingness to look beyond legal formalities to the economic and personal realities of a taxpayer's actions. The Fourth Circuit's decision that the Boyters' annual divorces were sham transactions highlights the IRS's authority—and the courts' support—to challenge tax avoidance strategies lacking substance. This case remains a cautionary example for taxpayers: while creative tax planning is

permissible, it must align with the spirit, not just the letter, of the law. The ruling ensures that marital status for tax purposes reflects genuine intent and economic reality, not manipulative legal maneuvers.

In Kansas, seven out of every ten poor families with children are headed by a single parent, a figure that mirrors a nationwide trend of declining marriage rates and rising birth rates among low-income, unmarried women, resulting in more children growing up in poverty (Rector 2012).

Carpenter et al. (2012) argues that the marriage tax penalty not only discourages marriage and undermines marital stability, but also contributes to higher poverty rates among children in single-parent households. They contend that the penalty exacerbates unemployment and poor health outcomes for both high- and low-income married couples—particularly those benefiting from credits like the Earned Income Tax Credit—and conclude that the penalty should be abolished.

To counter the steep decline in marriage rates and surge in nonmarital births between 1975 and 2015, Haskins (2015) recommends reducing the marriage tax penalty by expanding the Earned Income Tax Credit to low-educated men. He identifies two features of the federal tax code—the progressive rate structure and uneven credit allocations—that create the penalty, and argues that a flat tax rate for all filers would equalize liabilities for married and single taxpayers. Given the vast number of married couples in the United States, Haskins emphasizes the urgent need for tax reform to eliminate the penalty.

Recent Census data show the number of married couples edging upward from 61.3 million in 2021 to 62.3 million in 2024 (U.S. Census Bureau 2024). At the same time, the share of Americans living at or below the poverty line fell from about 15 percent (46.2 million people) in 2012 to 11.6 percent (38 million people) in 2021, yet 16.1 percent of children under six still live-in poverty (Creamer et al. 2022). These figures underscore the authors' shared conviction that government policies must more directly address childhood poverty rather than penalize marriage.

Through our work as tax consultants, we've observed that tax policies intended to cap the use of tax benefits by high-income taxpayers can have the unintended consequence of exacerbating the marriage penalty. Despite the good intentions behind these measures—to ensure that affluent individuals contribute a "fairer" share—such policies, in practice, can inadvertently limit the ability of married high-income couples to reduce their tax liabilities relative to remaining single. This highlights the intricate balancing act of tax reform, where measures intended to foster equity may inadvertently impose unforeseen burdens on those who choose to marry.

Conversely, through our work in the Volunteer Income Tax Assistance Program (VITA) assisting low-income taxpayers, we've seen firsthand how the marriage penalty can inflict significant financial strain. This experience underscores that even tax policies designed with good intentions may inadvertently exacerbate the struggles of those already facing economic hardships.

Thus, the marriage tax penalty affects both high-income and low-income taxpayers, but in different ways. High-income couples face the penalty primarily by having their combined

income push them into higher tax brackets and phase out valuable deductions, while low-income couples might lose eligibility for crucial tax credits when their incomes are merged. Addressing these disparities calls for a range of policy solutions—from adjusting tax brackets and phaseout limits for high-income earners to reforming credit eligibility for low-income families. Together, these measures could help create a tax system that is more equitable and reflective of diverse household needs.

This paper explores the adverse effects of the marriage penalty tax on both high-income and low-income taxpayers by presenting concrete examples, and it considers policy reforms designed to alleviate these issues.

The next section offers a literature review on the marriage penalty. Section three delves into how high-income taxpayers are affected by this tax, providing illustrative examples alongside proposed policy reforms. Section four similarly explores the impact on low-income taxpayers, again presenting examples and potential policy solutions. The final section wraps up the discussion with a conclusion.

LITERATURE REVIEW

The marriage tax penalty primarily stems from the progressive structure of the U.S. income tax system and the requirement of joint filing for married couples. In a progressive tax system, higher income levels are taxed at higher rates. When two individuals marry and file jointly, their combined income may push them into a higher tax bracket, increasing their tax liability compared to what they would owe as single filers (Alm & Whittington, 1996; Alm & Whittington, 1999; Alm et.al., 2023). This effect is particularly pronounced for couples with similar incomes, as their combined earnings exceed the thresholds for lower brackets more quickly. Additionally, certain tax credits and deductions phase out at lower income thresholds for married couples than for singles, exacerbating the penalty (Holtzblatt & Rebelein, 2000). Yurko et. al. (2020) argue that "the marriage tax penalty violates due process and may violate equal protection and the First Amendment for some taxpayers."

Carasso and Steuerle (2005) emphasize that over the past seven decades, Congress has enacted numerous tax and transfer programs with little attention to the marriage subsidies and penalties they inadvertently create. Their research highlights that although these programs affect Americans across income levels, the penalties fall most heavily on low- or moderate-income households with children.

Bull et al. (1999) provides a foundational analysis, noting that the penalty stems from the tax code's attempt to balance three conflicting goals: progressive taxation, equal treatment of married and unmarried couples, and equal treatment of married couples with different income splits. This "trilemma" makes it mathematically impossible to eliminate penalties without sacrificing one of these principles. For high-income couples, the penalty is most evident in the top tax brackets, where the 37% bracket for joint filers (e.g., $731,200 in 2024) is not double that for singles ($609,350 in 2024), leading to higher taxes for couples with combined incomes exceeding these thresholds. Additionally, high earners face penalties through surtaxes like the

0.9% Medicare surtax and 3.8% Net Investment Income Tax, which apply at $250,000 for joint filers compared to $200,000 for singles in 2024.

For low-income couples, the penalty is often driven by the Earned Income Tax Credit (EITC), a refundable credit designed to incentivize work among low-income individuals. EITC has phase-out ranges that are not doubled for married couples compared to singles, leading to significant penalties. For example, Ellwood and Sawhill (2000) illustrate that a couple with total income of $30,000, where both spouses earn $15,000, faces an EITC penalty of $3,159 and a total tax penalty of $2,337, which is more than 7% of their income. This occurs because the EITC phase-out begins at lower combined income levels for married filers, reducing or eliminating credits upon marriage. Based on 2023 tax parameters, two single parents each earning $25,000 with one child might collectively receive $6,890 in EITC. However, if they marry, their combined income of $50,000 reduces their EITC to approximately $1,840 for two children, resulting in a penalty of $5,050. In addition, in 2024, a single filer with one child qualifies for the EITC up to $49,084, while a married couple's limit is $56,004, far less than double. This discrepancy can result in a loss of thousands of dollars in credits upon marriage, effectively penalizing low-income couples with similar earnings. This illustrates how the EITC can significantly disadvantage low-income married couples (Dickert-Conlin & Houser, 2002).

Eissa and Hoynes (2000) explore how the expansion of the EITC has amplified marriage penalties for low-income families. While the EITC encourages work among single parents, it can discourage marriage by reducing the net benefit of combining incomes. For example, their analysis suggests that the credit's structure creates a financial disincentive for low-income couples to marry, as the loss of EITC benefits outweighs potential economies of scale from marriage.

Similarly, Dickert-Conlin and Houser (2002) focus on the EITC's role in generating substantial marriage penalties for low-income couples with children. Their findings indicate that the penalty can influence marital decisions, with some couples opting to remain unmarried to preserve their tax benefits. Collectively, these studies underscore the penalty's behavioral effects on low-income two-earner couples, impacting both labor supply and family formation.

The secondary-earner penalty further complicates the picture for low-income couples. Kearney and Turner (2013) discuss how the combination of progressive taxation, child-care costs, and tax credits like the EITC results in effective marginal tax rates that can exceed 70% for second earners. For instance, a family with a primary earner making $25,000 per year takes home less than 30% of a spouse's $25,000 earnings, with an effective average tax rate of 70% under current federal tax and transfer systems, assuming standard child-care costs. Altig et al. (2020) notes that one in four low-wage workers face lifetime marginal net tax rates above 70%, effectively locking them into poverty, which underscores the penalty's role in reducing work incentives. Both Rachidi (2015) and Winship (2023) call for overhauling the Earned Income Tax Credit to bolster support for single-parent households in the United States. Rachidi's (2015) analysis centers on simplifying credit phase-outs and raising benefit levels to offset childcare costs for low-income single parents. Winship (2023) emphasizes adjusting payment timing—shifting from lump-sum annual disbursements to more frequent installments—to smooth cash flow for families living paycheck to paycheck.

Research consistently finds that the marriage tax penalty has significant implications for low-income two-earner couples. Holtzblatt and Rebelein (2000) employ microsimulation models to demonstrate that the penalty can reduce the labor supply of secondary earners in low-income households. The combined income, taxed at higher effective rates, diminishes the financial incentive for the second earner to work, potentially leading to reduced household labor participation.

Behavioral studies suggest these penalties may influence labor supply, with second earners potentially reducing work hours to mitigate higher tax burdens. However, Ellwood and Sawhill (2000) find modest or no clear effects on marriage behavior, though long-term social norm changes are possible, indicating the penalty's complex impact on family formation.

Prior research indicates that the marriage tax penalty can sway individuals' decisions about whether to marry. Carasso and Steuerle (2002) highlighted those heads of household often forfeit substantial tax benefits when they wed. Although the Tax Cuts and Jobs Act of 2017 lowered federal individual rates, the penalty embedded in the Earned Income Tax Credit continued to discourage marriage among low- to moderate-income couples (Lassila et al. 2018). Friedberg and Isaac (2022) find that TCJA-induced rate cuts boosted marriage rates only for high-earning, cohabiting same-sex couples, leaving low-income couples unaffected. Cheng et al. (2020) further shows that each 1 percent rise in the penalty relative to household income reduces same-sex couples' odds of marrying by 6.41 percent.

This deterrent effect isn't confined to the United States. In Switzerland, joint income taxation correlates with lower marriage rates for couples wed between 2012 and 2019 (Myohl 2023). And in Germany—where a couple enjoys the full year's marriage tax benefit by marrying for even a single day—weddings spike each December. Drahomir et al. (2025) reports that those who hurry to marry for the tax break between 2006 and 2020 face higher divorce rates than couples marrying in other months.

Impact on High-Income Two-Earner Couples

Although many tax brackets are designed to be roughly doubled for couples filing jointly, the reality at the top end of the income spectrum is less ideal. For high-income earners, the joint tax brackets do not perfectly mirror the aggregated thresholds that two single filers would enjoy. When both spouses earn high incomes, a portion of their combined income may fall into a higher marginal tax rate than if each were taxed separately. This "bracket mismatch" means that high-income couples end up paying a higher rate on a slice of their income—a fundamental aspect of the marriage penalty.

For high-income couples with relatively equal earnings, the marriage penalty increases. Their combined income not only pushes them into higher marginal tax brackets but also accelerates the phase-out of valuable deductions and credits. This structural shortfall means that a portion of their income is taxed at a higher effective rate and critical tax breaks are reduced or lost entirely.

The marriage penalty emerges at the upper end of the tax brackets, where thresholds for joint filers are not double those for singles. For instance, two individuals each earning $400,000 in 2023 would pay approximately $223,790 in federal income tax as single filers. If married,

their combined income of $800,000 incurs a tax liability of about $225,914, a penalty of $2,124, due to the 37% bracket applying at $693,750 for joint filers versus $578,125 for singles. Although this penalty is relatively small as a percentage of income (0.27%), it highlights the structural bias against high-income two-earner couples (Alm & Whittington, 1996).

High-income two-earner couples face marriage penalties primarily through the structure of tax brackets at the top income levels. The Tax Policy Center (2023) notes that in 2023, couples with income above $693,750 are more likely to incur a marriage penalty, as the tax brackets for joint filers are less than double those for singles. An example provided shows parents of two children, each earning $100,000, facing a marriage penalty of $3,136 (1.6% of Adjusted Gross Income (AGI) when filing jointly compared to filing separately (one as single, one as head of household), due to the combined income pushing them into higher brackets.

The Tax Cuts and Jobs Act (TCJA) of 2017 mitigated some penalties by making all tax brackets for married couples filing jointly (except the 35% bracket) exactly double the single brackets, expanding potential for bonuses. However, penalties persist for the highest earners, particularly those exceeding $693,750, due to the 37% bracket threshold.

Beebe (2019) analyzes how the 2017 TCJA revisions to the marriage tax penalty influence high- and low-income households, as well as elderly taxpayers. Beebe breaks down the differential impact by income tier, showing that low-income couples see modest relief from bracket adjustments, while high-income earners experience minimal change. She examines how seniors on fixed incomes are affected by changes in the standard deduction and credits, noting mixed outcomes for retirees' marriage decisions. Her analysis underscores the need for targeted tweaks—such as age-adjusted exemptions or phased-in rate changes—to ensure the tax code doesn't inadvertently discourage marriage among vulnerable groups.

Additionally, other provisions like the alternative minimum tax (AMT) exemption phase-out can cause penalties, though the TCJA increased the exemption and phaseout income, affecting fewer taxpayers (Tax Policy Center, 2023). Many TCJA provisions, including those reducing marriage penalties, are scheduled to expire by the end of 2025, potentially increasing penalties for high-income couples in the future.

Behavioral effects for high-income couples include potential reductions in labor supply, particularly for second earners. Alm and Whittington (1996) suggest that higher marginal tax rates may prompt second earners to reduce work hours, aligning with Congressional Budget Office (CBO) (Williams, R.,1997) findings that joint filers' earnings are 0.7% to 1.2% lower than if they remained single, partly due to second earners adjusting work in response to higher rates.

Guner, Kaygusuz, and Ventura (2012) explore the labor supply implications, finding that high-income second earners, often women, reduce work hours due to the higher marginal tax rates imposed by joint filing. Their study estimates a 7% reduction in second-earner labor supply, aligning with CBO findings. Additionally, high earners are penalized by caps on itemized deductions, such as the $10,000 state and local tax (SALT) deduction, which applies equally to single and joint filers, effectively halving the deduction for married couples compared to two single filers. These factors make the marriage penalty a significant concern for high-income two-earner couples, influencing both tax planning and economic behavior.

Feldstein (1995), while not directly addressing the marriage penalty, provides broader evidence that higher marginal tax rates reduce taxable income, either through decreased labor supply or increased tax avoidance strategies. This suggests that high-income married couples may exhibit similar behavioral responses, adjusting their economic activities to offset the penalty. Thus, the impact on high-income couples includes both a direct financial cost and potential indirect effects on labor market participation.

Policy Proposals and Solutions

Addressing the marriage tax penalty poses significant challenges due to the trade-offs involved in tax policy design. Rosen (1987) outlines early proposals to mitigate the penalty, such as allowing optional individual filing for married couples or setting joint tax brackets at double the single thresholds. However, these solutions often compromise tax progressivity or increase administrative complexity, limiting their feasibility.

For low-income couples, Ellwood and Sawhill (2000) propose increasing the EITC phase-out thresholds for married couples to double those for singles, which would eliminate disincentives for marriage and work. They discuss options like income splitting, which allows splitting earnings for EITC purposes, reducing penalties (e.g., from $3,816 to $1,600 for a $40,000 income couple), though it is costly and extends EITC to higher earners. Other options include extending the EITC plateau (e.g., a $7,200 deduction reducing penalties to $90 for $20,000 earners) or reducing the phase-out rate to 15% or 10%, benefiting higher earners up to $50,000, with varying costs and complexities.

For high-income couples, aligning the top tax brackets for joint filers with double the single thresholds could eliminate penalties, but this would reduce tax revenue. Hemel (2019) discusses the "marriage tax trilemma," noting it is mathematically impossible to achieve couple's neutrality, marriage neutrality, and progressivity simultaneously. He suggests a flat tax rate with a refundable per-person tax credit as a potential solution, though this may not prioritize marriage neutrality, highlighting the trade-offs involved.

Kearney and Turner (2013) propose a secondary-earner deduction, with a baseline option of a 20% deduction of the first $60,000 earned by the secondary worker, phasing out at $110,000 family income, increasing after-tax income by 4% for dual-income families earning $25,000 each. A revenue-neutral option, including a 75% reduction in the spousal exemption, increases income by 3%. Simulated costs show the baseline reducing federal tax revenue by $8.2 billion annually, with a benefit-to-cost ratio of 1.6, while the revenue-neutral option reduces revenue by $0.8 billion, with a ratio of 6.8.

More recent policy developments, such as the Tax Cuts and Jobs Act (TCJA) of 2017, have reduced the marriage penalty for many couples by aligning joint tax brackets more closely with double the single rates. Nevertheless, disparities persist at the highest income levels, where the penalty remains evident. For low-income couples, policy discussions often center on modifying the EITC to lessen marriage penalties. Proposals include extending the phase-out ranges for married couples or increasing the credit's generosity, though these adjustments must balance equity with fiscal sustainability (Eissa & Hoynes, 2000).

Behavioral Effects and Disparities

Research indicates the marriage tax penalty influences labor supply decisions, particularly for second earners. Kearney and Turner (2013) estimate second earners in married couples work 7% less than they would if filing as singles, leading to 0.7% to 1.2% lower earnings for joint filers compared to singles (Congressional Budget Office, 1997). This aligns with findings that higher marginal tax rates reduce taxable income through decreased labor supply or increased tax avoidance (Feldstein, 1995).

The impact on marriage decisions is less clear, with Ellwood and Sawhill (2000) finding modest or no significant effects, though long-term social norm changes are possible. Racial disparities are notable, with the Tax Policy Center (El-Sibaie, A. 2018 February 14) reporting that in 2018, 46% of Black married couples faced marriage penalties compared to 43% of White couples, with average penalties as a percentage of AGI being 1.8% for Black couples versus 1.4% for White couples. Bonuses averaged 2.6-2.7% of AGI for both races, highlighting how the penalty can exacerbate economic inequality along racial lines.

Gender dynamics also play a role, with the secondary-earner penalty often affecting women more, potentially reinforcing traditional gender roles by discouraging female labor force participation. This intersectional analysis underscores the penalty's broader social implications beyond income levels.

THE EFFECT OF THE MARRIAGE PENALTY ON HIGH-INCOME TAXPAYERS

When two high-income individuals marry, their combined incomes are taxed under rules that are not merely the sum of two single filers' benefits. In other words, tax brackets, deductions, and credits often are not adjusted proportionally for married couples. As a result, when these incomes merge, the couple may find themselves pushed into a higher effective tax bracket or have reduced eligibility for certain tax benefits available to single filers. This situation—where a married couple ends up paying more tax than the two would separately—is commonly known as the marriage penalty.

High-income taxpayers are particularly susceptible because many tax provisions phase out or change once income reaches certain thresholds. When both partners earn significant incomes, combining them can trigger these thresholds more quickly than if the incomes were taxed separately. Consequently, high-income couples might lose some deductions or credits, or even incur a higher marginal tax rate on the combined income. This creates a less tax-efficient overall situation for the couple, making strategic tax planning essential for minimizing its impact. Below are examples of how the marriage penalty tax affects high income taxpayers.

Medicare Taxes and the Marriage Penalty

The Affordable Care Act (ACA) (2010) introduced two Medicare surtaxes which primarily impact higher-income taxpayers, the additional Medicare tax and the Net Investment Income Tax. The additional Medicare surtax of 0.9% applies to earned income exceeding $200,000 for individuals and $250,000 for married couples filing jointly. It is levied only on

income above these thresholds, requiring affected taxpayers to pay an additional 0.9% Medicare tax beyond the standard 1.45%. Unlike the regular Medicare tax, which is split between the employer and employee, this surtax is entirely the responsibility of the employee.

For example, assume that you are single or head of household and that you earn $220,000 in wages annually. Then assume that you are married and that your spouse also earns $220,000 in wages. Table 1 shows that the marriage penalty impact of Medicare Taxes is $3,525.

Table 1
EXAMPLE OF MARRIAGE PENALTY OF MEDICARE TAXES ON HIGH-INOCME TAXPAYERS

Single Filer earning $220,000 in wages	Married couple with a combined income of $440,000
Pays 1.45% on the first $200,000 =$2,900	Pays 1.45% on the first $200,000 per person = $2,900 × 2 = $5,800
Pays 2.35% (standard tax + surtax) on the excess $20,000 =$ 470	Pays 2.35% on the excess over $250,000 ($440,000 - $250,000 = $190,000) = $4,465
Total Medicare tax liability =$3,370	Total Medicare tax liability = $10,265
Marriage penalty impact: $10,265 - $6,740 ($3,370 x 2) = **$3,525**	

The structure of these Medicare taxes creates a marriage penalty, meaning married couples often pay more in taxes than two single individuals with the same income. This occurs because the threshold for married couples filing jointly **(**$250,000**)** is lower than the combined individual thresholds **(**$200,000 × 2 = $400,000**).** As a result, more of their income is subject to the higher surtax rate, increasing their overall tax burden.

Potential Changes to Mitigate Marriage Penalty of Medicare Taxes:

Raising the married filing jointly threshold: A straightforward remedy is to increase the married filing jointly (MFJ) threshold to better reflect the combined income that two individuals might earn. For example, if single filers avoid the surtax below $200,000, then an MFJ threshold closer to $400,000 (or a larger multiple than the current $250,000) would permit dual-income households to be treated more like two separate taxpayers.

Separate computation for spouses: Another approach would be to allow married couples to compute the Additional Medicare Tax based on each spouse's individual wages rather than aggregating all earnings. In this model, each spouse's income would be assessed against the $200,000 threshold independently, thereby eliminating the penalty for couples with similar moderate incomes.

Indexing adjustments: Ensuring that the thresholds are indexed to inflation in a manner that respects the "doubling" principle (or near-doubling) for married couples would mean that as the cost-of-living increases, the penalty does not creep back in as incomes inflate.

The Net Investment Income Tax (IRS Form 8690)

The Affordable Care Act (ACA) (2010) introduced the Net Investment Income Tax (NIIT), also known as the Unearned Income Medicare Contribution Surtax. This tax imposes a 3.8% surtax on investment income and on Modified Adjusted Gross Income (MAGI) exceeding $200,000 for individuals and $250,000 for married couples filing jointly.

Examples of investment income that is subject to NIIT include short- and long-term capital gains, qualified and nonqualified dividends, taxable interest, rental and royalty income, passive income, business income from trading financial instruments or commodities and the taxable portion of nonqualified annuity payments. Unlike the Medicare surtax, NIIT does not apply to wages—only investment income and excess MAGI above the defined thresholds.

The 3.8% NIIT tax applies to the *lesser* of (1) net investment income or (2) the amount by which your MAGI exceed $200,000 (or $250,000 for joint filers). For example, assume that you are single or head of household and that you earn $220,000 in net investment income (NII). Then assume that you are married with combined net investment income of $440,000. Table 2 shows that the marriage penalty impact of NIIT is $5,700.

Table 2
EXAMPLE OF MARRIAGE PENALTY OF NET INVESTMENT INCOME TAX (NIIT) ON HIGH-INOCME TAXPAYERS

Single Filer earning $220,000 in NII	Married couple with a combined NII of $440,000
Excess $20,000 = ($220,000-$200,000)	Excess $190,000 = ($440,000-$250,000)
Pays 3.8% on excess of $20,000 = $760	Pays 3.8% on excess of 190,000 = $7,220
Marriage penalty impact: $7,220 - $1,520 ($760 x 2) = **$5,700**	

Similar to the Medicare surtax**,** the NIIT structure can increase tax liability for married couples**.** Because the joint filer threshold is only $250,000, rather than double the individual threshold ($400,000)**,** more of their investment income may become subject to the 3.8% surtax**,** amplifying the marriage penalty effect.

Changes to the tax code that could mitigate the marriage penalty for the Additional Medicare Tax and the Net Investment Income Tax (NIIT) center on aligning the income thresholds and the computation methods for married couples more closely with the treatment of single filers. Below is an analysis and explanation of the concepts behind these potential changes.

Deductions for State and Local Taxes (SALT)

For high-income households, the $10,000 cap on state and local tax (SALT) deductions can significantly exacerbate the marriage tax penalty. When individuals file as single taxpayers, each person may be able to deduct up to $10,000 in SALT expenses, assuming they itemize their deductions. However, once married couples file jointly, they are subject to a single $10,000 limit, even if the combined taxes they pay far exceed that amount. This means that a substantial

portion of their deductible SALT expenses becomes non-deductible, effectively increasing their taxable income and tax liability relative to what they would face if they filed separately.

This limitation is particularly impactful for high-income taxpayers, who are more likely to incur larger SALT expenses due to residing in high-tax states or owning high-value properties. In such cases, the loss of the ability to fully deduct their state and local taxes translates directly into a higher effective tax rate for married couples, thereby intensifying the overall marriage penalty. Moreover, this issue underscores the challenge of designing tax policies that aim to balance revenue needs with equitable tax treatment across filing statuses.

Beyond this, proposals aimed at adjusting the SALT cap for married couples—with adjustments based on income thresholds—attempt to mitigate this penalty. However, many of these suggestions still tend to benefit wealthier households disproportionately, leaving the marriage penalty as a persistent challenge for high-income taxpayers. The next two paragraphs highlight two other deductions which are subject to the marriage penalty for higher income taxpayers.

Student Loan Interest Deduction

The student loan interest deduction is capped at $2,500 and begins to phase out at much lower thresholds when filing jointly. For example, while a single filer might start experiencing phase-out effects at a moderately low modified adjusted gross income (MAGI), married couples with similar incomes can see the full phase-out kick in once their combined MAGI exceeds a relatively modest threshold (e.g., joint filings might begin phasing out at around $145,000 compared to a lower figure for single filers in relative terms). The aggregated income causes high-income spouses to forfeit a deduction they might have partially or fully taken advantage of when filing separately.

IRA Contribution Deductions

For those who participate in an employer-sponsored retirement plan, the ability to deduct contributions to a traditional IRA is subject to income limits. When two high-income earners combine their incomes, they are more likely to exceed these thresholds. This effectively reduces or eliminates the IRA deduction that could help lower their taxable income if they were filing individually. The next two paragraphs highlight Tax Credits and Their Phase-Out Thresholds which are subject to the marriage penalty for higher income taxpayers.

Education Credits (American Opportunity Tax Credit & Lifetime Learning Credit)

Both the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC) have phase-out ranges that are often lower (when viewed on a "per dollar" basis) for married filers. For instance, while each single filer might be eligible for these credits up to a higher individual MAGI, the joint filing status frequency accelerates the phase-out. The AOTC, which provides up to $2,500 per student, and the LLC, worth up to $2,000, quickly become inaccessible to high-income couples as their combined income exceeds the specified phase-out thresholds (e.g., MAGI above $180,000 for AOTC eligibility in joint filers).

Other Credits

Additional credits such as certain energy credits, child-related credits, or credits tied to education expenses also have thresholds that are not simply doubled for joint filers. This means that even if both spouses are eligible for the credit individually, as a couple they might find that their combined income renders them ineligible or reduces the credit significantly. While some credits (like the Child Tax Credit) have higher thresholds for joint filers compared to singles, many educations or income-sensitive credits are negatively impacted for high-income couples because the phase-out ranges do not scale proportionately.

Potential Changes to Mitigate the Marriage Penalty of NII, Deductions, and Credits:

In summary, the marriage penalty for high-income taxpayers manifests not only in the misapplied tax brackets but also in how various tax deductions and credits are phased out more rapidly when incomes are combined. The loss of the student loan interest deduction, reduced IRA contribution deductions, and diminished education credits all add to an elevated effective tax rate. This forces high-income couples to navigate a tax landscape where commonly available breaks for single filers evaporate once they marry and file jointly.

Based on our experiences working in the VITA program, when discussing the marriage penalty for low-income taxpayers, the conversation shifts from the dramatic bracket "bite" seen at higher incomes to subtler—but no less real—changes in the benefits that a low-income household might get when the two individual incomes are combined. In this context, the core issues center on how certain refundable credits, deductions, and income thresholds designed to support modest earnings can be adversely affected by the rules that do not fully "scale" with marriage.

Because many refundable tax credits and deductions for low-income households are highly sensitive to income—often structured with relatively low phase-in and phase-out thresholds—combining two modest incomes through marriage can push a household into less favorable territory. Following are some potential changes to mitigate the marriage penalty of NII, Deductions, and Credits.

Doubling the MFJ Threshold: One proposed solution is to adjust the MFJ threshold for the NIIT closer to two times the single threshold—around $400,000—so that married couples with moderate investment income do not suddenly fall into the phase-out range when their incomes are combined.

Separate Income Consideration: Similar to the proposed change for the Additional Medicare Tax, reform could allow for each spouse's investment income and MAGI to be considered separately. This would mean that if neither spouse individually exceeds $200,000, then no NIIT would apply—even if the combined MAGI does exceed $250,000.

Adjusting the Phase-Out Formula: Refining the phase-out methodology could also help. Instead of a steep phase-out that quickly reduces the threshold benefit once the MFJ limit is breached, a smoother or more gradual reduction might enable married couples to retain a larger portion of their beneficial tax treatment.

Broader Tax Code Reforms and Policy Considerations:

While changes specific to these two taxes are not as common in recent legislative packages as broader reforms (like those in the Tax Cuts and Jobs Act), policy discussions continue around the notion of "separate treatment" for certain credits and taxes. Proposals from various tax policy experts and legislative proposals have focused on the following two areas.

Indexing and Threshold Calibration: Researchers and lawmakers have noted that many marriages penalties stem from thresholds that are not appropriately scaled for joint income. Adjusting these annually for inflation—and ensuring they reflect the combined earning potential—can substantially mitigate the penalty.

Separate Calculations for Credits and Taxes: Allowing spouses to calculate certain taxes (or credits) on an individual basis while still filing jointly is another approach that could alleviate the marriage penalty. This idea has been floated for various credits (such as the Earned Income Tax Credit and the Saver's Credit) and could, in theory, be applied to Additional Medicare Tax and NIIT as well.

Although these approaches require legislative changes and have not yet been fully implemented, they represent concrete steps toward reducing the marriage penalty. By redesigning how income thresholds are set and how tax liabilities are calculated—ensuring that the benefits intended for low- and moderate-income taxpayers are not eroded simply by combining incomes—policymakers could help create a fairer and more balanced tax system. For comparison, the next section explains how the marriage penalty affect low-income taxpayers.

THE EFFECT OF THE MARRIAGE PENALTY ON LOW-INCOME TAXPAYERS

Drawing on our firsthand experience with the VITA program, multiple means-tested programs create a compounding effect on marriage penalties. When couples marry, their combined income may reduce or eliminate benefits received before marriage, including SNAP (formerly food stamps), Medicaid, housing assistance, child care subsidies, and TANF. Research suggests penalties are more likely to occur when parents receive a greater number of benefits rather than fewer.

A consistent finding in the literature is that lower-income parents are generally more likely to face marriage penalties than receive marriage bonuses when it comes to means-tested programs. This creates a concerning situation where public policy may inadvertently undermine marriage among the very populations where marriage could provide economic stability.

Once married, taxpayers must file jointly or separately. They lose the opportunity to claim Head of Household—even if one partner was the primary caregiver—potentially reducing the benefit level if that status would have carried higher standard deductions or more favorable credit calculations. Two low-income earners might individually fall into the "sweet spot" for a robust credit. However, when their earnings are summed, the household might move faster through the credit's phase-in region and start phasing out sooner than if eligible to file individually. The result is that the maximum Earned Income Tax Credit (EITC) amount available to the household may be lower than the total of what each could have received if filing (or qualifying) under a more favorable status.

Earned Income Tax Credit (EITC)

The EITC is a refundable credit structured to reward low-income workers—and it depends on two main factors: earned income and the number of qualifying children. For single filers, the phase-in and phase-out ranges tend to be calibrated to maximize the credit when income is within a narrow window. Moreover, non-married parents who qualify as Head of Household (another status available to single parents) usually benefit from an even more advantageous treatment.

Earned Income Tax Credit (EITC) VITA Example of Single Filer: Two single taxpayers (Each Filing as Head of Household). Assuming the maximum EITC for one child: $3,584 (for tax years where this figure applies), and the phase-out for a Head-of-Household filer begins at a Modified Adjusted Gross Income (MAGI) of about $19,520.

Person A, a single parent earning $18,000 qualifies for nearly the full $3,584 EITC because income is below the phase-out start. Person B, similarly structured, also qualifies for almost $3,584. The combined benefit if remained unmarried is approximately $7,168 in EITC (i.e., $3,584 each).

Earned Income Tax Credit (EITC) VITA Example of Married Filing Jointly: When married, the household must file jointly and the EITC parameters change: the maximum benefit for two children (since each parent brings in one child) is about $5,920, but the phase-out for married filers starts at a higher income—around $25,000.

Assume now each spouse earns $18,000, so the combined income is $36,000. The phase-out for married filers begins at a Modified Adjusted Gross Income (MAGI) of about $25,000. The phase-out effect varies with number of qualifying children. If the phase-out reduction rate is between 16%-21%, and taking 21% to apply in this example of married filing jointly with a combined income of $36,000. The excess income above threshold is $11,000 [$36,000 combined income - $25,000 phase-out threshold]. The reduction in EITC is $2,310 [$11,000 x 21 %.] Assuming the maximum EITC allowed for two children is $5,920, the resulting or after reduction EITC is $3,610 [$5,920 maximum for two children - $2,310 phase-out reduction.]

Comparison of EITC Between Filing Singly Versus Filing Jointly: If the two individuals were unmarried and each filed as Head of Household with one child, they might claim a combined EITC of about $7,168. Married, the same family ends up with around $3,610—a net reduction of over $3,500. This simplified illustration shows how the aggregation of incomes under the married filing status can lead to a substantial loss in credit value.

Table 3
EXAMPLE OF MARRIAGE PENALTY OF EARNED INCOME TAX CREDIT (EITC) ON LOW-INOCME TAXPAYERS

Single Parent earning $18,000	Married couple with combined earnings of $36,000
EITC before phase-out $3,584	Married filing Jointly with phase-out starts at $25,000
Total EITC of 2 filers = $7,168 ($3,584 x 2)	Maximum EITC for 2 children is $5,920. Excess =$11,000 ($36,000-$25,000) 21% x Excess $11,000 = $2,310 phase-out amount Final after reduction EITC = $3,610 ($5,920-$2,310)
Marriage penalty impact: $7,168 - $3,610 **= $3,558**	

Potential Changes to Mitigate the Marriage Penalty of Earned Income Tax Credit (EITC)

There are several policy proposals aimed at addressing the specific ways in which the design of the Earned Income Tax Credit (EITC) creates a marriage penalty for low-income families. These proposals focus on adjusting the credit's structure so that married couples are not disadvantaged by their combined incomes. By raising phase-out thresholds, reducing the phase-out rate, allowing for individual credit calculations, or even redesigning the credit structure entirely, policymakers can mitigate the marriage penalty on the EITC. These changes would help ensure that married low-income workers are not inadvertently disadvantaged when they combine their earnings, thus preserving the intended work incentives and financial support of the EITC.

Raising the Phase-Out Thresholds. One common solution is to increase the income level at which the EITC begins to phase out for married filers. Currently, when two low-income workers marry, their combined income can quickly exceed the threshold, reducing or eliminating their eligibility for the credit. For example, some proposals suggest raising the phase-out start for married couples to around $40,000. This adjustment would allow married households to earn more collectively without prematurely losing the credit benefits that single filers might retain with separate incomes.

Slowing the Phase-Out Rate. Another policy approach involves reducing the rate at which the EITC phases out once the income threshold is reached. By slowing the phase-out—say, by shifting from a rate of 16–21% to closer to 10%—married couples could lose the credit more gradually as their income increases. This recovery would help mitigate the abrupt loss of benefits that many married households face and would align the benefit reduction more equitably with combined earnings.

Allowing for Individual Calculations. The current structure requires married couples to file jointly for the EITC, which means that one spouse's income can negate the benefit that the other might receive on an individual basis. Policy solutions have been proposed that would allow married couples to have their EITC determined separately, essentially calculating the credit based on each person's individual earnings. This would maintain the incentive effects of the credit without penalizing couples simply for combining their incomes.

Redesigning the Credit to Decouple from Filing Status. A longer-term approach could involve a fundamental redesign of the EITC so that the calculation of benefits is decoupled from marital status altogether. This could mean basing the credit solely on individual earnings or household needs rather than simply aggregating incomes. Such a reform would help ensure that the credit reaches its intended low-income targets regardless of whether a taxpayer is single or married.

The Child and Dependent Care Credit

The Child and Dependent Care Credit is credit is available to working taxpayers who incur child or dependent care expenses, allowing them to claim a percentage of those expenses. Importantly, the credit rate is inversely related to income—the lower the income, the higher the rate (up to a limit). It is designed to ease the burden of affordable child care, a key expense for low-income families. The Child and Dependent Care Credit is calculated as a percentage of

qualifying care expenses. This percentage is highest for lower-income taxpayers and declines as income rises.

The Adverse Effects from Marriage include Income-Based Phase-Down Credit Calculation Complexity. With married couples filing jointly, the combined income determines the applicable percentage rate. Even if each spouse individually might have qualified for the higher credit rate at very low incomes, their merged income can reduce that rate, thereby lowering the overall credit. Because the credit is tied both to the total eligible expenses (up to a capped amount) and the percentage—which brackets its generosity—the joint filing status can result in a slightly less effective credit if the incomes that were individually low push together into a zone with a lower percentage. The following example demonstrate the marriage penalty of Child Credit.

Maximum allowable care expense for one child is $3,000. For a single Head-of-Household taxpayer with a low income (e.g., $18,000), the credit percentage might be 35%, yielding: Credit = 35% × $3,000 = $1,050. When married, even if both spouses earn modest incomes, their combined income might be sufficient to reduce the credit percentage to, say, 20%, yielding Credit = 20% × $3,000 = $600.

Comparison of Child Credit Between Filing Singly Versus Filing Jointly: Individual filing could secure a $1,050 credit, whereas marriage could lower this benefit by about $450. (Keep in mind that actual figures depend on the precise income ranges and IRS tables for the relevant tax year.)

Table 4
EXAMPLE OF MARRIAGE PENALTY OF CHILD CREDIT ON LOW-INOCME TAXPAYERS

Single Head of Household earning $18,000	**Married couple with combined earnings of $36,000**
Credit Percentage 35% of Maximum 1 Child Credit $3,000	Credit Parentage 20% of Maximum 1 Child Credit $3,000
Child Credit = $1,050 (35% x $3,000)	Child Credit = $600 (20% x $3,000)
Marriage penalty impact: $1,050 - $600 **= $450**	

Potential Changes to Mitigate the Marriage Penalty of Child Credit

Here are several policy proposals that could help reduce the marriage penalty associated with the Child and Dependent Care Credit. By implementing one or several of these measures, policymakers would aim to make the tax credit more equitable. Such reforms would ensure that the intended support for child and dependent care is preserved, regardless of a couple's marital status or combined income level. These proposals also require close empirical review—using IRS and academic data—to balance benefits across households and avoid unintended consequences.

Adjusting Income Thresholds and Phase-Out Rates One approach is to recalibrate the income thresholds and phase-out rates for the credit when couples file jointly. Under current policy, a married couple combining two incomes might reach the phase-out threshold faster than a single filer would. By increasing these thresholds or slowing the rate at which the credit is

phased out for married filers, households could preserve a greater portion of the credit even when their combined income is higher.

Individualized Credit Calculation Another solution is to modify the calculation of the credit so that each spouse's eligible expenses are treated on an individual basis rather than solely on combined household income. This method would recognize that, in many married households, one spouse might earn significantly less—even if the couple files jointly. Calculating a partial credit based on each spouse's income and expense contributions can reduce the penalty imposed by the current "all or nothing" combined approach.

Increasing the Maximum Qualifying Expenses Presently, the credit covers a set maximum amount of dependent care expenses. By increasing these caps for married couples, the policy could allow for a higher total credit amount. This adjustment would directly offset some of the disadvantage that occurs when the couple's earnings push them into lower credit percentages, ensuring that a larger share of eligible care costs is recovered.

Decoupling the Credit from Marital Status A more fundamental reform could involve redesigning the credit so that eligibility depends solely on the care expenses and individual earnings rather than on marital status. For example, converting the credit into an individual benefit—even if spouses file together—would help ensure that couples do not encounter a penalty simply because their incomes are combined under one return.

Enhancing Filing Flexibility For married couples who, due to unique circumstances, must file separately (and thus lose the credit altogether), offering alternative or flexible filing options could be beneficial. For instance, policies that allow for a "split" calculation of the credit when spouses have vastly different earnings or caregiving roles could help maintain support for those households.

The Saver's Credit

The Saver's Credit is a valuable incentive for low-income taxpayers to save for retirement. However, when two taxpayers—especially one who might otherwise qualify for the higher saving benefits of head-of-household filing—marry, their combined AGI can push them out of the top-tier credit bracket. The net effect can be a substantial reduction in the credit percentage (for example, from 50% down to 10%), which translates into a marked reduction in the dollar amount of the credit. For the 2024 tax year the IRS sets different AGI limits depending on filing status:

Table 5
2024 TAX YEAR APPLICABLE PERCETANGES OF SAVER'S CREDIT OF DIFFERENT FILING STATUS

Filing status
Married Filing Jointly: Full (50%) credit if AGI is not more than $46,000
Head of Household: Full credit if AGI is not more than $34,500
All Other Filers (commonly single filers without dependents): Full credit if AGI is not more than $23,000

With the Saver's Credit, taxpayers who make eligible contributions to retirement accounts (such as IRAs or 401(k) plans) may claim a credit equal to a percentage of those contributions. The applicable percentage is based on one's adjusted gross income (AGI) and filing status, with three tiers (50%, 20%, or 10%) and corresponding income ranges.

In addition, the maximum contribution that qualifies is $2,000 for an individual (or $4,000 for a married couple filing jointly), which means that at the full 50% rate, the maximum credit is $1,000 for single filers and $2,000 for joint filers.

How the Marriage Penalty Adversely Affects the Savers Credit. For low-income taxpayers who are eligible for the Saver's Credit, the filing status they adopt can make a huge difference. In many cases, unmarried individuals who have dependents can file as Head of Household—a status that carries a more generous income threshold compared to the "all other filers" category. When such individuals marry, however, they must file as Married Filing Jointly—thereby losing the head-of-household benefits and subjecting their combined income to less favorable thresholds.

Loss of a More Favorable Filing Status: A single parent with dependents who files as Head of Household benefits from a relatively high AGI ceiling (up to $34,500 for a full 50% credit). Upon marriage—even if the nonworking or low-income partner has little to no income—the couple must file jointly, and the threshold for a 50% credit becomes $46,000. Although $46,000 might seem higher than $34,500 in absolute terms, it is not proportionately higher when compared with the intrinsic benefits granted by the head-of-household status. In many cases, an individual combining incomes will be pushed closer to—or into—a lower credit bracket than if they filed separately under Head of Household or as single.

Aggregation of Incomes and Credit Percentage Reduction: The Saver's Credit is phased out as income increases. When low-income taxpayers who individually qualify for a high credit percentage (say 50%) marry, their incomes are summed. This combined income can cross a threshold that moves the credit percentage from 50% down to 20% (or even 10%), even though each taxpayer on their own might have been eligible for the full rate.

Savers Credit VITA Example of Filing Individually: Imagine two low-income individuals who are considering marriage. Their Saver's Credit benefit is calculated on contributions to eligible retirement accounts. Assume each individual makes a $2,000 contribution. Taxpayer 1 (Eligible as Head of Household): AGI = $32,000 (below the $34,500 threshold for a 50% credit). Saver's Credit for taxpayer 1 = 50% of $2,000 = $1,000. Taxpayer 2 (Single, "All Other Filers"): AGI = $20,000 (below the $23,000 threshold for a 50% credit). Saver's Credit for taxpayer 2 = 50% of $2,000 = $1,000. The combined Saver's Credit for taxpayer 1 and 2 if unmarried are in total of $2,000 ($1,000 Head of Household +$1,000 All Other Filers.)

Savers Credit VITA Example of Filing Jointly After Marriage: Once the two marry, they must file a joint return. Their incomes are added: Combined AGI: $32,000 + $20,000 = $52,000. Their Filing Status & Threshold**:** As Married Filing Jointly, the 50% credit applies only if AGI is $46,000 or less. For AGI between $46,001 and $50,000, the credit drops to 20%, and for AGI between $50,001 and $76,500, it further drops to 10%. At $52,000 AGI: The couple falls into the 10% credit bracket. Thus, their Saver's Credit = 10% of the combined eligible

contributions. Since the maximum combined eligible contribution remains $4,000, the maximum credit at 10% would be $400.

Comparison of Child Credit Between Filing Singly Versus Filing Jointly: Unmarried Benefit: $2,000 of Saver's Credit total. Married Benefit: Approximately $400 of Saver's Credit. The marriage penalty of Saver's Credit is $1,600. This example highlights a dramatic reduction in the tax credit simply because the couple must combine incomes—pushing them into a lower credit percentage. Such a "conversion" from a 50% rate to a 10% rate demonstrates the essence of a marriage penalty, especially for low-income taxpayers who would otherwise benefit from more generous credit rates when filing under single or head-of-household status.

Table 6
EXAMPLE OF MARRIAGE PENALTY OF SAVER'S CREDIT ON LOW-INOCME TAXPAYERS

Taxpayer 1: Single Head of Household earning $32,000	**Married couple with combined earnings of $52,000**
Saver's Credit = $1,000 (50% of $2,000)	Saver's Credit = $400 [10% of ($2,000 x 2)]
Taxpayer 2: All Other Filers earning $20,000	
Saver's Credit = $1,000 (50% of $2,000)	
Marriage penalty impact: $2,000 - $4**00 = $1,600**	

Potential Changes to Mitigate the Marriage Penalty of Saver's Credit

Legislators and policy analysts have noted that the current structure of the Saver's Credit can inadvertently discourage marriage or penalize those who marry by reducing a benefit designed to promote retirement savings. Among the proposals are:

Adjusting Income Thresholds to Reflect Filing Status Differences: Some proposals suggest realigning the income thresholds for Married Filing Jointly to be more proportional to those available to Head of Household filers. For instance, if a single parent enjoys a higher ceiling (e.g., $34,500 for a 50% rate), then a married couple that includes a single parent should have thresholds adjusted upward so that marriage does not force a drop in the credit percentage merely due to income aggregation.

Transitioning to a "Saver's Match": Recent legislation—specifically under the SECURE 2.0 Act—proposes converting the Saver's Credit from a tax credit into a government matching contribution (often referred to as the "Saver's Match"). This change, effective in the later years, is intended to be more marriage neutral by matching contributions dollar-for-dollar up to specified limits rather than reducing the benefit based on aggregated income thresholds. Under such a system, even if incomes are combined, the match can be calibrated to avoid the steep phase-out that currently penalizes married couples.

Weighted Income Calculations: Another policy suggestion is to modify how income is calculated for the purpose of the Saver's Credit. Rather than summing incomes in a way that uniformly phases out the credit, a policy could consider weighting the incomes—especially when one spouse has minimal earnings—or allow certain deductions that preserve the higher credit rate already available to single filers.

Enhanced Targeting for Low-Income Groups: Some proposals call for revisiting the maximum eligible contributions and credit rates themselves to ensure that low-income workers are not deterred from saving for retirement. This might involve incremental increases in the credit for households near the phase-out thresholds or creating a separate set of criteria for low-income married households that mimic the benefits of head-of-household status.

Premium Tax Credit (PTC).

Under the Affordable Care Act (2010), the Premium Tax Credit helps low-income households afford health insurance purchased through the marketplace. Eligibility, and the credit amount, depend on the household's income as a percentage of the federal poverty level (FPL); households that fall in a specific income range receive a subsidy based on their "ability to pay." When incomes are combined, the couple's income is tested against a higher but not proportionally increased FPL. Consequently, what might be a generous subsidy for an individual could be scaled back on a married joint return, reducing overall assistance.

The Adverse Effects from Marriage include Adjusted Income Relative to Household Size as well as a subtle Reduction in Benefits: While the federal poverty level is adjusted for household size (meaning a married couple's FPL is higher than that for a single individual), the credit is still calculated on the basis of the percentage of income relative to that FPL. Two modest incomes that, on their own, might have attracted a larger subsidy can "bunch up" to form a combined figure that represents a higher percentage of the adjusted poverty level. This can reduce the subsidy rate available to the married couple—even when both individuals are at the lower end of the income spectrum. Although this is not a "penalty" in the sense of an extra tax bill, the reduction in beneficial credits contributes to a net loss of support that the tax system might have provided if the partners were assessed independently.

For low-income households, many of these provisions are designed to offer generous support; however, the tax code's rules for married filing—driven by the need to treat the household as the unit of analysis—do not always step up proportionally when incomes are combined. The result can be a series of "diminished returns" on credits that are meant to offset the burdens of low earnings.

When a household loses the ability to file under a more advantageous status (like Head of Household), and its combined income bumps it into less-favorable phase-in or phase-out ranges for credits such as the EITC or the child care credit, the net support available to the family may decline.

Potential Changes to Mitigate the Marriage Penalty of Premium Tax Credit (PTC).

Recognizing that the structure of certain credits inadvertently penalizes marriage among low-income households, policymakers and think tanks have proposed several reforms:

Raising Phase-Out Thresholds for the EITC: Research and policy proposals (such as those discussed by the American Enterprise Institute) suggest increasing the income level at which EITC benefits begin to phase out for married couples. For example, one proposal recommends raising the threshold from around $25,000 to as high as $40,000 for couples, which

would help ensure that the combined income of two low-wage workers doesn't prematurely trigger a hefty reduction in benefits.

Lowering the Phase-Out Rate: Another proposal involves reducing the percentage by which the credit is phased out as income rises. Instead of a 16–21% reduction per additional dollar of income over the threshold, a lower rate—such as 10%—could be applied. This change would help reduce the "bite" taken out of the credit due to the incremental rise in combined income, thereby softening the marriage penalty.

Modifying the Child and Dependent Care Credit: Adjustments to allow for a more generous credit rate for low-income, married households have been discussed. By recalibrating the income ranges that dictate the diminishing percentages, the credit could remain more robust for couples whose combined income would otherwise push them into a lower credit rate.

Exploring Alternative Filing Options: Some proposals suggest introducing a "marriage-neutral" filing status for certain low-income families. This might allow couples to effectively keep the benefits they would receive if filing individually (for instance, retaining Head-of-Household treatment in certain cases) even after marriage, though such changes would require broader adjustments to the tax code.

These proposals aim to realign the tax code so that the aggregation of income through marriage does not lead to disproportionate losses in refund credits and deductions—ensuring that the tax system supports low-income families regardless of marital status.

Each of these nuances matters significantly to low-income families, where every dollar of credit or deduction can have a meaningful impact on a household's financial wellbeing. By understanding these specific areas—how the Earned Income Tax Credit, Child and Dependent Care Credit, the Premium Tax Credit, and even educational distinctions work—policymakers and advisors can explore ways to recalibrate the system so that tax benefits keep pace with the realities of dual-income (or even single-income) married households.

The examples above illustrate how a pair of low-income individuals—who might each qualify for robust credits under individual filing statuses—can see a marked decrease in benefits when they file jointly due to higher combined incomes triggering steeper phase-out rules. Recent policy proposals, including raising phase-out thresholds, lowering phase-out rates, and rethinking filing statuses, seek to address this imbalance and create a more marriage-neutral tax code that better supports low-income families.

CONCLUSION

The marriage tax penalty is an unintended consequence of how the tax code treats married couples, and its effects differ notably between high-income and low-income taxpayers. In both cases, the issue arises because tax benefits, brackets, and credits are not simply doubled for married couples when compared to single filers.

High-income couples often experience the penalty because many tax benefits are subject to phaseouts at elevated income levels. When two high earners combine their incomes, they may be pushed into higher tax brackets and see reduced eligibility for valuable deductions and credits. This effectively results in a higher marginal tax rate than each would face alone.

Addressing the penalty for high-income households involves structural changes to ensure that tax brackets and deductions respond appropriately to combined incomes. Potential policy solutions include (1) Adjusting Tax Brackets: Widening or recalibrating tax brackets for married couples can help ensure that joint incomes are taxed more equitably. (2) Reforming Phaseout Thresholds: Revising the income thresholds at which deductions and credits phase out for married filers would prevent premature loss of valuable tax benefits. (3) Income Splitting Options: Offering more flexible strategies for income allocation between spouses could help maintain lower marginal rates while still reflecting combined financial realities

For low-income couples, the dynamics are slightly different. Often, single filers benefit from credits like the Earned Income Tax Credit (EITC). However, when incomes combine, the couple's total might exceed the limits for receiving these credits, causing a reduction or even elimination of the tax benefits they'd otherwise enjoy individually. In some cases, a marriage bonus—where the couple's overall tax liability is lower than the sum of its parts—might occur, but it can quickly turn into a penalty if combined incomes slightly exceed eligibility thresholds for targeted credits or deductions.

To mitigate the hardship on low-income families, policy reforms could focus on ensuring that the benefits meant to support individual workers are preserved when incomes are merged. Some possible approaches include (1) Revising Credit Thresholds: Adjusting the eligibility criteria for credits like the EITC and the Child Tax Credit so that they accommodate the realities of combined incomes without penalizing marital status. (2) Decoupling Credits from Marital Status: Designing tax credits that reflect actual household needs rather than strictly depending on aggregate income could help low-income couples maintain support. (3) Tailored Tax Filing Options: Providing alternative filing options that allow low-income couples to benefit from credits as if they were single filers could preserve the intended financial relief.

At the time of writing, the One Big Beautiful Bill Act of 2025 has just been enacted. The authors will diligently monitor its effects on the marriage tax penalty and update readers as relevant data become available. Despite this new legislation, we do not expect it to materially alter the core conclusions of this paper: the marriage tax penalty endures.

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