The Income Tax Treatment of Married Couples

The federal income tax system is based on family income. Married couples generally file their income tax returns jointly by pooling income and deducting combined allowable expenses. Married persons cannot choose single or head of household filing status. While they can use the married-filing-separately status, they will usually face a higher tax liability as married-filing-separately than married-filing-jointly.

The federal income tax system is not marriage neutral with respect to tax liability. A couple can pay more or less in federal income taxes depending on whether they are married and file a joint return or unmarried and file separate returns. A married couple incurs a marriage penalty (bonus) if they pay more (less) in federal income taxes filing jointly than they would if they were unmarried and each filed a single or head of household return. It is not possible to have a progressive tax system in which married couples with equal statutory income are taxed equally without regard to the spouses' income shares, while at the same time avoiding marriage penalties and bonuses.

Table 1 shows that about 40 percent of non-elderly married tax filers are predicted to incur a marriage penalty for an average of $1,927 in 2016 while 51 percent are predicted to incur a marriage bonus for an average of $2,698. Only about 9 percent of non-elderly married tax filers would pay the same in federal income taxes if they were unmarried and filed separate returns. Furthermore, marriage penalty and bonus rates vary by income; penalty rates are lower than average for couples with income below $50,000.

Many factors play a role in affecting marriage penalties and bonuses. Table 2 shows marriage penalties and bonuses by the second earner's share of total earned income. In general, couples where only one spouse works or one spouse earns almost all of the family's income (i.e., couples where the second earner's income share is zero or low) are much more likely to have a marriage bonus. In contrast, dual-earner couples where the spouses have similar income shares are much more likely to incur a marriage penalty. This is particularly true of higher-income couples. Table 3 shows that couples who have children and where the lower-earning spouse earns at least 20 percent of the family's income are much more likely to incur marriage penalties than couples without children. This is in part because a number of tax benefits for families with children phase out as income increases. (See http://www.treasury.gov/resource-center/tax-policy/Documents/OTAR-Marginal-and-Average-Tax-Rate-and-Tax-Support-for-Families-2015.pdf for details.)

In addition to marriage non-neutrality, the current tax system creates another source of inequality between one-earner and dual-earner couples due to its exclusion of the value of home production from the tax base. Dual-earner couples presumably spend less time in home production and use after-tax dollars to purchase replacements for goods and services (such as child care) that would have been produced at home tax-free if only one spouse worked. As a result, although couples with the same statutory income pay the same amount in taxes, there can be an inequality in their economic income reflecting different values of home production. Because of child care needs, this inequality between one-earner and two-earner couples is expected to increase with the presence of children.

The federal income tax system is also not marriage neutral with respect to individual marginal tax rates. Two otherwise equal persons with the same income can have different marginal tax rates if one files jointly and the other files as unmarried. Under joint filing, the marginal tax rate is determined by the couple's combined income. If the couple were unmarried, each partner would have the marginal tax rate determined by his or her own income and the tax rate schedule for single or head or household status.

Columns (4)-(6) of Table 4 show the estimated Federal individual income marginal tax rates on wages for those who have wage earnings. The lower-wage spouses generally would face a lower marginal tax rate if they had filed as unmarried instead of jointly. In contrast, depending on the couple's joint income, higher-wage spouses could face an increase or a decrease in the marginal tax rate if they were unmarried and filed a single or head of household return. To the extent that second earners' labor supply is more responsive to changes in tax rates than primary earners' labor supply,[1] subjecting both spouses' earnings to the same marginal tax rate under the current system may inefficiently discourage supplying labor to market activities.

Column (7) and (8) of Table 4 show the estimated Federal individual income tax rates of non-working spouses if they decide to work. Under joint filing, the first dollar earned by the non-working spouse is taxed at the marginal rate on the couple's last dollar of income. The estimated tax rate over the non-working spouse's potential wages under joint filing is shown in column (7) whereas the tax rate under individual-based filing is shown in column (8).[2] Except for the lowest income group, non-working spouses face much higher tax rates in the current system than they would if they filed individually. To the extent that the decision to work responds to changes in after-tax wages, the current system's higher tax rates, combined with the exclusion of home production, can provide a disincentive to work.

[1] The gap in labor supply responsiveness between primary and second earners has significantly diminished since the 1980s as a result of increased labor force participation for married women.
[2] A non-working spouse is assumed to earn the average wage of the second earners within his/her income group, as listed in column (3).

Table 1
Marriage Penalties and Bonuses
(2016 Income and Law)

Couple's Adjusted Gross Income ($)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (thousands)
0 <= 15,000	5%	(377)	29%	839	1,817
15,000 <= 30,000	13%	(614)	67%	931	3,575
30,000 <= 40,000	26%	(1,053)	69%	1,270	2,468
40,000 <= 50,000	37%	(1,612)	60%	1,408	2,625
50,000 <= 60,000	43%	(1,572)	52%	1,392	2,822
60,000 <= 75,000	51%	(1,197)	44%	1,577	4,270
75,000 <= 100,000	49%	(948)	48%	2,382	6,698
100,000 <= 200,000	44%	(1,397)	51%	3,312	12,596
Over 200,000	52%	(5,665)	47%	7,127	5,063
Total	40%	(1,927)	51%	2,698	42,232

Notes:
Analysis is based on married-filing-jointly returns filed by non-elderly couples (both spouses younger than age 65) and excludes non-filers. Couples with negative AGI are included in the total line. To compute the tax liability in the single state for married couples with dependents, the model assumes the spouse with higher income would meet the household maintenance test and file as a head of household and claim child-related tax benefits. The model assumes other individuals would file as single if they were unmarried.

Table 2
Two-Earner Penalty: Marriage Penalties and Bonuses by Second Earner's Earned Income Share
(2016 Income and Law)

Couple's Adjusted Gross Income ($)	Second Earner Share 0%					Second Earner Share 0-10%					Second Earner Share 10-20%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 15,000	2%	(426)	18%	414	1,401	9%	(82)	70%	344	61	13%	(175)	71%	662	64
15,000 <= 30,000	3%	(548)	74%	964	2,276	6%	(350)	83%	814	226	10%	(593)	75%	479	247
30,000 <= 40,000	6%	(705)	90%	1,463	1,303	7%	(589)	92%	1,161	206	25%	(454)	70%	518	190
40,000 <= 50,000	11%	(1,208)	88%	1,711	1,103	6%	(1,335)	93%	1,338	252	37%	(644)	62%	598	263
50,000 <= 60,000	15%	(1,127)	84%	1,741	1,073	12%	(938)	87%	1,167	278	42%	(627)	56%	601	287
60,000 <= 75,000	19%	(1,310)	80%	1,956	1,383	13%	(1,182)	86%	1,353	449	59%	(553)	41%	860	431
75,000 <= 100,000	16%	(1,885)	84%	3,394	1,775	12%	(1,543)	88%	2,533	641	45%	(691)	54%	1,455	613
100,000 <= 200,000	9%	(2,539)	90%	5,466	2,615	7%	(2,509)	93%	4,263	1,214	16%	(964)	84%	2,031	1,092
Over 200,000	4%	(6,158)	94%	8,894	1,421	21%	(6,051)	79%	6,447	767	49%	(6,406)	51%	2,489	526
Total	9%	(1,751)	78%	3,446	14,557	11%	(3,102)	87%	3,255	4,114	34%	(1,840)	64%	1,489	3,726

Couple's Adjusted Gross Income ($)	Second Earner Share 20-30%					Second Earner Share 30-40%					Second Earner Share 40-50%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 15,000	18%	(352)	56%	1,145	71	15%	(380)	78%	1,390	108	26%	(463)	62%	1,943	113
15,000 <= 30,000	37%	(545)	42%	567	217	37%	(509)	51%	1,040	321	51%	(800)	38%	1,537	288
30,000 <= 40,000	73%	(797)	24%	521	200	77%	(1,207)	21%	398	217	55%	(1,438)	34%	1,011	352
40,000 <= 50,000	78%	(1,299)	20%	373	259	75%	(1,767)	24%	348	329	71%	(2,187)	18%	1,307	419
50,000 <= 60,000	74%	(968)	25%	385	307	78%	(1,716)	14%	405	358	79%	(2,312)	6%	1,202	518
60,000 <= 75,000	71%	(721)	28%	586	494	82%	(1,114)	6%	610	667	82%	(1,698)	5%	888	847
75,000 <= 100,000	65%	(843)	34%	1,211	811	72%	(894)	27%	759	1,216	77%	(836)	14%	513	1,642
100,000 <= 200,000	43%	(1,031)	57%	1,203	1,657	68%	(1,326)	29%	776	2,583	74%	(1,430)	11%	469	3,436
Over 200,000	80%	(5,193)	20%	1,482	653	94%	(5,316)	6%	4,643	756	98%	(5,898)	1%	16,753	938
Total	59%	(1,724)	38%	1,068	4,684	72%	(1,840)	24%	899	6,572	76%	(2,045)	13%	1,051	8,579

Notes:
Analysis is based on married-filing-jointly returns filed by non-elderly couples (both spouses younger than age 65) and excludes non-filers. Couples with negative AGI are included in the total line. To compute the tax liability in the single state for married couples with dependents, the model assumes the spouse with higher income would meet the household maintenance test and file as a head of household and claim child-related tax benefits. The model assumes other individuals would file as single if they were unmarried. Earned income used in calculating the income share includes wages and net self-employment income.

Table 3
Two-Earner Penalty: Marriage Penalties and Bonuses for Couples with Children
(2016 Income and Law)

Couple's Adjusted Gross Income ($)	Second Earner Share 0%					Second Earner Share 0-10%					Second Earner Share 10-20%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 30,000	2%	(556)	44%	923	2,289	2%	(171)	82%	756	185	6%	(868)	74%	519	213
30,000 <= 40,000	5%	(881)	90%	1,408	784	7%	(692)	91%	1,214	146	25%	(491)	69%	430	134
40,000 <= 50,000	7%	(1,107)	91%	1,640	646	5%	(1,873)	94%	1,250	157	41%	(585)	57%	479	172
50,000 <= 60,000	10%	(953)	88%	1,284	624	9%	(888)	89%	931	180	49%	(563)	49%	414	175
60,000 <= 75,000	12%	(1,071)	86%	1,369	743	10%	(1,053)	89%	934	298	70%	(453)	29%	478	294
75,000 <= 100,000	12%	(1,984)	88%	2,988	982	9%	(1,119)	90%	2,109	426	59%	(496)	40%	862	411
100,000 <= 200,000	5%	(2,810)	95%	5,437	1,482	3%	(3,416)	97%	4,181	803	19%	(883)	81%	1,884	695
Over 200,000	2%	(8,419)	96%	8,455	932	21%	(6,433)	79%	6,366	533	51%	(6,932)	49%	2,617	321
Total	6%	(1,757)	78%	3,361	8,586	9%	(3,778)	89%	3,111	2,741	39%	(1,676)	58%	1,322	2,425

Couple's Adjusted Gross Income ($)	Second Earner Share 20-30%					Second Earner Share 30-40%					Second Earner Share 40-50%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 30,000	20%	(739)	52%	883	178	17%	(562)	71%	1,219	314	28%	(1,027)	63%	1,685	261
30,000 <= 40,000	87%	(852)	9%	728	135	91%	(1,493)	8%	647	138	61%	(1,748)	38%	1,289	233
40,000 <= 50,000	96%	(1,357)	3%	507	164	97%	(2,174)	3%	764	184	81%	(2,682)	18%	1,850	274
50,000 <= 60,000	92%	(1,096)	7%	453	189	97%	(2,137)	3%	1,199	203	96%	(2,996)	4%	782	296
60,000 <= 75,000	89%	(671)	9%	466	285	94%	(1,233)	5%	871	386	95%	(2,003)	5%	861	467
75,000 <= 100,000	90%	(791)	10%	481	510	91%	(911)	8%	1,100	731	92%	(885)	7%	850	967
100,000 <= 200,000	61%	(1,046)	39%	1,228	965	89%	(1,540)	11%	1,301	1,556	95%	(1,692)	4%	756	2,092
Over 200,000	91%	(5,041)	9%	2,530	410	99%	(5,723)	1%	34,166	478	99%	(6,524)	1%	32,526	587
Total	76%	(1,646)	21%	1,133	2,845	86%	(2,011)	12%	1,460	4,000	89%	(2,293)	10%	1,527	5,188

Table 3 (continued)
Two -Earner Penalty: Marriage Penalties and Bonuses for Couples without Children
(2016 Income and Law)

Couple's Adjusted Gross Income ($)	Second Earner Share 0%					Second Earner Share 0-10%					Second Earner Share 10-20%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 30,000	4%	(502)	66%	859	1,387	15%	(296)	77%	672	102	21%	(248)	74%	507	98
30,000 <= 40,000	8%	(559)	90%	1,546	519	7%	(316)	93%	1,034	59	27%	(373)	72%	722	56
40,000 <= 50,000	16%	(1,275)	83%	1,821	457	8%	(807)	92%	1,486	95	29%	(799)	71%	782	90
50,000 <= 60,000	20%	(1,250)	79%	2,440	449	17%	(988)	83%	1,635	98	32%	(776)	68%	816	112
60,000 <= 75,000	27%	(1,434)	73%	2,764	640	18%	(1,315)	81%	2,260	151	35%	(978)	65%	1,230	137
75,000 <= 100,000	22%	(1,818)	78%	3,960	793	18%	(1,979)	82%	3,454	215	16%	(2,120)	83%	2,044	202
100,000 <= 200,000	15%	(2,409)	84%	5,509	1,132	14%	(2,093)	86%	4,441	411	11%	(1,205)	88%	2,267	397
Over 200,000	8%	(5,263)	91%	9,784	489	21%	(5,161)	79%	6,631	234	45%	(5,478)	54%	2,309	205
Total	14%	(1,748)	77%	3,570	5,971	16%	(2,342)	83%	3,563	1,372	24%	(2,328)	75%	1,732	1,301

Couple's Adjusted Gross Income ($)	Second Earner Share 20-30%					Second Earner Share 30-40%					Second Earner Share 40-50%				
	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)	% with Penalty	Average Penalty ($)	% with Bonus	Average Bonus ($)	Number of Couples (000)
0 <= 30,000	54%	(386)	36%	413	110	72%	(450)	19%	554	115	73%	(539)	11%	1,793	140
30,000 <= 40,000	42%	(553)	55%	453	65	51%	(316)	43%	315	79	43%	(570)	26%	212	119
40,000 <= 50,000	49%	(1,106)	50%	360	96	47%	(709)	51%	320	145	52%	(721)	18%	271	146
50,000 <= 60,000	45%	(549)	54%	371	118	54%	(729)	28%	292	155	56%	(750)	10%	1,414	223
60,000 <= 75,000	46%	(854)	54%	615	208	67%	(884)	8%	352	281	66%	(1,157)	5%	922	380
75,000 <= 100,000	23%	(1,182)	76%	1,367	301	42%	(838)	54%	681	484	56%	(722)	23%	358	675
100,000 <= 200,000	17%	(959)	82%	1,187	692	35%	(508)	57%	629	1,027	41%	(472)	22%	379	1,343
Over 200,000	63%	(5,563)	37%	1,046	244	84%	(4,491)	15%	1,904	278	95%	(4,812)	3%	10,616	352
Total	34%	(1,996)	65%	1,034	1,839	49%	(1,370)	42%	641	2,572	55%	(1,430)	17%	625	3,391

Notes:
Analysis is based on married-filing-jointly returns filed by non-elderly couples (both spouses younger than age 65) and excludes non-filers. Couples with negative AGI are included in the total line. To compute the tax liability in the single state for married couples with dependents, the model assumes the spouse with higher income would meet the household maintenance test and file as a head of household and claim child-related tax benefits. The model assumes other individuals would file as single if they were unmarried. Earned income used in calculating the income share includes wages and net self-employment income.

Table 4
Federal Individual Income Tax Rates of Married Couples
(2016 Income and Law)

Couple's Adjusted Gross Income ($)	Average Wages ($, if wages>0)			Average Marginal Tax Rate on Wages (%, if wages>0)			Tax Rate on Non-working Spouses' Wages If They Decide to Work*** (%, if one-earner couple)	
	Per Couple*	Higher-Wage Spouse**	Lower-Wage Spouse**	Joint Return*	Unmarried Return: Higher-Wage Spouse**	Unmarried Return: Lower-Wage Spouse**	Joint Return	Unmarried Return: Non-working Spouse
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
0 <= 15,000	11,620	10,443	5,167	-20.6	-19.3	-2.8	-13.8	-2.3
15,000 <= 30,000	21,632	19,722	6,371	4.7	6.9	1.0	9.3	-1.6
30,000 <= 40,000	32,501	28,404	10,085	17.6	17.7	5.2	21.0	-0.3
40,000 <= 50,000	41,514	34,847	12,930	21.1	19.8	7.4	18.7	2.4
50,000 <= 60,000	50,256	41,401	15,782	16.2	19.4	9.2	16.5	4.1
60,000 <= 75,000	60,391	48,645	19,134	15.0	19.5	10.7	15.3	5.7
75,000 <= 100,000	78,719	60,512	26,224	15.2	21.7	12.5	18.9	9.1
100,000 <= 200,000	121,606	90,369	41,153	25.5	26.0	17.6	26.6	12.3
Over 200,000	321,586	271,513	74,730	33.0	31.6	22.1	35.2	16.6
Total	106,314	84,837	34,637	19.1	21.0	14.1	17.1	5.6

Notes:
Analysis is based on married-filing-jointly returns filed by non-elderly couples (both spouses younger than age 65) and excludes non-filers. Couples with negative AGI are included in the total line. To compute the tax liability in the single state for married couples with dependents, the model assumes the spouse with higher income would meet the household maintenance test and file as a head of household and claim child-related tax benefits. The model assumes others would file as single if they were unmarried. The marginal tax rate on a joint return is evaluated at the couple's joint income and the marginal tax rate on an unmarried return is evaluated at each spouse's separate income as single or head of household.

* Average wages and marginal tax rates on wages are computed only if the couple has wages.

** Average wages and marginal tax rates on wages are computed only if the spouse has wages.

***Tax rates are computed assuming the non-working spouse earns the average wage in column (3) for the AGI group. For joint returns, this potential wage is added to the couple's joint income to compute the additional taxes.