

SJR

12

FISCAL NOTE

STATE OF ALASKA
2001 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SJR 12
 (S) Publish Date: 2/7/01

Revision Date/Time (Note if correction): _____ Dept. Affected: _____
 Title: Eliminate Marriage Tax Penalty BRU: _____
 Sponsor: Senator Leman Component: _____
 Requester: _____ Component Number: _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2001) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: *(Attach a separate page if necessary)*

Prepared by: SENATE STATE AFFAIRS COMMITTEE Phone 465-4522

Senator: /s/ SENATOR THERRIAULT Date 2/5/01
 Committee Chair

During Session, January - May:
State Capitol, Room 115
Juneau, Alaska 99801
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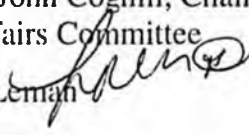
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Senator Loren Leman

Memorandum

To: Representative John Coghill, Chairman
House State Affairs Committee

From: Senator Loren Leman 

Date: February 12, 2001

Re: Request committee hearing for SJR 12: Eliminate Marriage Tax Penalty

Please schedule SJR 12 for a hearing in the House State Affairs Committee at your earliest convenience.

SJR 12 expresses the Legislature's support for reducing the marriage tax penalty.

I have attached a copy of the sponsor statement and original resolution. Please contact my staff aide Paul Roetman at extension 3712 if you require additional information.

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Senator Loren Leman

SJR 12 – Eliminate Marriage Tax Penalty(title am)

“Urging the United States Congress to amend the Tax Code to eliminate the marriage tax penalty.”

SJR 12 expresses the Legislature’s support for eliminating the imbalance in the federal Tax Code that taxes married couples disproportionately more than unmarried couples earning the same level of income.

The marriage penalty impacts millions of married couples. According to the Congressional Budget Office (CBO), under current tax laws married couples pay an average of \$1,480 more in taxes each year than two unmarried people.

The two primary penalties are the standard deduction and the graduated rate structure. First, the standard deduction amount for joint filers is not twice that for those claiming single status. This means an unmarried couple can deduct more from their income than a married couple. Second, income rate structures that push taxpayers into higher brackets are less than twice for joint filers than for those claiming single status. This means that a married couple may be forced into a higher tax bracket before an unmarried couple earning the same combined income.

Congress attempted to deal with the marriage penalty last year when it passed the “Marriage Tax Relief Reconciliation Act of 2000.” This would have provided tax relief to married couples penalized under current tax laws, but President Clinton vetoed the measure. Because President Bush and his Cabinet have expressed strong support for reducing taxes, Congress should revisit the marriage penalty.

**Prepared by Paul Roetman, Staff Aide to Senator Loren Leman (907-465-3712)
Last update: February 9, 2001**

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Senator Loren Leman

SJR 12: ELIMINATE MARRIAGE TAX PENALTY

I. Many people are effected by the Marriage Penalty

Income Category	Percentage of Tax Returns Filed Showing Marriage Penalty
Less than \$20K	12%
\$20 - \$50K	44%
\$50 - \$100K	54%
\$100K and above	54%

(Congressional Budget Office)

II. Income Tax Rates Are Lower for Two Single Filers compared to Married Joint Filers

Single filer	Married Joint
\$25K - \$3,754 (2 singles = \$7,508)	\$50K - \$8,307
\$35K - \$6,395 (2 singles = \$12,790)	\$70K - \$13,907

(based on information provided in IRS 2000 Tax Rate Schedule)

- These examples show that a married couple pays more tax than two single people living together who earn the same income.

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Senator Loren Leman

SJR 12 – ELIMINATION OF MARRIAGE PENALTY

Witness List

Hour: State Affairs Committee
8:00a.m. Tuesday, February 20, 2001

Senator Loren Leman, SPONSOR,

465-2095
Juneau

Bob Sramek, CPA
Sramek Hightower CPAs, P.C.

907-563-6722
Anchorage

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Senator Loren Leman

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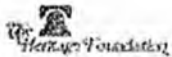
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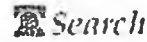
(based on information provided in IRS 2000 Tax Rate Schedule)

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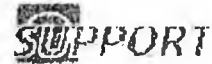


Number of Couples Affected by Marriage Penalty at the State and Congressional District Level

Alaska

State	Congressional District	Name of Representative		Party	Number of Couples Affected By Marriage Penalty
AK	At Large	Don	Young	R	66,876

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A REPORT OF THE HERITAGE CENTER FOR DATA ANALYSIS

No. 00-02

February 8, 2000

WHO PAYS THE MARRIAGE PENALTY?

NEW ESTIMATES BY CONGRESSIONAL DISTRICT AND STATE

William W. Beach and Rea S. Hederman¹

Link to:
| [PDF \(172k\)](#) |
Optimized for [Adobe Acrobat 4.0](#).

The House and Senate tax-writing committees will try again this year to develop legislation to reform the marriage penalty in the tax code. The challenge is to craft a measure that Congress can pass and the President can sign. Last year, President Bill Clinton vetoed the Taxpayer Refund and Relief Act, which contained \$117 billion in marriage penalty relief over the next 10 years. The veto forced about 25 million working families to pay more in income taxes because of the marriage penalty, and it perpetuated the troubling second-earner bias forcing lower earning spouses to see their pay frequently taxed at higher rates than the income of their higher earning spouses.²

This *Report* contains new estimates of the number of couples in each congressional district and state who pay some form of the marriage penalty in 2000. (See [table](#).)³ These estimates are based on data from the 1999 March Current Population Survey and cover all combinations of the three most frequent reasons that marriage penalties arise:

- Married taxpayers who qualify for the Earned Income Tax Credit (EITC) see that credit phase out more quickly than if they had applied for it as single taxpayers.

Produced by
The Heritage Center for
Data Analysis

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(202) 546-4400
<http://www.heritage.org>



- Married taxpayers who do not itemize claim a standard deduction that is less than twice the standard deduction for single taxpayers.
- The taxable income threshold for the 28 percent tax rate (and all rates above 28 percent) is less than twice that of single taxpayers, which means that the income of the lower earning married worker frequently is taxed at a marginal rate that is higher than that of the higher earning spouse.



WHAT IS THE MARRIAGE PENALTY?

The marriage penalty stems from the federal government's effort to do three things: 1) tax equal-earning couples at the same rate, 2) tax them at progressive marginal tax rates, and 3) recognize the economic benefits of marriage by requiring married couples to file their taxes on a schedule of tax rates that treats them less favorably than it does single taxpayers. As the Congressional Budget Office notes, "The incompatibility of those three goals...results in continuing tension within the tax code."⁴ This tension in the tax code harms the pocketbooks of American families and the institution of marriage, and has significant implications for the economic and cultural health of the nation.

The marriage penalty is arguably the most significant of the biases affecting the secondary earner (the spouse with the lower income). As two prominent tax economists have observed, "the basic source of the marriage tax is the fact that key elements of the tax law depend on an individual's family situation, including the rate schedule, the standard deduction, and the earned income tax credit. Hence, the act of getting married per se affects individuals' tax liabilities, even if their work and saving decisions stay the same."⁵

In most cases, federal income tax laws require that married couples file joint tax returns based on the combined income of husband and wife. When a husband and wife both work, the secondary earner is, in effect, taxed at the top rate of the primary earner. As a consequence, a married couple may pay more taxes than they would if each spouse were taxed as a single wage earner.

According to the Congressional Budget Office, an estimated 42 percent of married couples incurred a marriage penalty in 1996: "more than 21 million married couples paid an average of nearly \$1400 in additional taxes in 1996 because they must file jointly."⁶ Most severely affected by the marriage penalty were couples with a more equal division of income between husband and wife and those who receive EITC benefits. Essentially, Americans with the lowest incomes and families dependent on two wage earners shoulder the largest marriage penalty burdens under the current tax policy.

Consider what happens to two \$30,000-a-year wage earners who decide to marry. As a single individual, a \$30,000-a-year wage earner would pay \$3,000 in taxes. The principle of marriage neutrality would mean that when a \$30,000-a-year wage earner marries another \$30,000-a-year wage earner, the couple's tax liability should be \$6,000. Under the current joint filing schedule, however, this married couple--that now earns a total of \$60,000--owes \$8,400 in tax per year, a \$2,400 penalty for marrying each other.

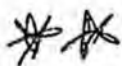
According to the ideal of marriage neutrality, tax burdens should not be altered when two people decide to marry. However, the goal of progressive taxation is violated under such circumstances.

Progressivity states that a person (or, under today's joint filing requirement, a combination thereof) who has twice the income of another would pay more than twice in taxes. The current tax system sides with the ideal of progressive taxation and punishes hardworking Americans.

THE EFFECT ON THE NATION

The marriage penalty can have significantly negative economic implications for the country as a whole. Not only does this feature of the tax system stand as a likely obstacle to marriage, it can actually discourage a spouse from entering the workforce. Edward McCaffery, a law professor at the University of Southern California has said that: "By adding together husband and wife under the rate schedule, tax laws both encourage families to identify a primary and secondary worker and then place an extra burden on the secondary worker because her wages come on top of the primary earner's. The secondary earner is on the margin."⁷

As the American family realizes lower income levels, the nation realizes lower economic output. From a strictly economic standpoint, the fact that potential workers would avoid the labor force as a result of peculiarities in the tax code is a clear sign of a failure to maximize eligible resources. As a result, the nation as a whole fails to reach its economic potential, which is demonstrated by decreased earnings, output, and international competitiveness.



METHODOLOGY

This analysis estimates the number of married taxpayers who are affected by marriage penalties in the tax code that stem from the standard deduction, taxable income thresholds for marginal tax rates, and the phase-out structure of the Earned Income Tax Credit (EITC). The vast majority of couples that we estimate to be affected by a marriage penalty are two-earner families in which the secondary earner's wages are a significant portion of a family's income and taxed at a higher marginal rate. Readers should note that these incidence estimates cannot be directly employed to estimate the dollar amount of penalty per family due to differences in the marginal rate structure and the EITC.

We employed the March 1999 Current Population Survey, which contains 1998 income and demographic data, to determine the number and type of families that suffer the marriage penalty in each state.⁸ We then used the most recent IRS Public Use File to determine the percentage of families in each tax bracket that typically use the standard deduction instead of itemizing their taxes.⁹

We assumed that married taxpayers will incur a marriage penalty if they had two earners in a tax bracket that is higher than 15 percent or if they were likely to use the standard deduction in the 15 percent bracket. We also assumed that married families receiving the EITC suffer a penalty due to the steeper phase-out of the credit for married taxpayers

than for single taxpayers. Eligibility for the EITC is determined on the qualifying income of the taxpayers. The phase-out range for married taxpayers is less than twice that of two single taxpayers. Readers should note that the number of families who do not currently receive the EITC but would if they were both single was not used in this analysis.

The estimated percentage of families suffering a penalty at the congressional district level was derived from the 1990 Census updated to the 104th Congress. The percentage of families likely to suffer a penalty was held constant for families in 1998. The overall number of families affected in 1998 is based on U.S. Treasury estimates of 25 million.¹⁰

--William W. Beach is Director of the Center for Data Analysis at The Heritage Foundation, and Rea S. Hederman is a Policy Analyst in the Center.

Tables

Number of Married Couples Affected by the Marriage Penalty by Congressional District and State

1. Alabama-California (Districts 1-9)
2. California (Districts 10-52)
3. Colorado - Florida (Districts 1-17)
4. Florida (Districts 18-23) - Illinois (Districts 1-13)
5. Illinois (Districts 14-20) - Kentucky
6. Louisiana - Massachusetts
7. Michigan - Mississippi
8. Missouri - New Jersey
9. New Mexico - North Carolina (Districts 1-4)
10. North Carolina (Districts 5-12) - Oklahoma
11. Oregon - South Carolina
12. South Dakota - Texas
13. Utah - West Virginia
14. Wisconsin-Wyoming and U.S. Total

Note: Estimates may not sum due to rounding. Population data based on 1990



FAMILY RESEARCH COUNCIL

FAMILY, FAITH AND FREEDOM

February 5, 2001

The Honorable Loren Lemana
Senate Majority Leader
State Capitol
Juneau, AK 99801-1182

Dear Majority Leader Lemana:

On behalf of Family Research Council and the American families we represent, thank you for making marriage penalty relief a top priority this year. We wholeheartedly support your resolution to eliminate the marriage penalty tax. It is because of your commitment to this important family issue that we can begin to eliminate the unjust marriage penalty.

Eliminating the marriage penalty treats married couples equally with unmarried individuals. Taking steps to relieve and eliminate the unfair marriage tax provides the government an opportunity to recognize and support the vital contribution marriage makes to the betterment of society.

Polls show that an overwhelming majority of Americans think that the marriage penalty is unfair and should be eliminated. According to an August 1999 Wirthlin Worldwide poll, **85% of Americans believe the marriage penalty is unfair, and 80% are in favor of eliminating the marriage penalty. Eighty-nine percent (89%) of married women and 89% of working and married mothers feel that the marriage penalty is unfair (the polling company/Wirthlin Worldwide, 10/97).** Finally, **67% of Americans support using the budget surplus to eliminate the marriage penalty (Harris poll, 12/97).**

Thank you again for your commitment to promoting marriage and to alleviating the tax burden on America's families. We look forward to working with you to return Americans' hard-earned money.

Sincerely,

Charles A. Donovan
Executive Vice-President

2000 Tax Rate Schedules



Use only if your taxable income (Form 1040, line 39) is \$100,000 or more. If less, use the Tax Table. Even though you cannot use the Tax Rate Schedules below if your taxable income is less than \$100,000, all levels of taxable income are shown so taxpayers can see the tax rate that applies to each level.

Schedule X—Use if your filing status is Single

If the amount on Form 1040, line 39, is: Over—	But not over—	Enter on Form 1040, line 40	of the amount over—
\$0	\$26,250	15%	\$0
26,250	63,550	\$3,937.50 + 28%	26,250
63,550	132,600	14,381.50 + 31%	63,550
132,600	288,350	35,787.00 + 36%	132,600
288,350	.....	91,857.00 + 39.6%	288,350

Schedule Y-1—Use if your filing status is Married filing jointly or Qualifying widow(er)

If the amount on Form 1040, line 39, is: Over—	Put not over—	Enter on Form 1040, line 40	of the amount over—
\$0	\$43,850	15%	\$0
43,850	105,950	\$6,577.50 + 28%	43,850
105,950	161,450	23,965.50 + 31%	105,950
161,450	288,350	41,170.50 + 36%	161,450
288,350	.....	86,854.50 + 39.6%	288,350

Schedule Y-2—Use if your filing status is Married filing separately

If the amount on Form 1040, line 39, is: Over—	But not over—	Enter on Form 1040, line 40	of the amount over—
\$0	\$21,925	15%	\$0
21,925	52,975	\$3,288.75 + 28%	21,925
52,975	80,725	11,982.75 + 31%	52,975
80,725	144,175	20,585.25 + 36%	80,725
144,175	.....	43,427.25 + 39.6%	144,175

Schedule Z—Use if your filing status is Head of household

If the amount on Form 1040, line 39, is: Over—	But not over—	Enter on Form 1040, line 40	of the amount over—
\$0	\$35,150	15%	\$0
35,150	90,800	\$5,272.50 + 28%	35,150
90,800	147,050	20,854.50 + 31%	90,800
147,050	288,350	38,292.00 + 36%	147,050
288,350	.....	89,160.00 + 39.6%	288,350