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Byron Dorgan, Chairman

DEMOCRATIC POLICY COMMITTEE

LEGISLATIVE BULLETIN

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S. 2839, the *Marriage Tax Relief Reconciliation Act of 2000*

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Summary

On July 14, 2000, the Senate is expected to consider **S. 2839**, the *Marriage Tax Relief Reconciliation Act of 2000*. **S. 2839** is virtually identical to **S. 2346,** which was reported out of the Senate Finance Committee on March 30, 2000. In late April, Senator Lott filed a series of cloture motions on **S. 2346**. Because Senator Lott would not allow a limited number of amendments to be offered to **S. 2346**, Senate Democrats opposed cloture and cloture was not invoked.

Section 104 of **H. Con. Res. 290**, the *Concurrent Budget Resolution for Fiscal Year 2000*, provides for two reconciliation bills in the Senate, the first of which is to be reported from the Senate Finance Committee by July 14, 2000. The second reconciliation bill is to be reported by September 13, 2000.

On June 28, 2000, the Senate Finance Committee reported **S. 2839** on a party-line vote. **S. 2839**, the *Marriage Tax Relief Reconciliation Act of 2000*, will be the first of the two bills considered under the reconciliation guidelines. Under reconciliation guidelines, debate in the Senate on any measure is limited to 20 hours. Because either side can yield back time, it is possible there will be less than 20 hours of debate on **S. 2839**.

S. 2839 seeks to address the marriage penalty by: increasing the amount of the standard deduction for joint filers so it is double that of single filers; increasing the upper-income limit for the 15-percent and 28-percent tax brackets; increasing the phase-out range of the Earned Income Tax Credit (EITC); and adjusting the Alternative Minimum Tax (AMT).

Because **H. Con. Res. 290** is a five-year budget resolution, the marriage penalty bill is a five-year measure. As a result, the tax cuts in **S. 2839** would phase out after five years. Because the tax cuts phase out, the revenue loss from **S. 2839** would be $55 billion over five years. However, the Joint Committee on Taxation estimated that the ten-year revenue loss from **S. 2346**, the marriage penalty bill before the Senate in April, would be $248 billion.

Background

The “marriage penalty” is the additional tax paid by a husband and wife over and above what they would have paid if they were not married. Marriage penalties are more likely to occur where both spouses have roughly similar income (i.e., an income division between 50%-50% and 70%-30%).

The tax code contains 65 provisions that cause millions of married couples to pay more in taxes than if they filed as singles. For example, there is a marriage penalty in the standard deduction, where the deduction for married couples is only about 1.6 times as large as the standard deduction given to single filers. In order to be marriage-neutral, the standard deduction should be twice the size for joint filers as it is for singles. There is also a marriage penalty in each of the tax brackets, and in the phase-out ranges for many provisions, including the income limits to qualify for the Roth IRA; the HOPE Scholarship and Lifetime Learning Credit; and the EITC.

There is also a marriage bonus in the tax code. This usually occurs when one spouse earns the great majority of the family's income. This is illustrated by the example of a couple where only one spouse works and the couple uses the standard deduction. Prior to marriage, the income-earning spouse would be able to take a standard deduction of $4,400. Once married, the couple is eligible for a standard deduction of $7,350 — an increase in the standard deduction of $2,950.

Since announcing their Contract with America in 1995, House and Senate Republicans have made repeated attempts to reduce or eliminate the marriage penalty. Republican proposals have encompassed a spectrum of options for addressing the marriage penalty, ranging from increasing the standard deduction to allowing married couples to file separate tax returns.

Major Provisions

Increase in the Standard Deduction

Under current law, taxpayers who do not itemize their tax deductions may elect to use the standard deduction. For tax year 2000, the standard deduction for a single filer is $4,400 and $7,350 for a joint filer. In order to make the standard deduction marriage-neutral, **S. 2839** would increase the deduction so it would be double the size of the deduction allowed for single filers. This change would take effect in 2001.

According to Finance Committee Republicans, this change, when fully effective, would provide tax relief for approximately 25 million couples filing joint returns (S. Rpt. 106-329). Between 2001 and 2005, this provision would cost $25 billion. However, if this provision is extended for a

10 year period, the cost rises to $66 billion.

Increase in the 15-Percent and 28-Percent Tax Brackets

According to the Committee Report on **S. 2839**, the rate structure in the tax code is responsible for causing the greatest dollar amount of the marriage tax penalty. Beginning in 2002, the *Marriage Penalty Relief Reconciliation Act of 2000* would phase in an increase in the upper-income limits for the 15-percent and 28-percent tax brackets so they would be twice the limit as single filers. By 2007, the bracket increase would be fully phased in. Because **S. 2839** sunsets in five years, this provision would not become fully effective.

According to the Committee Report, this change would provide tax relief for approximately 21 million couples filing joint returns. Between 2001 and 2005, this change would cost $17.5 billion. If this provision is extended for a 10-year period, the cost rises to approximately $122 billion.

Increasing the Beginning and Ending Point of the Earned Income Tax Credit

Certain low-income workers are entitled to claim the Earned Income Tax Credit (EITC). The credit amount and eligibility for the credit is based on the taxpayer's income and the number of children in the family. However, the credit is not determined by filing status (there is no separate phase-out range for married couples claiming the EITC as compared to single filers). Hence, the available credit can be lower for married couples than for single parents. For a family with two children, the current-law EITC phase-out begins at $12,690 and ends at $31,152, regardless of whether the family is headed by one or two parents.

S. 2839 would increase the beginning and ending income levels for the credit for married couples filing a joint return by $2,500. As under current law, the income limits would be indexed for inflation. This change would be effective beginning in 2001.

Between 2001 and 2005, this change would cost $6.3 billion. If this provision were continued over a 10-year period, the cost would rise to approximately $14 billion.

Preserve Family Tax Credits from the Alternative Minimum Tax

The Alternative Minimum Tax (AMT) is a tax imposed on the use of various credits and deductions available to taxpayers. The purpose is to ensure that individuals — particularly wealthy persons — do not completely eliminate their taxable income through the use of credits and deductions. In recent years, more and more families have found themselves subject to the AMT. The AMT can involve complex calculations and higher-than-expected tax rates. In response, Congress has passed legislation that allows non-refundable personal credits (such as the dependent care credit and the $500 per-child tax credit) to offset both regular tax and AMT liability for tax years 2000 and 2001.

S. 2839 would permanently extend the use of non-refundable tax credits against both regular and AMT tax liability. The benefit of this provision would go to all taxpayers who qualify for the credits, regardless of filing status. Between 2001 and 2005, this change would cost $6.8 billion. If this provision were continued over a 10-year period, the cost would rise to approximately $44 billion.

Major Issues

According to objections raised by Finance Committee Democrats in the report accompanying **S. 2839**, "the best thing we can do with the on-budget surplus is to pay down the federal debt. All Democratic members agree that if we are going to have tax cuts, however, we should consider them in a comprehensive fashion."

In addition, **S. 2839** is actually a tax cut bill for millions of Americans who do not incur a marriage penalty. The standard deduction and bracket expansion proposals would increase the marriage bonus for millions of couples. It is estimated that only 40 percent of the benefits of **S. 2839** would go to couples who currently experience a marriage penalty.

Moreover, of the 65 provisions in the tax code that cause a marriage penalty, the *Marriage Tax Relief Reconciliation Act of 2000* addresses only one (the standard deduction) and partially address two more (the tax bracket expansion and adjusting the EITC).

The AMT provisions in the Republican bill have nothing to do with the marriage penalty. In fact, the AMT provisions in the bill would actually increase the number of taxpayers subject to the AMT. Assuming the legislation does not sunset after five years, the Department of Treasury estimates that increasing the standard deduction and expanding the size of the tax brackets would lead to 5.6 million more taxpayers being subject to the AMT by 2010.

Democratic Finance Committee Alternative

During the markup of **S. 2839**, the Finance Committee Democrats offered a substitute proposal. The substitute was defeated on a party-line vote.

The current Democratic alternative has been slightly modified from the proposal offered during the Finance Committee's markup of the original marriage penalty bill on March 30, 2000. The Democratic plan would give married taxpayers the option of filing single or as a married couple depending on which status would benefit them. The full benefit of this plan would be capped at $100,000 per couple and gradually phases out for couples with an income in excess of $150,000.

The previous version of the Democratic alternative did not have a cap on the benefits. However, in order to better target the benefits to middle and low-income families and limit the revenue loss of the proposal, an income cap on benefits was added.

The Democratic alternative also eliminates the penalty inherent in the EITC while the Republican bill only reduces the penalty. Unlike the Republican bill, the Democratic plan would exempt its marriage penalty relief from the AMT and would not expand the marriage bonuses many families already receive.

It should be noted that the option to calculate tax liability as a single individual is not a new concept. Nine States and the District of Columbia allow married couples to pay their taxes on separate incomes as if they were single.

Whereas the *Marriage Tax Relief Reconciliation Act of 2000* would cost $248 billion over ten years, the Democratic plan would cost $197 billion over the same period. [Note: This assumes neither proposal phases out after five years as called for in the *FY 2001 Budget Resolution*.]

Legislative History

On March 30, 2000, the Senate Finance Committee reported **S. 2346** on a party-line vote. All of the Committee Democrats voted against the bill. Efforts to invoke cloture on **S. 2346** were not successful and, as a result, the Senate never voted on the measure.

On June 28, 2000, the Senate Finance Committee reported **S. 2839**, the *Marriage Tax Relief Reconciliation Act of 2000*, on a party-line vote. On July 12, 2000, the House of Representatives passed its version of **S. 2839** by a vote of 269 to 159.

Arguments For and Against

For: Some argue that the marriage penalty undermines respect for the family and discourages marriage. By increasing the size of the standard deduction and the income limits of the 15-percent and 28-percent tax brackets, proponents argue that the *Marriage Penalty Relief Reconciliation Act of 2000* addresses some of the most serious causes of the marriage penalty in the tax code. **S. 2839** also reduces the marriage penalty in the EITC, and would exclude millions of American families from AMT calculations.

Against: Because **S. 2839** addresses only three of the 65 provisions in the tax code that cause marriage penalties, it would not eliminate the marriage penalty for millions of families. In fact, only 40 percent of the benefits of **S. 2839** would go to couples who currently experience a marriage penalty. **S. 2839** would also cause 5.6 million more families to be subject to the AMT.

A less complicated and more targeted approach is embodied in the alternative offered by Finance Committee Democrats. By addressing the marriage penalty in all 65 provisions in the tax code, the Democratic plan eliminates the marriage penalty for *all* eligible families by 2004.

The Democratic alternative would dedicate 100 percent of its benefits to fixing the marriage penalty and would not spend resources on expanding marriage bonuses. Moreover, the income limits in the Democratic plan would allow for a more targeted approach that would ensure the benefits go to low and middle income families who actually have a marriage penalty.

Because the Democratic alternative is more fiscally responsible than the Republican bill, Congress will have the resources necessary to address other critical issues facing the Nation.

Statement of Administration Policy

At press time, a Statement of Administration Policy (SAP) had not been released. Should a SAP be issued, it will be included in a supplement to this bulletin.

Possible Amendments

A list of possible amendments will be included in a supplement to this bulletin.

Outside Groups

For

Americans for Tax Reform
Citizens for a Sound Economy
National Taxpayers Union

Against

AFL-CIO
Center on Budget and Policy Priorities
Citizens for Tax Justice
Concord Coalition

No Position

Empower America
Families USA