Tax Tips You Can Use, June 2006

What is the “Marriage Penalty”?

By Kathleen Crawford, EA

Since June is the month for weddings it would be appropriate to discuss the federal income tax “marriage penalty”. The good news for all of the brides and grooms is that, in the last ten years, Congress has eliminated almost all of the income tax “penalties” for married people. Many people have heard the term “marriage penalty”, but many do not know how the tax code created the penalties or how they were eliminated. While trying to minimize the tax math, I will explain the old system of tax rates and the new elimination of the “penalties”.

In the past, there were no actual penalties for married people. However the tax code had evolved from an “Ozzie and Harriet” view of the world that supposed that a married couple had a single wage earner. The tax code also used that old adage that two can live more cheaply than one plus one. So the standard deductions for a married couple were less than the sum of two singles and the tax rates crept up faster for a married couple.

As an example, in 1997, if he made $25000 per year and she made $27000 per year and each used standard deductions, then he would pay $2734 in taxes and she would pay $3034 in taxes. The two singles would pay a total of $5768 in federal income taxes. If he and she got married in June of 1997, then their combined income of $52000 would cost them $5974 in federal income tax. That difference of $206 more tax for our married couple was the “marriage tax” or “marriage penalty”. Although $206 does not sound like much, that penalty was paid year after year and went up substantially for higher wage earners. To complete the picture, a single person making $52000 per year would pay $9459 in taxes, while our couple paid $5974 in taxes. In general, at the same income level, a single person will always pay more than a married couple.

Now, fast forward to 2005. We will give our couple no raises, so we expect their buying power and taxes to go down. On his $25000 per year of income, he would pay $2159 in federal income tax. On her $27000, she would pay $2459 in federal tax. The two singles would pay a total of $4618 in federal income tax. With marriage in June of 2005, their total income of $52000 for 2005 would cost them $4614 in federal income tax. The difference of $4 is because of the math in the tax tables and is too small to be significant. The changes that eliminated the “marriage penalty” have happened because both the standard deduction and the tax rate tables have been changed so that married rates are twice (or half) the single rates. Our single person from above, making $52000 per year would pay $7621 in tax.

Marriage has many obstacles, but the tax code is not longer one of them. So let the wedding bells ring!

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.