Race, Taxes, and Marriage

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The individual income tax code generally does not explicitly refer to race, and the relationship between a taxpayer's race and their tax bill has largely been ignored by policymakers and researchers (Bearer-Friend, 2019; Gale, 2021). Nevertheless, the income tax can create and reinforce racial disparities due to the way factors that affect taxes are correlated with race.

For example, the tax treatment of marriage has attracted attention for decades, but only recently have scholars—most notably Brown (1997a; 1997b; 1999a; 1999b; 2005; 2021) and Moran and Whitford (1996)—begun to address the racial dimensions of this issue. Marriage penalties, bonuses, or both will exist in any progressive, family-based income tax. Generally, under US tax law, controlling for family income, couples with more equal incomes are more likely to face penalties than those with less equal incomes (throughout the paper, we refer to married couples as "couples"). Brown (2021) and others show that Black women are more likely to work than white women and are paid more, relative to Black men, than white women earn relative to white men. As a result, she hypothesizes that when controlling for family income, Black couples are more likely to face marriage penalties and to face larger marriage penalties than white couples.

We note two other reasons why Black and white couples may face different tax implications of marriage. First, on average the groups have differences in family characteristics, such as the presence of children, and various features of the tax code affecting children are not neutral with respect to marriage. Second, Black couples and white couples have different distributions of income, and certain tax provisions that are not marriage-neutral are concentrated at specific income levels.

In this policy brief, we report the results of our research on how the federal individual income tax treats Black couples relative to white couples. Our basic finding is that, among families with similar income, Black married couples are more likely to face marriage penalties

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and to face larger penalties, than white married couples.

I. THE INCOME TAX TREATMENT OF MARRIAGE

A couple is said to face a marriage penalty if they owe more individual income tax if they are married than they would if they were single. Conversely, a couple has a marriage bonus if they would owe less income tax when married than they would if single.[2]

A reasonable starting point is to ask why the tax system favors or disfavors marriage at all. The answer is that marriage neutrality—the absence of either marriage penalties or subsidies—runs up against other tax policy goals. Specifically, any tax that applies to family income cannot simultaneously be progressive, provide equal taxation of families with the same income, and remain marriage neutral (Bittker 1975, Rosen 1987). Thus, marriage neutrality conflicts with common notions of vertical and horizontal equity.[3]

There are several reasons for differences in marriage bonuses and penalties between Black couples and white couples. First, couples with less equal earnings are less likely to face marriage penalties and more likely to obtain bonuses. An example is the case of a childless worker and a single parent who is not employed. Before their marriage, neither could claim the large EITC for workers with children, which requires both earnings and at least one child to qualify. If they marry, the couple could claim that credit if their combined income is below the income cap.

Second, any deduction or credit whose value is not double for married couples relative to single filers will create penalties. For example, in tax year 2022, the standard deduction was $25,900 for married couples, half that for single filers, and $19,400 under the head-of-household filing status, thus creating a marriage penalty for couples with children.[4].

Third, income levels can influence the presence and magnitude of marriage penalties. As noted above, bonuses can arise if a low-income childless worker marries a nonworking parent. In contrast, a two-earner couple with children might be eligible for the EITC based on the income of just one of the partners if they were unmarried and not filing jointly. But if married, their combined income may result in a smaller credit or no credit at all.

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[2] Typically, these comparisons are made assuming that married couples file a joint return and individuals file as single or, if children are present, as head of household. In practice, married couples are permitted to file individually under a "married, filing separately" status, but usually tax liability is smaller under a "married, filing jointly" status. For example, taxpayers who file separately cannot claim the earned income tax credit under current law.

[3] The notion of imposing the same tax burden on families with the same income can be expanded to cover families in similar circumstances, but the definition of what constitutes similarity is vague and controversial. The tax code mostly uses household income, filing status, and number of children to identify families with similar circumstances. Brown (2021) makes the point that two-earner and single-earner couples with the same household financial income should not be seen as similar for horizontal equity purposes, since the non-working spouse in the single-earner couple can more easily provide household services than either working spouse in the two-earner couple.

[4] By maintaining the home in which their children live, custodial unmarried parents and others caring for dependent relatives can qualify for a larger standard deduction and a more generous tax rate schedule than other unmarried individuals, who must file as singles.

Figure 1 shows how various characteristics differ between Black and white couples in the sample that we use. First, Black couples generally have lower income than white couples. About 37 percent of Black couples have AGI below $50,000, compared to 28 percent of white couples. About 4 percent of Black couples have AGI above $200,000, compared to 13 percent of white couples. Second, controlling for income, Black couples are 7-9 percentage points more likely to have two earners. (The overall difference is just 3 percentage points because the distribution of income differs across racial groups.) Third, and again controlling for income, Black couples are 8-16 percentage points more likely to have dependents.

To remove marriage penalties and bonuses completely, policymakers would have to either eliminate the progressivity of the income tax or violate the idea that families with equal income and similar circumstances should pay equal taxes. In practice, the tax system does violate the latter condition, in part because of beliefs about the incentive effects of marriage penalties and the social benefits of marriage.

II. DATA AND RESULTS

No publicly available data set contains information about both race and taxes. To address this shortfall, we proceed in several steps. To generate household-level data on race, other demographic characteristics, income, and wealth, we access data from eight waves (1998 to 2019) of the Survey of Consumer Finances (SCF). To form income tax units out of the SCF households, we use the methodology developed in Gale et al. (2022a, b). To determine how to treat married couples under the counterfactual that they were unmarried, we generally follow the methodology developed in Bull et al. (1999). To compute federal income tax liabilities. we apply the National Bureau of Economic Research TAXSIM microsimulation model (Feenberg and Coutts, 1993).

We obtain several principal findings (Table 1). First, on an overall basis, Black couples face higher tax costs of marriage. Black couples were more likely to face penalties (46 percent to 43 percent) and less likely to receive bonuses (36 percent to 43 percent) than white couples were, under 2018 law. We compute marriage penalties and bonuses both in dollar terms and as a "rate"—a share of income. We believe the latter measure is more informative both because the "rate" adjusts for the couple's resources and because the distribution of income differs between Black couples and white couples. Among those with penalties, relative to white couples, Black couples paid less in dollars ($1,804 versus $2,091) but paid more as a share of income (1.8 percent versus 1.4 percent). Among those with bonuses, the bonus was smaller for Black couples than white couples ($1,926 versus $3,304), but the bonus rate was about the same: 2.6 percent for Black couples and 2.7 percent for white couples. All these differences except the last are statistically significant.

Second, our results support Brown's (2021) hypothesis: Controlling for family income, penalties are more prevalent and larger for Black couples than white couples (Figure 2). For example, under 2018 tax law, among tax units with adjusted gross income (AGI) between $50,000 and $100,000, and relative to white couples, Black couples were more likely to face marriage penalties (59 percent to 51 percent) and less likely to receive marriage bonuses (33 percent to 44 percent). Among those with a penalty, Black couples faced higher average penalties ($1,394 versus $1,241). Among those with a bonus, Black couples received smaller average bonuses ($1,402 versus $1,576). Taken together, Black couples in this income group paid, on average, a net penalty of $358. White couples in this income group received, on average, a net bonus of $61. All the differences are highly statistically significant. Results from other income groups—except the lowest, where a sizable fraction of couples do not owe any income tax—are generally consistent with these patterns.

Third, we show that, controlling for income, marriage penalties are substantially higher for couples with relatively equal earnings and couples with dependents. We also show that Black couples have more equal earnings than white couples on average (first because both spouses are more likely to work and second because, among two-earner couples, Black couples have more equal earnings than white couples do). In addition, Black couples are more likely to have dependents.

In regression analysis, we find that the difference in the prevalence of marriage penalties between Black couples and white couples is driven by racial differences in the level of income, the prevalence of two-earner families, and the presence of dependents.

Fourth, we highlight the importance of different marriage rates by race. In the SCF data we use, couples represented 24 percent of Black tax units and 38 percent of Black adults (persons over the age of 18) but 52 percent of white tax units and 68 percent of white adults. As a result, although a greater share of Black couples than white couples experience penalties, a greater share of white tax units and white adults incur marriage penalties than Black tax units and adults. Consequently, policies to reduce marriage penalties, even if they are motivated by racial disparities in marriage penalties, may nevertheless provide tax cuts for a greater share of white tax units than Black tax units.

Fifth, we examine how changes in tax law have affected marriage penalties over time, by comparing penalties under 2018 tax law with the penalties that arise due to the tax laws operating in 2000 and 2015. The 2001 tax cut reduced marriage penalties by changing the two lowest income tax brackets, the standard deduction, and the phaseout rules for the earned income tax credit (EITC). Rate cuts in 2001 and 2017 and other changes in those years, as well as in 2003 and 2009, affected the tax treatment of marriage as well.

We find that the evolution of tax changes generally reduced the overall prevalence of marriage penalties. About 56 percent of Black and white couples in our sample faced marriage penalties under 2000 law, compared to 47 percent under 2015 law and 43 percent under 2018 law. But the tax changes disproportionately benefited white couples when it comes to bonuses. Both Black and white couples incurred, on average, a net penalty of 0.9 percent of income under 2000 law, falling to 0.1 percent under 2015 law. The Tax Cuts and Jobs Act of 2017 (TCJA), however, boosted net marriage bonuses for white couples—and particularly those with high incomes—with no discernable effect, on average, for Black couples.

Sixth, we examine two potential policy changes. Since the main drivers of penalties, other than income, are the presence of dependents and relatively equal spousal earnings, we examine reforms that could address the discrepancies caused by each issue.

Giving spouses the option to file individually rather than jointly would help reduce the impact of dependents on marriage penalties. The spouse who claimed the child or children could file as a head of household and possibly qualify for the CTC, EITC, or both (or a larger credit amount) based solely on their own income.[5] The policy would eliminate *all* marriage penalties but would be expensive, with an annual cost of about $49 billion (in 2018 dollars). Black couples and white couples would receive gains of 1.1 percent and 0.8 percent of income, respectively. The changes would be larger among couples with dependents and larger, as a share of income, among lower-income groups. But the tax cut would only go to 10 percent of Black tax units (17 percent of Black adults), compared to 22 percent of white tax units (30 percent of white adults).

Reinstating a two-earner deduction, similar to the one in place in the early 1980s, could help reduce the impact of relatively equal spousal earnings on marriage penalties. Such a policy would have reduced total penalties by nearly $15 billion and increased bonuses by about $5 billion in 2018. But the prevalence of marriage penalties would have fallen by only 3.1 percentage points among white couples and 1.8 percentage points among Black couples. Even among two-earner couples, the prevalence of penalties would fall by less than 7 percentage points. The effects are quite large, however, among the highest income groups, both because they are more likely to use the deduction and because the deduction is worth more to couples in higher tax brackets. The benefits would go to 13 percent of Black tax units (20 percent of Black adults), compared to 25 percent of white tax units (33 percent of white adults).

III. CONCLUSION

The tax treatment of marriage has changed over time, reflecting shifting views about what constitutes equitable treatment. Prior discussions notably omitted consideration of racial dimensions of the tax treatment of marriage. In this section, we examine how legislative changes since 2000 and two policy reforms affect Black and white couples differently.

We provide new evidence on marriage penalties by race using the 1998-2019 Survey of Consumer Finances, coupled with methods that convert SCF household units into tax units, methods for determining the tax liability of married couples if they were unmarried, and the application of NBER’s TAXSIM. We find that Black couples are more likely than white couples to experience an income tax penalty from marriage and to face higher penalties. We show that these patterns arise because, controlling for income, Black spouses have more equal earnings than white spouses and because Black couples are more likely to have dependents.

There is no perfect solution to the tax treatment of marriage, and the byzantine system that has emerged reflects policymakers’ struggles to reconcile a variety of conflicting goals. Our findings, along with Brown (2021), Alm et al. (2023) and other emerging research, suggest the need to add one more consideration into the discussion: the impact on racial equity.

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[5] The Tax Relief and Jobs Cuts Act of 2017 eliminated marriage penalties in the phaseout range of the child tax credit through 2025. The American Rescue Plan of 2021 expanded the child tax credit (for one year) but reintroduced marriage penalties in the phaseout range. President Biden has proposed extending that expansion (and thus the marriage penalties, as well) through the end of 2025.”

Several caveats apply to our analysis. First, we focus solely on annual measures of marriage penalties and bonuses, but the effects could persist over time (Ilin et al., 2022). Second, we focus on the federal individual income tax, but marriage penalties and bonuses can occur in other taxes and in federal and state benefit programs as well (Steuerle, 2023). Third, data limitations force us to omit consideration of certain key features of the income tax, such as the premium tax credit.

Finally, we do not investigate the underlying economic and social causes of the racial disparities in the tax treatment of marriage. The differential marriage tax that is imposed on Black couples relative to white couples can be related to issues of structural racism—as both the result and the cause of a system of reinforcing disparities. For example, low earnings and high incarceration rates among Black men—for reasons related to structural racism—may have driven more Black women into the labor force. In turn, the greater prevalence of marriage penalties among Black couples reduces their after-tax income relative to white couples with the same pre-tax income. Future research could fruitfully focus on empirical investigations of other aspects of the tax code, and public policy more generally, that are race-blind on the surface but are both the cause and effect of racial disparities and structural racism.

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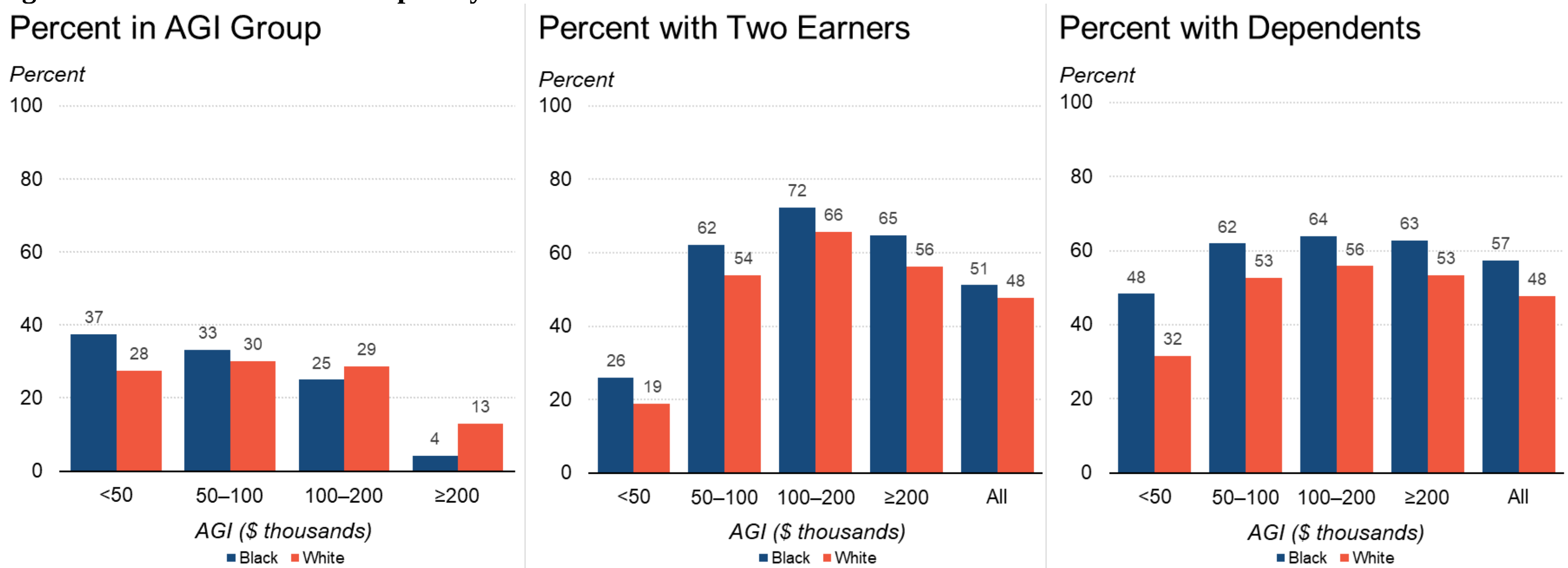
Table 1: Summary Results for Married Couples

	All Couples	Black Couples	White Couples
Percent with penalty	43	46	43
Percent with bonus	43	36	43
Percent with neither penalty nor bonus	14	18	14
Average penalty among those with penalties ($)	2,064	1,804	2,091
Average bonus among those with bonuses ($)	3,062	1,962	3,304
Net average penalty (-) or bonus (+) ($)	432	-148	514
Average penalty rate among those with penalties (Percent of AGI)	1.5	1.8	1.4
Average bonus rate among those with bonuses (Percent of AGI)	2.7	2.6	2.7
Net average penalty (-) or bonus (+) rate (Percent of AGI)	0.4	-0.2	0.4

Source: Survey of Consumer Finances (SCF). Authors' calculations are derived using TAXSIM 35. Data are from a pooled sample of eight waves of the SCF (1998 – 2019), and population weights are accordingly divided by eight.
Notes: Couples consist of the SCF respondent and spouse. Both filers and non-filers are included in the counts.

AGI = Adjusted gross income

Figure 1: Characteristics of Couples by Race



Source: Survey of Consumer Finances (SCF). Authors' calculations are derived using TAXSIM 35. Data are from a pooled sample of eight waves of the SCF (1998 – 2019), and population weights are accordingly divided by eight.
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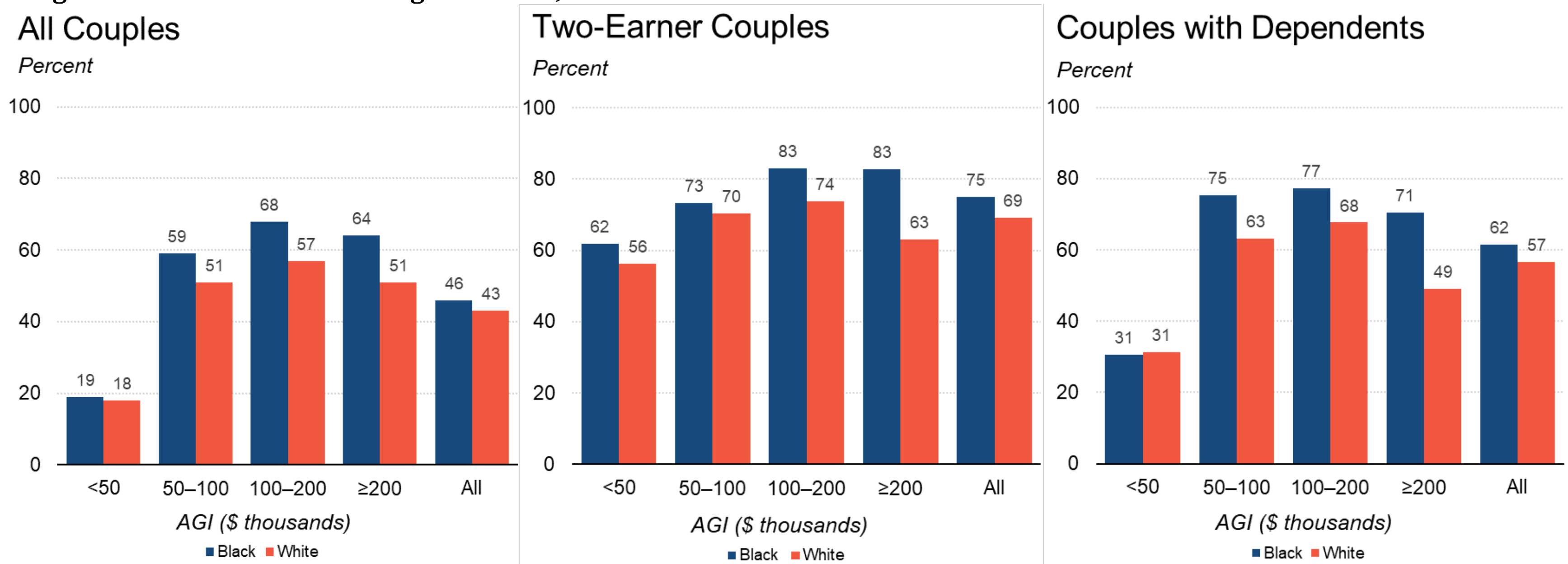
AGI = Adjusted gross income

Figure 2: Prevalence of Marriage Penalties, 2018 Law



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