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‘Til Death (Or Taxes) Us Do Part: Eliminating Marriage Penalties in the Federal Earned Income Tax Credit

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Marriage rates have fallen across the Western world for the past several decades, the United States being no exception. From 1970 to 2022, the marriage rate in the United States fell from 85.9 newly married individuals per 1,000 people age 15 and over to 34.4, a decrease of 60 percent.[1] Various factors, such as the sexual revolution, lower religiosity, and increased educational attainment for women, have all contributed to the decline in some way, with scholars tending to emphasize one more than the others. However, there is an emerging consensus that, whatever the cause or causes, declining marriage rates pose a serious challenge to American society. Across time and culture, marriage has been shown to provide benefits to individuals and society. Married men are more economically productive and volunteer more than unmarried men. Married women report greater levels of overall happiness and satisfaction than unmarried women, single or cohabiting, and suffer lower rates of domestic abuse than cohabiting women. Children raised in married households are less likely to exhibit any number of social pathologies and are more likely to experience greater socioeconomic outcomes compared to children raised in unmarried environments. Declining marriage rates, then, have implications for almost every area of public policy.

But this decline has not occurred everywhere equally, as marriage rates have fallen most sharply for those without a college degree, and namely low-income individuals. Again, causes are varied, but the driving factor appears to be the substantial loss in real earnings for most blue-collar jobs, making it far more difficult for such workers to support a family on one income.[2] This loss in real earnings is further compounded by “marriage penalties” in the American tax code and many need-based benefit programs utilized by those same low-income families. For couples in such a situation, it is almost always more economically advantageous for them to cohabitate rather than marry.[3] In fact, marriage rates today generally increase as individual income increases after $40,000. Given the long-term benefits from accruing wealth and assets, this means that low-income individuals are falling further behind their moderate and high-income counterparts.

Marriage penalties arise from lost government subsidies or lost tax credits when households surpass a certain income level. One of the most notable marriage penalties comes from the Earned Income Tax Credit (EITC), a tax credit for low-income workers with children. Removing this marriage penalty by restructuring the EITC is among the simplest solutions to help low-income couples marry. Therefore, in order to raise marriage rates for low-income couples, the federal government should remove this marriage penalty and replace it with a marriage bonus.

The current EITC structure provides a refundable tax credit to tax filers based on three criteria: total income, marital status, and number of dependent children. As of 2024, individuals can earn a maximum tax credit of $4,213 for one child, $6,960 for two children, and $7,830 for three children.[4] Yet despite having income thresholds established to help low-income households, the EITC contains well-documented marriage penalties, wherein married couples receive lower tax credits than unmarried couples with identical incomes. The amounts lost from this marriage penalty can be quite substantial. In 2021, a married couple with one child could lose up to $3,500 in tax credits; a married couple with two children could lose even more, up to $5,000.[5] And these losses come just from the federal EITC. States also have EITC amounts set as a proportion of the federal amounts, and therefore most of them also contain marriage penalties. For many married low-income couples with children, these losses are the equivalent of an annual 6–10 percent pay cut or tax for choosing to be married rather than merely cohabiting, money which "at lower income levels is much more likely to be spent on food and rent than on luxury goods."[6] When all marriage penalties are considered, the total losses can at times exceed 30 percent of household income.[7]

The precise relationship between the EITC marriage penalty and marriage rates is difficult to estimate, since marriage penalties exist across a wide range of taxes and government programs, creating multiple individual and interaction terms that must be parsed. Nevertheless, those studies which have examined the relationships between marriage penalties in general and marriage rates have concluded three things. First, marriage penalties decrease marriage rates; second, they increase cohabitation rates; and third, they do so mostly for couples making a combined household income between $40,000 and $55,000 a year.[8]
Each individual penalty suppresses marriage rates. Medicaid—one of the largest government programs—has been shown to have strong, measurable effects on marriage rates, whereas Temporary Assistance for Needy Families (TANF), a much smaller program, has little effect.[9] Work done on the EITC specifically is limited thus far, but it has shown a decrease in marriage rates. The magnitude of the decrease remains somewhat unclear, with one study (by Hayley Fisher) determining a 1.9 percent lower likelihood in marrying for a $1,000 decrease in EITC benefits. Another (by Katherine Michelmore) concluded that low-income single mothers were 3.5 percent less likely to marry because of total lost EITC benefits. Despite their different methodologies, both studies indicate a negative relationship between EITC marriage penalties and the overall marriage rate.[10] And given that the EITC is a widespread tax, has marriage penalties ranging from $1,000 to $5,000 annually, and is heavily relied upon by those in the aforementioned vulnerable income bracket, there is good reason to think its effects could be even larger.

To remedy this harm, the federal government ought to restructure the EITC such that the maximum benefit's income limit for married couples is set at 200 percent plus $6,000 of that of a single head-of-household filer, thereby removing the marriage penalty. The present system creates a penalty by considering only one income of a two-income, unmarried couple toward the need-based EITC, whereas it considers both incomes of a two-income, married couple. That makes the married couple appear less impoverished and therefore less needing of assistance, even though their incomes might be otherwise identical.

As an example, suppose that each partner in an unmarried couple with one child makes $24,000 per year, the approximate plateau point before the EITC phase-out begins. Because they do not file as a married couple, that couple will be treated as if their household has a single income of $24,000 per year, not its actual $48,000 per year, and thus they will receive the maximum benefits for one child under the EITC. However, if that same couple marries, they will be treated as having a household income of $48,000 per year, and thus receive $3,000 to $3,500 less than had they remained unmarried, as an income of $48,000 places them well into the benefit's phase-out. Extending the maximum benefit plateau to double that of a single head of household eliminates the disincentive from lost tax credits from joint income.

Next, as an incentive, adding an additional $6,000 to the plateau for married couples acts as an actual "marriage bonus." At present, if both partners in an unmarried couple with one child earn $27,000 per year, they will be treated as a single-income household over the single head-of-household benefit plateau, and with the phase-out rate will receive approximately $450 less than the maximum benefit. Yet if that couple marries under the proposed system, their total household income would be $54,000 and still eligible for the maximum benefit. Under this new EITC, at no point would married couples be worse off than were they to be unmarried; and just past the plateau, they would be slightly better off than were they to be unmarried. As such, the small "marriage bonus" provides the most marginal benefit to low-income households because the added threshold is from a fixed amount (i.e., $6,000) rather than a proportion of income (e.g., 225 percent of a single head of household).

Granted, $450 embedded in a federal tax credit is likely insufficient to incentivize the majority of cohabitating, unmarried couples to marry, but that is partially by design, so as not to incentivize "tax marriages." The more pertinent tool—besides marginal benefits for married couples—is to send a clear, pro-marriage message that shifts the tenor of the conversation. No longer would government tax policy penalize marriage: it would marginally reward it over cohabitation. That, combined with extensive awareness campaigns to inform people of this change in policy and posture, could perhaps raise marriage rates higher than prior estimates have supposed.

Removing the EITC marriage penalty aims to raise marriage rates, and therefore higher marriage rates should be the primary criteria by which to judge its implementation. Based on the research cited previously, removing the marriage penalties and adding the slight "marriage bonus" should increase marriage rates in the aforementioned $40,000 to $55,000 income bracket by some amount. Just how much of an increase requires some assumptions. First, let us assume that 25–35 percent of the 10 million cohabitating couples have individual incomes between $18,000 and $30,000 per year, a reasonable estimate given income distribution in the United States and the higher likelihood of low-income couples to cohabitate rather than marry. Second, let us assume that removing the EITC marriage penalty incentivizes only 2–3 percent of those couples to marry within the next five years; again, a reasonable estimate given the cited studies that showed between 1.9 percent and 3.5 percent lower likelihood of low-income unmarried mothers to marry. This would translate to between 50,000 and 105,000 new marriages, which, for context, represents 2–4 percent of total marriages in 2023.[11] The change in the marriage rate is more complicated to determine, but could see a larger than expected increase on account of these new marriages coming mostly from cohabiting women, depending on the population parameter used in calculating it. That figure considers no effect from a widespread awareness campaign about the new marriage bonus. Furthermore, it considers only those couples presently cohabiting, and not the downstream flow of marriages from future couples who never cohabited under the present EITC marriage penalty.

But higher marriage rates are not by themselves the only criteria by which to judge the reformed EITC, because marriage is not just a valuable end in and of itself, but also an instrumental means to achieving other valuable ends. Since marriage correlates strongly with better socioeconomic outcomes, an increase in marriages would yield significant economic results, both in aggregate and for individual couples. To begin with, the stability marriage provides over cohabitation promotes household specialization, wherein one spouse, typically the husband, earns a majority or sole income; the other spouse, typically the wife, handles most household tasks.[12] Specialization within a committed marriage contract makes labor more productive while better economizing consumption, which, even when controlled for other factors, produces greater household wealth and asset ownership.[13] Married couples are also far more stable than unmarried couples, leading to higher rates of staying together, increased fertility, and a more suitable environment to raise children, who in turn attain higher levels of education and lower rates of criminality when raised in married vs. unmarried households.[14] Thus, more marriages means more low-income families moving out of poverty and into the middle class.

The existence of marriage penalties not only inhibits people from experiencing the joys and benefits of marriage, it also works contrary to the government's stated goals to provide relief and increased opportunity for low-income families. There is a reason that, throughout history, governments have rarely remained neutral with respect to marriage's institutional security. A society that values marriage values long-term stability and prosperity, and while government tax policy cannot reverse all causes that have contributed to marriage's decline, it can at least reverse those of its own making.

Endnotes

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