

Fathers -

Employment

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TO: Andrea Kane	RECEIVING FAX NUMBER:
FROM: Elaine Sorensen	DATE: 2/11/99
CC:	TOTAL PAGES: (including this one)

MESSAGE: Dear Andrea: Attached is a draft of my 2nd policy brief-- obligating Dads. Any comments that you may have by 2/18/99 (next Thursday) would be greatly appreciated. I've also attached our first policy brief on the marriage tax.

Thanks:

Elaine Sorensen
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Mott Brief #2
February 10, 1999

Obligating Dads: Getting Low-Income Noncustodial Fathers to Do More for Their Children Under Welfare Reform

by Elaine Sorensen

In 1996, Congress fundamentally changed government's support system for needy families. The most sweeping changes replaced entitlements for families with dependent children with block grants to states and set time limits on how long a family can draw welfare. These changes make private sources of income, such as child support, even more important to low-income families.

The new law (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, or PRWORA) also revamped the child support system. It gave enforcement agencies more power to establish paternity and collect support, at the same time sanctioning welfare mothers who refuse to help in this process. It called for the creation of new national databases on court orders for child support and on new hires—boons to administrative efficiency in finding neglectful fathers. It clarified some other interstate jurisdictional issues that had made tracking “deadbeat” dads hard and gave states the authority to revoke offenders' professional and recreational licenses.

These and other changes ushered in two years ago are expected to extract more child support from poor fathers. But the new law may have unintended consequences. Incentives to pay child support to children on welfare have declined and punitive measures toward fathers have increased. These changes may end up driving poor fathers farther away from the formal child support system and their children.

Profile of Low-Income Noncustodial Fathers

In 1990, 3 million noncustodial fathers met the gross income standard for food stamp eligibility. (In other words, their family income after paying child support fell below 130 percent of the poverty line for two consecutive months in 1990.) That same year, 3.2 million custodial mothers were poor (meaning their family incomes fell below the poverty threshold). The similarity in the absolute size of these two populations suggests that fathers of poor children are low-income themselves. Demographic similarities add further evidence of a link between these two populations. Most low-income noncustodial fathers and poor custodial mothers are in their twenties and early thirties, nearly half are high school drop-outs, and around 40 percent are African-American.

Nearly all low-income noncustodial fathers worked or looked for work in 1990, but only a quarter of them worked full-time, year-round that year. Their annual personal income averaged \$6,989, which was only slightly higher than the poverty threshold for a single person that same year (\$6,800). Despite their low incomes, relatively few received public assistance (28 percent received food stamps), and fewer have ever received means-tested employment-related services. One-third of these fathers reported paying child support.

Negative Aspects of the Current System

The current child support system provides little, if any, incentive for welfare families to participate in the formal child support system and it has many punitive measures that disproportionately affect low-income noncustodial fathers.

- ***Rescinding the \$50 Pass-Through***

Historically, when noncustodial parents made child support payments on behalf of children on welfare, the entire amount went to the government to offset the cost of providing welfare. Thus, noncustodial parents' financial contributions did not directly benefit their children. Not surprisingly, custodial and noncustodial parents attempted to avoid the formal child support system as much as possible, since it did not directly benefit their children.

In 1984, the federal government decided to create a financial connection between noncustodial parents and their children on welfare by requiring states to pass through up to \$50/month of child support to the welfare family. The costs of this provision were split between the federal and state governments. This policy was rescinded in 1996; states are no longer required to pass through to welfare families any child support paid on their behalf. They now have the option to pass through some, none, or all of the child support paid on behalf of a family, but at the state's expense. As of December 1998, 20 states had retained some form of pass-through while 30 had abandoned it altogether. This reform has clearly broken the financial link between noncustodial fathers and their children on welfare. Once again, noncustodial parents of welfare children have no financial incentive to pay child support in most states.

- ***Punitive Measures that Disproportionately Affect Low-Income Fathers***

Before the 1996 child support reforms, child support rates were already exceedingly high for low-income noncustodial fathers. Many low-income fathers pay more than half of their income in child support. This occurs, in part, because child support guidelines tend to be regressive: low-income noncustodial fathers must pay a larger share of their income toward child support than higher-income fathers do. Adding to this regressivity is the practice of issuing

default orders and retroactive orders that outstrip a father's ability to pay child support.

Default orders are issued if a father does not appear in court. Since he does not show up to indicate his actual income, the court bases his child support award on imputed income. States typically assume, at a minimum, that a father can work a full-time minimum wage job. A father can always come forward with accurate information about his income and ask that his award be modified, but any amount accrued must be paid even though the order does not reflect his ability to pay. Default orders are necessary because some dads deliberately miss their court data, but default orders that overstate a father's ability to pay do not help these men--or their children.

Many states set awards for unmarried parents back to the date of the birth of the child even if no action was taken to establish paternity until much later. These awards rarely consider how much the noncustodial father earned prior to the paternity demonstration or whether the father lived with the child or informally contributed to the child's well-being. Instead, courts tend to rely on imputed incomes that are greater than the actual incomes of these fathers.

Current Opportunities

Several provisions of the 1996 welfare reform law provide opportunities to increase the earnings of low-income noncustodial fathers and their involvement with their children. The 1996 welfare reform law mandates employment-related services to unemployed noncustodial parents with children on welfare, and allows states to use their welfare block grants to pay for such services. The Balanced Budget Act of 1997 provided additional funding for employment-related services for noncustodial parents. Welfare reform also established new block grants to states to give noncustodial fathers easier access to their children.

- ***Work Activities for Delinquent Child Supporters***

Just as state and federal governments provide employment-related services to custodial mothers on welfare to help them become self-sufficient, so public policies should offer similar assistance to poor noncustodial fathers so that they can meet their child-support obligations. Prior to welfare reform, courts in nearly every state could order delinquent parents to seek work if they reported unemployment as the reason for not paying child support, but the courts had no way to verify compliance with this order and no authority to order more comprehensive employment services for noncustodial parents. In 1996, welfare reform attempted to solve this problem by requiring states to have procedures in place that allow courts to order noncustodial parents into work activities available to welfare recipients if they are behind in their child support, have children receiving welfare, and claim to be unemployed. The federal government will need to determine whether states have adopted this mandate; anecdotal evidence suggests that relatively few states have.

- ***Using TANF dollars for Noncustodial Fathers***

According to the preamble to the proposed federal regulations for the new welfare program, (Temporary Assistance for Needy Families, or TANF), states may use their welfare block grant funds or their maintenance of effort (MOE) money to provide employment-related services to noncustodial parents who have children on welfare. This is because Congress did not delineate a specific definition of family for the new welfare program, leaving it up to states to define what a "family" is. Thus, states are free to include noncustodial parents of TANF children as members of the TANF family. Moreover, if states choose to include noncustodial parents in the TANF family, these families will still be considered one-parent families for the purposes of

the TANF work participation requirements.

- ***Welfare-to-Work Grants***

Under the Balanced Budget Act of 1997, the Department of Labor must allocate \$3 billion in welfare-to-work grants to states and local communities to create additional job opportunities for the hardest-to-employ welfare recipients. Custodial parents are expected to benefit most from these funds, but the grants can also serve noncustodial parents if their children also have a custodial parent who qualifies for the program. Many states have said that they plan to serve eligible noncustodial parents with these funds.

- ***Visitation and Access Grants***

Under welfare reform, Congress authorized \$10 million to states for programs that make it easier for noncustodial parents to see their children. Most states are using these funds to augment or introduce mediation services, parent education, or visitation enforcement, delivered through their court system. A few states, however, are using nonprofit agencies to serve families outside of the court system in an effort to better serve unwed families who often are not yet involved with the courts.

- ***Federal Waivers and Demonstration Grants***

The Administration for Children and Families (ACF) of the Department of Health and Human Services has begun issuing waivers and demonstration grants to states so that they may use child support enforcement dollars to pay for services that enable low-income noncustodial parents to be financially and emotionally connected to their children. In 1997, eight states received demonstration grants or waivers from ACF to test comprehensive approaches to encourage responsible fatherhood among low-income noncustodial fathers. Another 10 states,

working with the National Center for Strategic Nonprofit Planning and Community Leadership, have recently submitted waiver applications to ACF to provide enabling services to low-income fathers as part of the Partners for Fragile Families Demonstration.

Finishing the Job

Besides seizing the opportunities implicit in the 1996 welfare reform law and the 1997 Balanced Budget Act, Congress needs to consider three other initiatives that together would give low-income noncustodial fathers a better shot at employment and financial responsibility for their children.

Establish a Funding Stream to Pay for Enabling Services to Low-Income Noncustodial Fathers

Low-income noncustodial fathers need enabling services to meet their financial obligation to their children, yet at this point there is no funding stream established to provide these services. Although states *may* use their TANF or welfare-to-work dollars on this population, there is no directive to do so. Many states currently have a budget surplus in these programs and are utilizing it, in part, to provide services to low-income fathers. But this surplus will eventually disappear and the funding stream for services to low-income noncustodial fathers has not been secured.

One way to finance these services is to establish a new block grant to states. The Fathers Count Act of 1998, a bill introduced by Representative Shaw (R-FL) in the 104th Congress did just that, but it died before coming to a vote. President Clinton has proposed adding another \$1 billion to the welfare-to-work program and would require all states to use 20 percent of this funding on low-income noncustodial fathers. Either approach will ensure that services are

provided to low-income dads.

- ***Create Incentives to Pay Child Support***

As explained above, noncustodial fathers with children on welfare have virtually no incentive to pay child support. An alternative approach would be to allow welfare families to keep all of the child support paid on their behalf and disregard that amount in determining welfare benefits, which is currently being implemented by Wisconsin. Senator Kohl introduced legislation in the 104th Congress that would require all states to follow Wisconsin's lead and plans to introduce similar legislation this year. This approach would substantially increase the amount of child support dollars going to welfare children.

Our current tax system provides no incentives to pay child support, even though it provides substantial tax relief to parents who reside with their children. The Earned Income Tax Credit is a case in point. In 1996, low-income working custodial parents could qualify for up to \$3,556 in tax credits, but low-income working noncustodial parents who paid their child support could qualify for only \$323 in tax credits that year. An alternative approach would be to extend the Earned Income Tax Credit to low-income noncustodial fathers who pay their child support.

- ***Revamp Child Support Enforcement Policies***

Lawmakers need to reassess whether current child support enforcement policies treat low-income noncustodial fathers fairly. Current state guidelines, coupled with practices regarding default and retroactive orders, make child support orders quite regressive, requiring low-income noncustodial fathers to pay a considerably higher percentage of their income in child support than higher-income fathers.

As more children leave the welfare rolls, support from noncustodial fathers will become

more meaningful to them. The incentive for fathers to pay child support will also increase once they realize that a higher share of their contributions are reaching their children. Nonetheless, this enhanced incentive to pay child support will not yield greater use of the formal child support system unless adjustments are made to draw in more low-income noncustodial fathers.

Capitalizing on these Opportunities

It is time to recognize that noncustodial fathers are a diverse population of individuals, some of whom can't afford to pay much child support. For this group, insisting upon high levels of child support without providing economic incentives and enabling services won't help them or their children. What is needed are reforms that improve the capacity and motivation of low-income noncustodial fathers to do right by their children.

About the Author

Elaine Sorensen is a principal research associate in the Urban Institute's Income and Benefits Policy Center. Her research focuses on child support and noncustodial fathers.

Related Reading

Ronald Mincy and Elaine Sorensen, "Deadbeats and Turnips in Child Support Reform," *Journal of Policy Analysis and Management*, vol. 17, no. 1, Winter 1998, pp. 44-51.

Elaine Sorensen and Robert Lerman, "Welfare Reform and Low-Income Noncustodial Fathers," *Challenge*, vol. 41, no.4, July/August 1998, pp. 101-116.

Laura Wheaton and Elaine Sorensen, "Tax Relief for Low-Income Fathers Who Pay Child Support," *Proceedings: 90th Annual Conference on Taxation* (Washington, D.C.: National Tax Association, 1998) pp. 260-267.

LOW-INCOME FAMILIES AND THE MARRIAGE TAX

Laura Wheaton

Promoting marriage was one of the primary goals of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996. But for most two-earner couples, the tax system does not support this goal. A couple with two children and \$11,000 in earnings each loses \$1,491 in annual after-tax income simply by virtue of marriage. Marriage penalties are highest as a percentage of income for low-income couples, who are also penalized by the phaseout of such transfer programs as food stamps and Medicaid. Penalties from the tax system and penalties from the transfer system combine to cost low-income married couples as much as 30 percent of their income.

Current interest in reducing marriage penalties in the tax code provides Congress with an opportunity to substantially reduce the tax price of marriage for many low- and middle-income families, but only if the proposals are designed with these families in mind. Of the marriage penalty proposals recently considered, some would do little for lower-income families because they do not address the penalties arising from the phaseout of the Earned Income Tax Credit (EITC)—a refundable credit that subsidizes low-income families' earnings. Others target low- to middle-income couples but are not efficient—providing equal amounts of tax relief to couples regardless of whether they pay a marriage penalty or receive a marriage subsidy.

This brief addresses the following questions:

- Just how are dual-earner, low-income couples penalized under the current tax system?
- What are the pros and cons of the current congressional proposals to remedy the marriage penalty problem?
- What strategy would go further than these proposals in reducing marriage penalties for low-income families?

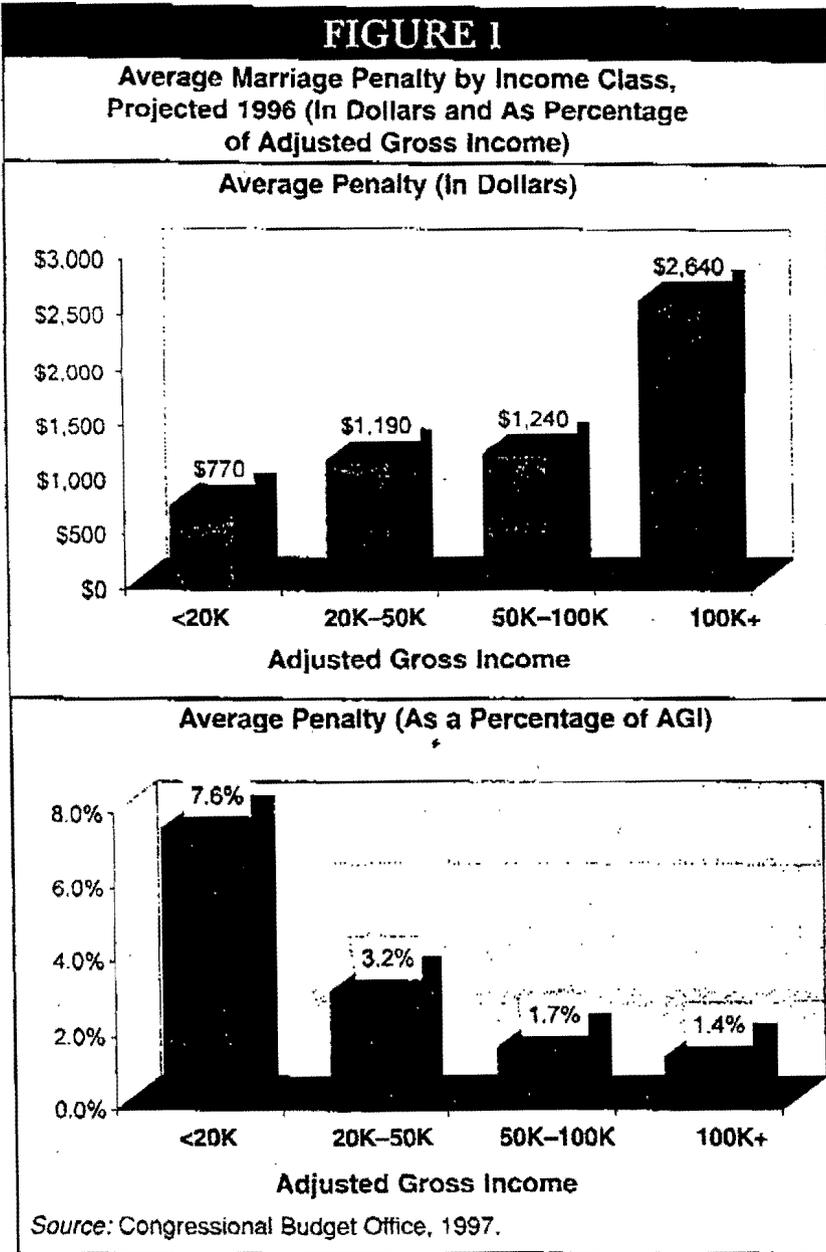
Who Is Affected and How?

Not all married couples are subject to *marriage penalties*. Slightly over half pay *lower* taxes as a result of marriage. These couples receive *marriage subsidies* under the tax system. In general, couples in which one spouse earns all or most of the income receive marriage subsidies, while those with two similar income earners pay marriage penalties. This pattern of subsidies and penalties is the natural outcome of a tax system that is both progressive and based on family rather than individual income.

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In 1996, the income tax system created \$32.9 billion in marriage subsidies and \$28.8 billion in marriage penalties. Over half of married couples received marriage subsidies, 42 percent incurred marriage penalties, and 6 percent were unaffected, according to the Congressional Budget Office (CBO). The new child credit enacted in 1997 will reduce marriage penalties, but if the number of two-earner couples continues to grow, more couples will face penalties in the future.

Higher-income couples receive most of the subsidies and pay most of the penalties. These couples pay a disproportionate share of penalties because they are more likely than lower-income couples to have a penalty, and their average penalties are higher. As shown in figure 1 (top panel), average penalties in 1996 ranged from \$770 for couples with less than \$20,000 of income to \$2,640 for couples with more than \$100,000.



Higher-income couples are more likely to pay penalties because they are more likely to have two earners; single-earner couples incur no marriage penalties.

However, even though low-income couples pay the smallest amounts in tax penalties and are the least likely to be penalized by the tax system, those who are penalized pay the highest share of their income on penalties (figure 1, bottom panel). Marriage penalties average 7.6 percent of the income of

couples with less than \$20,000, but only 1.4 percent of the income of couples with more than \$100,000. Under certain conditions, marriage penalties can be much higher for two-earner, low-income couples—more than one-fourth of earnings if each spouse has two children and earns \$11,610.

Marriage penalties and subsidies vary depending on how the couple's income is divided between the husband and wife. Table 1 shows penalties and subsidies for

low- and middle-income couples with two children, under various assumptions about the wife's income as a percentage of the couple's income. The table assumes that if the couple were not married, the children would live with their mother, who would file a head-of-household return.

Several factors contribute to subsidies and penalties at the income levels shown here. If the wife does not earn enough to take full advantage of exemptions—the head-of-household deduction, the child credit, and the EITC—marriage reduces taxes as the wife's unused tax benefits are applied to the husband's earnings. But couples with two earners may be penalized because the standard deduction and tax brackets for joint filers are less than the sum of those for a single and head-of-household filer and because combining two incomes often reduces the EITC.

The interaction of these various factors explains the pattern of subsidies and penalties in table 1. As seen by the substantial marriage bonuses in the first column, single men marrying nonworking women with children gain from their wives' unused tax benefits, garnering marriage subsidies ranging from about 9 percent to over 40 percent, depending on income. But a two-earner couple in which each spouse earns \$15,000 is hardest hit, paying a penalty equal to 8.8 percent of their income—mostly from the phaseout of the EITC.

Alternative assumptions about family characteristics and tax filing status in the absence of marriage would yield different results. Penalties would tend to be greater (and subsidies smaller) if (as CBO assumes) each parent would claim one child as a dependent and file as head of household. Marriage penalties and subsidies would tend to be smaller if the alternative to marriage is cohabitation and the



man (if not actually the father) raises the children as his own. Some tax analysts would omit head-of-household filing status and the EITC from the marriage penalty calculation, arguing that these are subsidies, not taxes. Doing so would significantly lower subsidy and penalty estimates at these levels.

what would be earned by a minimum-wage worker working full-time for a full year. Taxes are calculated separately for the husband and wife as if they were not married. The children are assumed to live with the wife, who would file as head of household. Subtracting the sum of the husband's and wife's separate taxes from the couple's joint tax yields the marriage penalty of

\$1,491 or 6.8 percent of the couple's combined incomes.

The couple's marriage penalty arises from the phaseout of the EITC. At \$11,000 of income, the wife receives the maximum credit for two children—\$3,656. But at \$22,000 of income, the couple is well into the phaseout range of the EITC and is eligible for a credit of only \$1,535, which is \$2,121 less

Low-Income Families and the EITC

Most of the marriage penalties and bonuses for low-income families originate with the EITC. The EITC is a refundable credit that first reduces a family's income tax (if any) to zero. Any remaining EITC is then paid to the family. The amount of the EITC depends on the family's earned income, adjusted gross income (AGI), and number of children. In 1997, a family with two children and income up to \$9,140—the phase-in range of the credit—received 40 cents in EITC payments for every dollar earned. Those with income between \$9,140 and \$11,930—the flat range of the credit—received the maximum credit of \$3,656. For those earning between \$11,930 and \$29,290—the phaseout range of the credit—the EITC was reduced by 21 cents for each additional dollar of income, until reaching zero at \$29,290.

When a low-wage working man marries a nonworking woman with children, the couple receives a substantial EITC bonus, as much as \$3,656 in 1997 if the man earned between \$9,140 and \$11,930 and the couple had no other income. But if the woman works and has income in the flat or phaseout range of the credit, getting married reduces or eliminates the EITC.

Table 2 shows the marriage penalty for a married couple with two children and annual earnings of \$11,000 each—slightly more than

Couple's Income	Percentage of Couple's Income Earned by Wife				
	0	25%	50%	75%	100%
\$10,000	41.4%	25.9%	13.2%	4.6%	0.0%
\$15,000	28.3%	14.5%			0.0%
\$20,000	19.7%	5.9%			0.0%
\$30,000	8.7%				1.8%
\$40,000	9.3%				1.3%
\$50,000	10.0%				1.8%

Note: Shaded cells represent marriage penalties, unshaded cells represent marriage subsidies. Table assumes that if the couple were not married the children would live with their mother, who would claim them as dependents and file a head-of-household return, and that the father would file a single return. Taxpayers are assumed to take the standard deduction.
Source: Urban Institute, 1998.

	Tax If Not Married		Tax If Married
	Husband	Wife	
Earnings	\$11,000	\$11,000	\$22,000
Less exemptions	2,650	7,950	10,600
Less standard deduction	4,150	6,050	6,900
Equals taxable income	4,200	0	4,500
Tax (at 15 percent)	630	0	675
Less child credit	0	0	675
Less EITC	0	3,656	1,535
Equals tax liability	630	-3,656	-1,535
		Marriage Penalty	\$1,491
		As Percent of Income	6.8%

Source: Urban Institute, 1998.



than what the woman alone would receive if she were not married.

The marriage penalty from the EITC is somewhat offset by a marriage bonus from the new child credit enacted under the Taxpayer Relief Act of 1997. When it is fully phased in beginning in 1999, taxpayers can subtract from their taxes \$500 for each dependent child. However, the child credit benefits only those taxpayers who have some taxable income. In the example above, the wife has no taxable income after exemptions and the standard deduction, so does not benefit from the child credit. The husband has taxable income but does not live with the children, so cannot benefit from the child credit. Married, the couple has taxable income of \$4,500 and taxes (before credits) of \$675. The couple has two dependent children so is potentially eligible for a child credit of \$1,000. However, since the credit is nonrefundable, the couple receives only the \$675 necessary to reduce taxes to zero. Without the child credit, the

couple's marriage penalty would have been \$2,166—nearly 50 percent higher.

Proposed Marriage Penalty Relief

The Taxpayer Relief Act of 1998 (H.R. 4579) was recently introduced by Rep. Bill Archer, R-TX, and passed by the House Ways and Means Committee. The Archer bill includes a marriage penalty relief provision that would set the standard deduction for joint filers at twice that for single filers. Several other approaches to reducing marriage penalties have been proposed during the past year. As table 3 shows, the choice of approach greatly influences who would benefit from marriage penalty relief and by how much.

Most of the recent proposals would provide equal benefits to couples receiving marriage subsidies and those paying marriage penalties. Under the Archer bill, a couple with

\$40,000 would receive a \$210 tax cut, regardless of whether the couple currently has a \$3,717 marriage subsidy or a \$2,351 marriage penalty. Higher-income subsidized couples would particularly benefit from a bill introduced by Sen. Lauch Faircloth, R-NC (S. 1285), that would allow couples to file a combined return in which each spouse is taxed separately on half of the couple's combined income. Bills aimed more specifically at couples paying marriage penalties include those introduced by Sen. Tom Daschle, D-SD (S. 2147); Rep. Wally Herger, R-CA (H.R. 2593); and Reps. Jerry Weller, R-IL, and David McIntosh, R-IN (H.R. 2456). Weller-McIntosh resembles Faircloth, except that under it each spouse would be taxed on his or her own income, and so single-earner couples would not benefit. The Daschle and Herger bills would make tax relief contingent upon a second earner.

The proposals would have differing impacts on low-, middle-, and higher-income taxpayers. Middle-

Couple's Income	One-Earner Couple			Two-Earner Couple ^b		
	\$22,000	\$40,000	\$100,000	\$22,000	\$40,000	\$100,000
Marriage Subsidy or Penalty						
Subsidy	\$3,815	\$3,717	\$5,378	-	-	-
Penalty	-	-	-	\$1,491	\$2,351	\$2,015
Tax Relief						
Weller-McIntosh (H.R. 2456) ^c	-	-	-	-	210	1,053
Faircloth (S. 1285) ^c	-	210	1,053	-	210	1,053
Archer (H.R. 4579)	-	210	-	-	210	-
Herger (H.R. 2593)	-	-	-	-	300	840
Daschle (S. 2147)	-	-	-	464	600	-
Gramm (S. 2436)	695	495	-	695	495	-
Neal-McDermott (H.R. 3995)	859	-	-	859	-	-

a. If proposal had been law in 1997. Table assumes two children, fully phased-in 1997 tax law, \$500 child credit, all income is from labor earnings, and \$20,000 in itemized deductions for the couple earning \$100,000. If not married, one spouse would claim the children as dependents and file as head of household. The other spouse (the earner in the one-earner couple) would file a single return.

b. Assumes each spouse earns half of the couple's income (and has half of itemized deductions).

c. Marriage penalty is not eliminated for the \$100,000 two-earner couple because these proposals do not address penalties arising from head-of-household filing status.

Source: Urban Institute, 1998.



income taxpayers are the primary beneficiaries of the Archer bill, since most higher-income taxpayers itemize deductions. Higher-income taxpayers would benefit most from proposals that allow married couples to be taxed separately on a combined return (Faircloth and Weller-McIntosh) or that set tax brackets and the standard deduc-

Under the Archer bill, a couple with \$40,000 would receive a \$210 tax cut, regardless of whether the couple currently has a \$3,717 marriage subsidy or a \$2,351 marriage penalty.

tion for joint filers to twice that for single filers (Weller, H.R. 3734, not shown). Herger's second-earner deduction would benefit both middle- and higher-income taxpayers. These proposals would not help a couple with \$22,000 and two children because they do not address the marriage penalties arising from the phaseout of the EITC.

The Daschle proposal, and those introduced by Sen. Phil Gramm, R-TX (S. 2436), and Reps. Richard E. Neal, D-MA, and Jim McDermott, D-WA (H.R. 3995), would help low- and middle-income couples. By reducing the marriage penalties arising from the phaseout of the EITC, these are the only proposals that would help the couple earning \$22,000. Daschle's second-earner deduction and Gramm's special deduction for joint filers would help low-income taxpayers because the deduction would count against earnings in calculating the phaseout of the EITC. These deductions would also help middle-income taxpayers, but higher-income taxpayers would not be allowed the deduction. The Neal-McDermott proposal would provide more generous EITC payments to married couples in the phaseout range of the EITC.

Targeting Relief to Low-Income Couples

For a marriage penalty relief proposal to be efficiently targeted to low- and middle-income couples, it should address the penalties in the EITC phaseout and be contingent upon the presence of a second earner, since one-earner couples already receive marriage subsidies. The Daschle proposal meets these criteria, but it includes a phaseout that increases the marginal tax rate for couples with between \$50,000 and \$60,000 in adjusted gross income.

It is possible to direct substantial marriage penalty relief to low-income, two-earner couples and at the same time avoid a phaseout. Consider an option to increase the standard deduction for two-earner couples by an amount equal to the second earner's income up to a maximum of \$5,000. This approach would increase the beginning and end of the phaseout of the EITC by the same amount and would substantially reduce marriage penalties for low- and middle-income couples. For a couple with two children in which each spouse earns \$11,000, the marriage penalty would be reduced by \$1,053 (70 percent). If each spouse earned \$20,000, the reduction would be \$750 (32 percent).

Tying marriage penalty relief to the standard deduction reduces the number of high-income couples that would benefit, without requiring a phaseout. Some higher-income taxpayers would find it worthwhile to take the standard deduction under this option, but most would not since their itemized deductions would continue to exceed the standard deduction.

Basing tax relief on the presence of a second earner ensures that single-earner couples who already incur marriage subsidies do not benefit, though some relief would go to two-earner couples with dissimilar earn-

ings who receive marriage subsidies. A potential advantage of a second-earner deduction is that it reduces work disincentives for a second earning spouse. Research shows that second earners' hours are not sensitive to taxes but that the decision about whether to work at all is. Thus, this option would encourage labor force participation by second earners in low- and middle-income families.

ABOUT THE AUTHOR

Laura Wheaton is a research associate in the Income and Benefits Policy Center at the Urban Institute.

RELATED READING

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