INFORMATION BRIEF
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The Minnesota Income Tax Marriage Credit

The marriage credit, enacted by the 1999 Legislature, is designed to reduce the "marriage tax penalty" paid by some married couples without increasing marriage bonuses. The credit equals the higher income tax paid by a married couple under the married joint income tax brackets, as compared with the tax they would pay if their earned income were taxed separately under the single tax brackets. The maximum credit in tax year 2008 is $332; the credit amounts and other parameters are adjusted annually for inflation and for changes to Minnesota's tax rates. This information brief explains the marriage credit and some marriage penalties in Minnesota's income tax system.

The Marriage Penalty in Minnesota's Income Tax Rates and Brackets

There are many marriage penalties and bonuses under the federal and Minnesota income taxes. A marriage penalty occurs when a married couple pays higher tax than they would if each spouse could file as a single and pay tax on his or her own income. A bonus occurs when they pay lower tax as a married couple than they would if they filed as singles. Penalties and bonuses result from the following:

- the use of combined income for a married couple to calculate their tax
- the progressive rate structure
- the dollar limits on deductions and credits

Minnesota's income tax produces marriage penalties and bonuses because couples generally pay tax under a progressive rate structure on their joint incomes. As has been widely recognized, when two individuals marry, their combined income tax frequently changes.

It may increase, resulting in a marriage "penalty," or it may drop, yielding a marriage "bonus." Penalties and bonuses result because both federal and state taxes effectively require the spouses to combine their incomes in calculating tax.[1] In the case of Minnesota's income tax rates, joint filing and reporting of income interacts with the progressive tax rate schedule to produce marriage penalties or bonuses. Generally, couples with closely equal incomes will experience a penalty, while one-earner couples will receive a bonus. The examples in the boxes on this page and the next illustrate how the Minnesota tax, before determination of the marriage credit, can result in marriage penalties for some couples and bonuses for others.

Example of a Marriage Penalty

H and W each earn $30,000 and claim the standard deduction. If they can file as singles, each will have Minnesota tax liability of $1,126 or a combined tax of $2,252 for tax year 2008. If H and W marry and file a joint return, their combined tax increases to $2,426, resulting in a marriage penalty of $174.

The marriage penalty results because the married joint tax brackets are not twice the width of the single brackets. For a single filer, the first $21,800 of income is taxed at 5.35 percent. Thus as single filers, H and W would have $43,600 of their income taxed at the 5.35 percent rate as (i.e., twice the bracket for single filers). As a married joint filer, the first $31,860 is taxed at 5.35 percent and additional income at 7.05 percent. As a result, H and W will have $11,740 more ($43,600 - $31,860 = $11,740) of their income taxed at 7.05 percent, rather than 5.35 percent. This accounts for the $174-marriage penalty. As described in the text, the marriage credit addresses this marriage penalty.[2]

[1] A married couple may file separate federal returns with each spouse separately reporting his and her income and deductions. However, doing so nearly always results in a higher total tax liability. Minnesota law requires taxpayers to file using the same filing status that they do for federal purposes. Minn. Stat. § 289A.08, subd. 6.

[2] Before tax year 2003 and in tax year 2005, H and W would have faced an additional marriage penalty under the Minnesota income tax as a result of the standard deduction for married joint filers being smaller than that allowed for single filers. As a result, marriage resulted in a combined reduction in the standard deduction compared with filing singly. The federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001 put the marriage penalty in the standard deduction on a schedule to gradually phase out by tax year 2009. The federal Jobs Growth Tax Relief Reconciliation Act (JGTRRA) of 2003 temporarily accelerated the married joint standard deduction to equal twice the single deduction for tax years 2003 and 2004 only. Minnesota conformed to the EGTRRA 2001 and JGTRRA 2003 changes. The federal Working Families Tax Relief Act of 2004 (WFTRA) further accelerated the schedule so that the married joint standard deduction would equal twice the single deduction for tax years 2005 through 2010. Minnesota did not conform to WFTRA until tax year 2006, so that Minnesota's income tax included a marriage penalty resulting from the standard deduction in tax years before 2003, and in tax year 2005. The increase in the standard deduction for married joint filers sunsets after tax year 2010; unless Congress extends this provision and Minnesota conforms, married joint filers will once again face an additional marriage penalty due to the difference in the married joint and single standard deduction beginning in tax year 2011.

Example of a Marriage Bonus

W earns $60,000 and claims the standard deduction. H has no income and no tax. W's tax as a single filer would be $3,228 for tax year 2008. Marriage to H will reduce the tax to $2,426, resulting in a marriage bonus of $802. Three factors account for the bonus:

- More income is taxed at the 5.35-percent rate. As a single filer, the first $21,800 of W's income is taxed at 5.35 percent. Marriage increases this to $31,860. As a result, W will have $10,060 more of her income ($31,860 - $21,800 = $10,060) taxed at 5.35 percent, rather than 7.05 percent. This accounts for $171 of the bonus.
- The standard deduction for married joint filers is $10,900, while as a single filer, W could claim only $5,450. Since H had no income, he received no tax benefit from the standard deduction. As a result, marriage reduced W's taxable income by $5,450 ($10,900 - $5,450 = $5,450). Since this income would have been taxed at 7.05 percent, it accounts for $384 of the bonus.
- An additional personal exemption of $3,500 is available. H had no income and derived no benefit from the exemption; marriage allows H's personal exemption to reduce W's taxable income. Since this income would have been taxed at 7.05 percent, the personal exemption accounts for $247 of the bonus.

The Marriage Credit

Legislators sought to address the marriage penalty issue as part of a package of income tax rate reductions proposed in the 1999 legislative session. Initial legislation proposed increasing the brackets for married joint filers to be twice the width of the brackets for single filers. This approach had been proposed in several bills introduced in both the 1997 and 1998 legislative sessions. While increasing the married joint brackets would have eliminated penalties for the 350,000 Minnesota couples who faced them, it also would have increased marriage bonuses for other filers. The cost depended on the magnitude of the rate reductions proposed; setting the married joint brackets at twice the width of the single brackets at the 5.5 percent, 7.25 percent, and 8.0 percent rates ultimately enacted would have cost an estimated $106 million in tax year 1999. Over half this cost—$58 million—would have provided bonuses, with the remaining $48 million removing penalties.

Budget constraints led lawmakers to seek a less costly way to address the issue, and the discussion focused on a credit that would remove the penalties without increasing bonuses. The marriage penalty credit that developed consisted of a table that provided a credit roughly equal to the penalty faced by couples at different income levels. The credit offsets penalties under the rate and bracket system, but does not provide bonuses. The estimated cost for the credit was $48 million in tax year 1999, $58 million less than the estimate for doubling the brackets.

The credit is based on the earned income of the lesser-earning spouse and the taxable income of the couple. The credit as enacted in 1999 defined "earned income" as wages and self-employment income. Information about these forms of income is readily available to both taxpayers and the Department of Revenue through W-2 forms filed by employers and through reporting of self-employment income for Social Security tax purposes. Legislation enacted in 2000 expanded the definition of "earned income" to include taxable pension and Social Security income, which are reported separately to each spouse and generally reflect an individual's earning history.[3] Joint taxable income is already calculated as part of the tax return. As a result, it is relatively simple for taxpayers to look up their credit in the tax instructions. The table below shows the credit as it will appear in the 2008 tax booklets.

Marriage Credit Table
Tax Year 2008

Earned Income of Lesser-Earning Spouse		**Joint Taxable Income**						
at least	but less than	$32,000 to $52,000	$52,000 to $72,000	$72,000 to $92,000	$92,000 to $112,000	$112,000 to $132,000	$132,000 to $152,000	$152,000 & over
					your credit is			
20,000	22,000	34	34	34	0	0	0	0
22,000	24,000	68	68	68	0	0	0	0
24,000	26,000	102	102	102	0	0	0	0
26,000	28,000	136	136	136	37	0	0	0
28,000	30,000	170	170	170	87	0	0	0
30,000	32,000	168	200	200	133	0	0	0
32,000	34,000	134	200	200	149	0	0	0
34,000	36,000	100	200	200	165	5	0	0
36,000	38,000	66	200	200	181	21	0	0
38,000	40,000	32	200	200	197	37	0	0
40,000	42,000	0	200	200	200	53	16	16
42,000	44,000	0	200	200	200	69	32	32
44,000	46,000	0	200	200	200	85	48	48
46,000	48,000	0	200	200	200	101	64	64
48,000	50,000	0	200	200	200	117	80	80
50,000	52,000	0	168	200	200	133	96	96
52,000	54,000	0	134	200	200	149	112	112
54,000	56,000	0	100	200	200	165	128	128
56,000	58,000	0	66	200	200	181	144	144
58,000	60,000	0	32	200	200	197	160	160
60,000	62,000	0	0	200	200	200	176	176
62,000	64,000	0	0	200	200	200	192	192
64,000	66,000	0	0	200	200	200	208	208
66,000	68,000	0	0	200	200	200	224	224
68,000	70,000	0	0	200	200	200	240	240
70,000	72,000	0	0	168	200	200	256	256
72,000	74,000	0	0	134	200	200	272	272
74,000	76,000	0	0	100	200	200	288	288
76,000	78,000	0	0	66	200	200	304	304
80,000	82,000	0	0	0	196	196	319	332

Source: Minnesota Department of Revenue
(Filers with higher incomes are referred to a worksheet.)

[3] Laws 2000, ch. 490, art. 4, § 22.

The credit table is a function of the difference between Minnesota's three marginal rates and the relationship between the brackets for single and married joint filers. The credit table enacted in 1999 was tied to the marginal tax rates in effect for 1999—5.5 percent, 7.25 percent, and 8.0 percent, with a 1.75-percentage point difference between the first and second rates, and a 0.75-percentage point difference between the second and third rates. The 1999 law directed the Commissioner of Revenue to index the credit annually for inflation, just as the brackets are indexed annually. The 2000 omnibus tax law reduced the marginal tax rates to their current level (5.35 percent, 7.05 percent, and 7.85 percent) and adjusted the table to reflect a changed relationship between the rates. There is now a 1.7-percentage point difference between the first and second rates, and a 0.8-percentage point difference between the second and third rates. The 2000 law also directed the commissioner to adjust the table as needed to reflect the relationship between the tax rates.[4] This provision allows the marriage credit to automatically follow along with any future changes to the marginal rates. In 2001, the legislature enacted language proposed by the Department of Revenue replacing the credit table enacted in 1999 with the formula used in calculating the table.[5]

The marriage credit only addresses penalties imposed under Minnesota's rate structure. It does not remove bonuses currently paid under that rate structure, nor does it alleviate penalties or bonuses that are "passed through" to the Minnesota income tax because of features of federal law. Instead, it simply provides a credit roughly equal to the penalty couples face because of Minnesota's progressive rate structure and combined filing requirement.

The marriage credit does not address penalties that exist as a result of the distribution of unearned income between spouses. There is currently no reporting required as to the amount of unearned income on a return that pertains to each spouse. Applying a credit to unearned income would require greater reporting and could also encourage couples to reallocate the ownership of assets to maximize the credit. The types of income used in calculating the marriage credit—wages, self-employment income, taxable pensions, and taxable Social Security benefits—cannot be easily reallocated from one spouse to another. Because it was not the intent of legislators to either provide a complicated solution or one that resulted in the tax system encouraging asset shifting, the credit was limited to earned income.

Other Marriage Penalties in Minnesota's Income Tax System

Nine other features of the Minnesota individual income tax create marriage penalties or bonuses.

The following table lists provisions of the Minnesota income tax that may cause individuals who marry to pay a higher Minnesota income tax. The table also shows the theoretically maximum

[4] Laws 2000, ch. 490, art. 4, §§ 23-24.

[5] Laws 2001, 1st spec. sess., ch. 5, art. 7, § 41.

marriage penalty and bonus for each of the provisions.[6] The provisions are listed in the order in which they occur in computation of the income tax—i.e., deduction from federal tax income first, application of the rates, and finally tax credits.

**Provisions of the Minnesota Income Tax
Creating Marriage Penalties and Bonuses, Tax Year 2008**

Provision	Maximum Penalty	Maximum Bonus
Calculation of taxable income		
Elderly exclusion	$441	$430
Education deduction per dependent K-6	None	128
Education deduction per dependent 7-12	None	196
Charitable contribution deduction for nonitemizers	None	20
Tax rates		
Couples with dependents	708	236
Tax credits		
Dependent care credit	1,440	None
Education credit	1,000 times number of children	None
Long-term care credit	None	100
Working family credit	3,372	1,686
Alternative minimum tax exemption	2,040	1,020
Alternative minimum tax exemption phaseout	1,200	600

For a more thorough discussion of marriage penalties in Minnesota's income tax, please see the House Research information brief *Marriage Penalties and Bonuses and the Minnesota Income Tax*, July 2007.

A number of features of the federal income tax create marriage penalties or bonuses that carry over to the Minnesota individual income tax.

Marriage penalties and bonuses under the Minnesota income tax also result from the close links between the state tax and the federal income tax. Calculation of Minnesota taxable income begins with federal taxable income. Taxpayers take the amount of federal taxable income from

[6] The amounts are theoretical maximums, since it is not clear if any couple has the specific circumstances necessary to realize the maximum penalty or bonus. In some instances, fairly unusual or atypical circumstances may be required to reach the maximum penalty or bonus. Nevertheless, the maximums may be useful to point out the outer limits or parameters for the penalties and bonuses of each provision.

their federal return and then make a few modifications to determine Minnesota taxable income to which the tax rates apply. As a result, many deductions and exclusions under federal law determine the amount of state taxable income. For example, itemized and standard deductions, deduction of capital losses, and retirement savings deductions (e.g., 401(k) plans, IRAs, and so forth) are determined by federal law for state purposes.

The legislature has opted to conform to federal income tax provisions for a number of reasons. Perhaps the most important of these is simplicity and ease of compliance and administration for both taxpayers and the Revenue Department. Since most individuals must comply with the federal tax, adopting its provisions greatly simplifies compliance with the Minnesota tax. Adopting an approach that deviates from federal law on these basic tax base calculations could have a high cost in additional resources for individuals to comply with the law. This was one of the major complaints about the pre-1985 Minnesota tax, which differed substantially from federal law; the pre-1985 law included using individual filing rather than joint filing by married couples, the major source of penalties and bonuses.

The federal government enacted several marriage penalty relief provisions in the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. The act does the following:

- Increases the standard deduction for married joint filers to be twice as large as the deduction allowed for single filers. Subsequent federal legislation (the Jobs Growth and Tax Relief Reconciliation Act (JGTRRA) of 2003 and the Working Families Tax Relief Act (WFTRA) of 2004) accelerated this increase to take effect in 2003.
- Increases the size of the 15-percent bracket for married joint filers to be twice the size of the bracket for single filers. (Scheduled to take full effect for tax year 2008.)
- Increases the income level at which the earned income credit begins to phase out for married joint filers. (Scheduled to take full effect for tax year 2008.)

Minnesota conformed to the acceleration of the increased standard deduction in JGTRRA 2003 (effective for tax years 2003 and 2004), but delayed one year, to tax year 2006, before conforming to the continued acceleration of the deduction in WFTRA 2004. As a result, the standard deduction allowed married joint filers at the state level in 2005 was smaller than that allowed at the federal level. For 2006 through 2010,[7] the increased standard deduction will flow through to Minnesota income tax returns and decrease penalties at the state level. The other two federal changes do not directly affect penalties in Minnesota's income tax. However, in 2001 Minnesota followed the federal earned income tax credit changes by increasing the income level at which the working family credit begins to phase out to match the increases provided at the federal level under EGTRRA: by $1,000 in tax years 2002 to 2004, $2,000 in 2005 to 2007, and $3,000 in 2008, with the amount adjusted for inflation in following years.[8]

For more information about income taxes, visit the income tax area of our web site, www.house.leg.state.mn.us/hrd/hrd.htm.

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[7] Like many other EGTRRA 2001 provisions, the increased standard deduction sunsets after tax year 2010.

[8] Laws 2001, 1st spec. sess., ch. 5, art. 10, § 7; the increase in the income level at which both the earned income credit and the working family credit begins to phase out sunsets after tax year 2010.