INFORMATION BRIEF
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The Minnesota Income Tax Marriage Credit

The Minnesota marriage credit is designed to reduce the "marriage tax penalty" paid by some two-earner married couples without providing or increasing marriage bonuses to other married couples. The credit equals the additional income tax a married couple pays 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 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

Under the federal and Minnesota income taxes, marriage typically causes the couple's combined taxes either to increase or decrease. 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." (Note: a penalty or bonus is unrelated to change in the couple's combined income; a penalty or bonus may also result if each spouse's income stays the same as before marriage.) 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 where each spouse earns about equal income experience the largest penalties, while couples where the two spouses earn significantly different incomes tend to have bonuses with one-earner couples receiving the largest bonuses. 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 $35,000 and claim the standard deduction. If they can file as singles, each will have Minnesota tax liability of $1,378 or a combined tax of $2,755 for tax year 2012. If H and W marry and file a joint return, their combined tax increases to $2,972, resulting in a marriage penalty of $358.

The marriage penalty results from two factors.

- The married joint tax brackets are not twice the width of the single brackets. For a single filer, the first $23,670 of income is taxed at 5.35 percent. Thus as single filers, H and W would have $47,340 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 $34,590 is taxed at 5.35 percent and additional income at 7.05 percent. As a result, H and W will have $12,750 more ($47,340 - $34,590 = $12,750) of their income taxed at 7.05 percent, rather than 5.35 percent. This accounts for $217 of the marriage penalty. As described in the text, the marriage credit addresses this part of the marriage penalty.
- At the federal level, the standard deduction for married joint filers is $11,900, and for single filers is half that amount—$5,950. But Minnesota only allows a $9,900 standard deduction for married joint filers, requiring them to add the $2,000 difference to taxable income.[2] Since this income is taxed at 7.05 percent, it accounts for the remaining $141 of the marriage penalty.

[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] H and W face 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. See page 8 for a discussion of the increased federal standard deduction amount.

Example of a Marriage Bonus

W earns $70,000 and claims the standard deduction. H has no income and no tax. W's tax as a single filer would be $3,845 for tax year 2012. Marriage to H will reduce the tax to $2,972, resulting in a marriage bonus of $732. Three factors account for the bonus:

- More income is taxed at the 5.35 percent rate. As a single filer, the first $23,670 of W's income is taxed at 5.35 percent. Marriage increases this to $34,590. As a result, W will have $10,920 more of her income ($34,590 - $23,670 = $10,920) taxed at 5.35 percent, rather than 7.05 percent. This accounts for $186 of the bonus.
- The standard deduction at the state level for married joint filers is $9,900, while as a single filer, W could claim only $5,950. Since H had no income, he received no tax benefit from the standard deduction. As a result, marriage reduced W's taxable income by $3,950 ($9,900 - $5,950 = $3,950). Since this income would have been taxed at 7.05 percent, it accounts for $278 of the bonus.
- An additional personal exemption of $3,800 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 $268 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 appears in the 2012 tax booklets.

Marriage Credit Table
Tax Year 2012

Earned Income of Lesser-Earning Spouse		Joint Taxable Income						
at least	but less than	$35,000 to $45,000	$45,000 to $55,000	$55,000 to $65,000	$65,000 to $75,000	$75,000 to $85,000	$85,000 to $95,000	$95,000 to $105,000
					your credit is			
20,000	22,000	23	23	23	23	23	22	0
22,000	24,000	57	57	57	57	57	57	0
24,000	26,000	91	91	91	91	91	91	42
26,000	28,000	92	125	125	125	125	125	92
28,000	30,000	92	159	159	159	159	159	142
30,000	32,000	92	193	193	193	193	193	192
32,000	34,000	82	217	217	217	217	217	217
34,000	36,000	48	217	217	217	217	217	217
36,000	38,000	14	184	217	217	217	217	217
38,000	40,000	0	150	217	217	217	217	217
40,000	42,000	0	116	217	217	217	217	217
42,000	44,000	0	82	217	217	217	217	217
44,000	46,000	0	48	217	217	217	217	217
46,000	48,000	0	14	184	217	217	217	217
48,000	50,000	0	0	150	217	217	217	217
50,000	52,000	0	0	116	217	217	217	217
52,000	54,000	0	0	82	217	217	217	217
54,000	56,000	0	0	48	217	217	217	217
56,000	58,000	0	0	14	184	217	217	217
58,000	60,000	0	0	0	150	217	217	217
60,000	62,000	0	0	0	116	217	217	217
62,000	64,000	0	0	0	82	217	217	217
64,000	66,000	0	0	0	48	217	217	217
66,000	68,000	0	0	0	14	184	217	217
68,000	70,000	0	0	0	0	150	217	217
70,000	72,000	0	0	0	0	116	217	217
72,000	74,000	0	0	0	0	82	217	217
74,000	76,000	0	0	0	0	48	217	217
76,000	78,000	0	0	0	0	14	184	217
78,000	80,000	0	0	0	0	0	150	217
80,000	82,000	0	0	0	0	0	116	217
82,000	84,000	0	0	0	0	0	82	217
84,000	86,000	0	0	0	0	0	48	217
86,000	88,000	0	0	0	0	0	10	180

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

[3] Laws 2000, ch. 490, art. 4, § 22.

Marriage Credit Table
Tax Year 2012

Earned Income of Lesser-Earning Spouse		**Joint Taxable Income**					
at least	but less than	$105,000 to $115,000	$115,000 to $125,000	$125,000 to $135,000	$135,000 to $145,000	$145,000 to $155,000	$155,000 & over
				your credit is			
20,000	22,000	0	0	0	0	0	0
22,000	24,000	0	0	0	0	0	0
24,000	26,000	0	0	0	0	0	0
26,000	28,000	12	0	0	0	0	0
28,000	30,000	62	0	0	0	0	0
30,000	32,000	112	32	0	0	0	0
32,000	34,000	153	73	0	0	0	0
34,000	36,000	169	89	9	0	0	0
36,000	38,000	185	105	25	0	0	0
38,000	40,000	201	121	41	0	0	0
40,000	42,000	217	137	57	0	0	0
42,000	44,000	217	153	73	13	13	13
44,000	46,000	217	169	89	29	29	29
46,000	48,000	217	185	105	45	45	45
48,000	50,000	217	201	121	61	61	61
50,000	52,000	217	217	137	77	77	77
52,000	54,000	217	217	153	93	93	93
54,000	56,000	217	217	169	109	109	109
56,000	58,000	217	217	185	125	125	125
58,000	60,000	217	217	201	141	141	141
60,000	62,000	217	217	217	157	157	157
62,000	64,000	217	217	217	173	173	173
64,000	66,000	217	217	217	189	189	189
66,000	68,000	217	217	217	205	205	205
68,000	70,000	217	217	217	221	221	221
70,000	72,000	217	217	217	237	237	237
72,000	74,000	217	217	217	237	253	253
74,000	76,000	217	217	217	237	269	269
76,000	78,000	217	217	217	237	285	285
78,000	80,000	217	217	217	237	301	301
80,000	82,000	217	217	217	237	317	317
82,000	84,000	217	217	217	237	317	333
84,000	86,000	217	217	217	237	317	349
86,000	88,000	213	213	213	233	313	361

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

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.

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

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

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 two individuals to pay higher or lower total Minnesota income tax because they are married—that is, that result in marriage penalties or bonuses. The table also shows the theoretically maximum marriage penalty and bonus amounts for each provision.[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 2012

Provision	Maximum Penalty	Maximum Bonus
Calculation of taxable income		
Elderly exclusion	$427	$437
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	768	256
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	3,636	1,818
Alternative minimum tax exemption	2,216	1,107
Alternative minimum tax exemption phaseout	1,200	600

[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.

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 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 most 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. Two of these provisions are relevant to marriage penalties under the Minnesota income tax.[7] EGTRRA:

- Increased the standard deduction for married joint filers to be twice the deduction allowed for single filers.
- Increased the income level at which the earned income credit begins to phase out for married joint filers.

Standard deduction. The increase in the standard deduction to be twice the single amount was to be phased in over several years, fully taking effect in tax year 2009. In the Jobs and Growth Tax Relief Reconciliation Act of 2003, Congress accelerated that to apply to tax years 2003 and 2004. Minnesota conformed to that change, but when Congress in the Working Families Tax Relief Act of 2004 (WFTRA) provided that the larger deduction would apply through 2010, Minnesota delayed one year, to tax year 2006, before conforming to WFTRA.

Like many EGTRRA provisions, both provisions were scheduled to expire after tax year 2010. The federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (TRUIRJCA) extended them for two years, through tax year 2012. The American Taxpayer Relief Act of 2012 (ATRA) made the increased standard deduction a permanent feature of the federal income tax.

[7] A third, the increase in the width of the 15 percent tax bracket to twice that of the single bracket, does not affect or have implications for marriage penalties or bonuses under the Minnesota income tax.

Minnesota remained tied to the federal standard deduction amount through tax year 2010, but did not conform to TRUIRJCA's two-year extension of the increased standard deduction or to ATRA making this permanent. As a result, the standard deduction allowed married joint filers at the state level in 2005, 2011, and following years is smaller than that allowed at the federal level, resulting in penalties at the state level. The table lists the years in which Minnesota conformed to elimination of the marriage penalty in the federal standard deduction.

Tax year with no marriage penalty under the federal standard deduction	Did Minnesota conform?
2003 - 2004	Yes
2005	No
2006 - 2010	Yes
2011 and later	No

Earned income credit phaseout. The federal earned income credit change does 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] The American Recovery and Reinvestment Act of 2009 (ARRA) increased the income level for the phaseout for married joint filers to $5,000 in 2009, with that amount indexed for inflation in 2010. Minnesota did not conform to the ARRA increase. TRUIRJCA extended the $5,000 amount, indexed for inflation to tax years 2011 and 2012. Minnesota conformed to the increased amount for tax year 2011, but not tax year 2012.[9]

ATRA extended the $5,000 amount, indexed for inflation, through tax year 2017. Minnesota has not conformed.

For more information about income taxes, visit the income tax area of our website, www.house.mn/hrd/.

[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.

[9] Laws 2011, 1st spec. sess., ch. 7, art. 2, § 6.