

INFORMATION BRIEF

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The Minnesota Income Tax Marriage Credit

The Minnesota marriage credit is designed to reduce the “marriage tax penalty” under Minnesota’s income tax paid by some two-earner married couples without providing or increasing marriage bonuses to other married couples. The credit equals the additional Minnesota 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.

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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.

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.

Example of a Marriage Penalty

H and W each earn \$40,000 and claim the standard deduction. If they can file as singles, each will have Minnesota tax liability of \$1,655 or a combined tax of \$3,310 for tax year 2017. If H and W marry and file a joint return, their combined tax increases to \$3,543, resulting in a marriage penalty of \$232.

The marriage penalty in this example results because the married joint tax brackets are not twice the width of the single brackets. For a single filer, the first \$25,390 of income is taxed at 5.35 percent. Thus as single filers, H and W would have \$50,780 of their income taxed at the 5.35 percent rate (i.e., twice the bracket for single filers). As a married joint filer, the first \$37,110 is taxed at 5.35 percent and additional income at 7.05 percent. As a result, H and W will have \$13,670 more ($\$50,780 - \$37,110 = \$13,670$) of their income taxed at 7.05 percent, rather than 5.35 percent. This accounts for \$232 of the marriage penalty. As described in the text, the marriage credit addresses this part of the marriage penalty.

Example of a Marriage Bonus

W earns \$80,000 and claims the standard deduction. H has no income and no tax. W's tax as a single filer would be \$4,475 for tax year 2017. Marriage to H will reduce the tax to \$3,543, resulting in a marriage bonus of \$932. Three factors account for the bonus:

- More income is taxed at the 5.35 percent rate. As a single filer, the first \$25,390 of W's income is taxed at 5.35 percent. Marriage increases this to \$37,110. As a result, W will have \$11,720 more of her income ($\$37,110 - \$25,390 = \$11,720$) taxed at 5.35 percent, rather than 7.05 percent. This accounts for \$199 of the bonus.
- The standard deduction for married joint filers is \$12,700, while as a single filer, W could claim only \$6,350. Since H had no income, he received no tax benefit from the standard deduction. As a result, marriage reduced W's taxable income by \$6,350 ($\$12,700 - \$6,350 = \$6,350$). Since this income would have been taxed at 7.05 percent, it accounts for \$448 of the bonus.
- An additional personal exemption of \$4,050 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 \$286 of the bonus.

Description of the Marriage Credit

Minnesota's marriage credit addresses penalties imposed under Minnesota's rate structure on married couples in which both spouses have earned income. 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 credit is based on the earned income of the lesser-earning spouse and the taxable income of the couple. "Earned income" is defined as the sum of wages, self-employment

income, and taxable pension and Social Security 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, reporting of self-employment income for Social Security tax purposes, and 1099 forms filed by the Social Security administration and pension administrations. 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 a table in the instructions for form M1MA.

The credit as enacted in 1999 defined “earned income” as wages and self-employment income. 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.²

The credit amount is a function of the difference between Minnesota’s four marginal rates and the relationship between the brackets for single and married joint filers. The credit was enacted as a table in the statutes, 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 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 5.35 percent, 7.05 percent, and 7.85 percent and adjusted the table to reflect a changed relationship between the rates. The 2000 law also directed the commissioner to adjust the table as needed to reflect the relationship between the tax rates.³ This provision allowed 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.⁴ Since the formula refers to the rates and brackets in Minnesota law, it did not need to be modified when a fourth income tax rate of 9.85 percent was enacted in 2013.⁵

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 (interest, dividends, capital gain, rents, and so forth) 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.

² [Laws 2000, ch. 490, art. 4, § 22.](#)

³ [Laws 2000, ch. 490, art. 4, §§ 23-24.](#)

⁴ [Laws 2001, 1st spec. sess., ch. 5, art. 7, § 41.](#)

⁵ [Laws 2013, ch. 143, art. 6, § 10.](#)

History of 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.

Other Marriage Penalties in Minnesota's Income Tax System

Eighteen 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 taxable income first, application of the rates, and finally tax credits

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.

**Provisions of the Minnesota Income Tax
 Creating Marriage Penalties and Bonuses, Tax Year 2017**

Provision	Maximum Penalty	Maximum Bonus
Calculation of taxable income		
Subtraction for Social Security benefits	\$494	\$71
Elderly exclusion	415	377
Education deduction per dependent K-6	None	160
Education deduction per dependent 7-12	None	246
Charitable contribution deduction for nonitemizers	None	25
Subtraction for 529 plan contributions	None	148
Tax rates		
Couples with dependents	2,917	1,320
Tax credits		
Beginning farmer credit—owner	None	\$32,000
Beginning farmer credit—management	None	\$1,500
Dependent care credit	2,100	None
Education credit	1,000 times number of children	None
Long-term care credit	None	100
Master’s degree credit	None	2,500
Student loan credit	None	500
Working family credit	4,127	2,064
529 plan contribution credit	859	500
Alternative minimum tax exemption	2,507	1,253
Alternative minimum tax exemption phaseout	1,266	633

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.

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 until 2014.⁸ As a result, the standard deduction allowed married joint filers at the state level in 2005, and 2011 to 2013 was 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.

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.

⁸ [Laws 2014, ch. 150](#), art. 1, § 10.

Tax year with no marriage penalty under the federal standard deduction	Did Minnesota conform?
2003 - 2004	Yes
2005	No
2006 - 2010	Yes
2011 - 2013	No
2014 and following	Yes

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.⁹ 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 2012.¹⁰

The American Taxpayer Relief Act (ATRA) of 2012 extended the higher thresholds put in place under ARRA through 2017, and made the EGTRRA thresholds permanent in following years. Minnesota conformed to both of those changes in the 2014 legislative session, effective retroactively to tax year 2013.¹¹

The Protecting Americans from Tax Hikes Act (PATH) of 2015 made the increased thresholds initially put in place under ARRA permanent. Minnesota conformed to the change.¹² The table lists the increase to the income level at which the earned income credit and working family credit start to phase out for married joint filers by tax year.

Tax years	Increased income level for credit phaseout for married joint filers	
	Federal	Minnesota
2002 - 2004	\$1,000	\$1,000
2005 - 2007	\$2,000	\$2,000
2008	\$3,000	\$3,000
2009 - 2010	\$5,000*	\$3,000**
2011	\$5,000*	\$5,000*
2012	\$5,000*	\$3,000**
2013 and following years	\$5,000*	\$5,000*

* Indexed from a base year of 2009.
** Indexed from a base year of 2008.

⁹ [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.

¹⁰ [Laws 2011, 1st spec. sess., ch. 7](#), art. 2, § 6.

¹¹ [Laws 2014, ch. 150](#), art. 1, § 18.

¹² [Laws 2017, ch. 1](#), § 6.