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INSIGHT

The Expanded Childless EITC and Marriage Penalties

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The American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) temporarily expanded the Earned Income Tax Credit (EITC) for workers with no qualifying children for 2021. (Qualifying children for the EITC are generally children related to the taxpayer who live with them for more than half the year, in addition to meeting other requirements.) The Build Back Better Act (BBBA; H.R. 5376)—both the House-passed version and the text from the Senate Finance Committee, released December 11—proposes extending this temporary expansion for one additional year, 2022.

The EITC for workers without qualifying children is generally referred to as the childless EITC. The term "childless," however, may be misleading. Workers without qualifying children may have noncustodial children, live with children for less than six months of a year, or live with nonbiological children they cannot claim for the credit.

Research has found that EITC receipt reduces poverty among low-income workers with children, and may also encourage some parents to enter the workforce. Proponents argue an expanded childless EITC would similarly reduce poverty and potentially encourage work among those without qualifying children. Up until 2021, the childless EITC provided much smaller benefits to low-wage workers without qualifying children. ARPA expanded both eligibility for and the amount of the credit for many childless workers, providing a boost in income to an estimated 17 million workers.

However, one concern raised by policymakers regarding the childless EITC expansion under ARPA (and proposed extension under BBBA) is that it could also increase EITC-related marriage penalties. EITC marriage penalties occur when a married couple receives a smaller credit than the combined total of credits if the couple were unmarried, as illustrated below.

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Example of EITC Marriage Penalties, 2021

Current law, as amended by the American Rescue Plan Act (ARPA; P.L. 117-2)

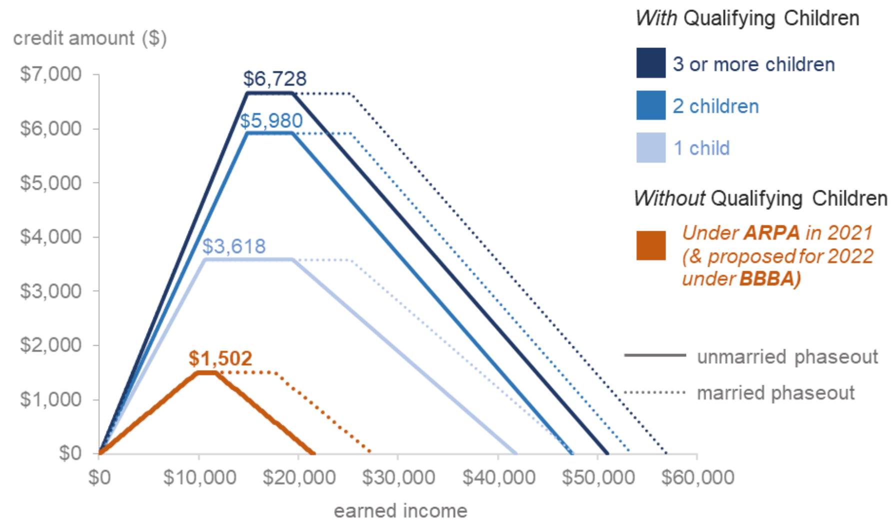
Unmarried		Married
Alex	**Morgan**	**Alex & Morgan**
$10,000 of earned income	$15,000 of earned income	$25,000 of earned income
No children	1 child	1 child
$1,502 EITC	$3,618 EITC	$3,618 EITC
Total EITC: $5,120		**Total EITC: $3,618**
EITC Marriage Penalty: $1,502		

Marriage penalties (and bonuses) are not unique to the EITC; they can occur in many other need-tested benefits programs in which marriage changes household composition under the program's rules, resulting in different benefit amounts.

What causes EITC marriage penalties (and bonuses)?

Historically, the EITC has been a feature of the tax code that could result in marriage penalties for low-income families. The EITC's marriage penalty has existed since the credit was enacted in the 1970s—when the credit was only available to workers with children and was targeted to single parents. The penalty arises due to the structure of the credit, including the phaseout or reduction of the credit when income rises, and the variation in the size of the credit by number of children. The structure of the EITC is illustrated below.

EITC Amount by Income, 2021



Source: CRS analysis of the Build Back Better Act (BBBA), updated text released by the Senate Finance Committee on December 11, 2021, Internal Revenue Code Section 32, IRS Revenue Procedure 20-45 and IRS Revenue Procedure 21-23.
Notes: All household income is assumed to be from earned income (i.e., adjusted gross income=earned income) and taxpayers are assumed to only claim the standard deduction.

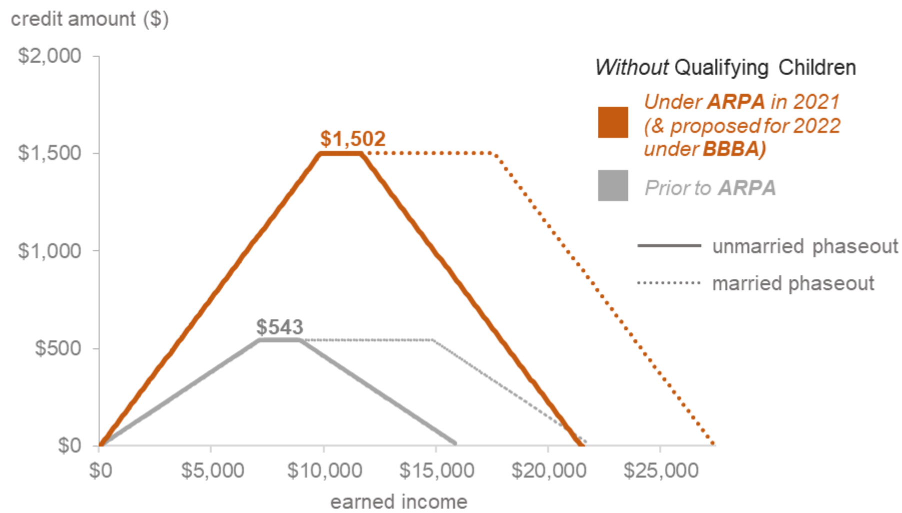
When an unmarried worker marries another person, their combined household income is generally used to calculate the credit (and more broadly, used to calculate their federal income tax liability). If their combined income places them in the credit's phase-in region, marriage will either be neutral (if neither adult has credit-qualifying children) or result in a bonus (depending on the total number of children). If their household income places the family at or above the EITC phaseout, a marriage penalty will tend to occur. Marriage penalties can also occur when a household's combined income is in the credit's plateau. Whether a particular couple will be subject to a marriage penalty (or bonus) depends on both combined household income and the income of each spouse, although penalties are more common among couples where income is evenly split.

In addition, when adults marry, the number of children is combined at the household level, which may lead to marriage penalties (or bonuses). As the number of children increases, the maximum credit amount does not increase by the same fixed amount per child. For example, if a taxpayer with one child married another taxpayer with one child, the maximum credit they could receive in 2021—$5,980—is less than the combined credit of two unmarried taxpayers, each with one child, of $7,236 (2 x $3,618). In contrast, if a single parent with little to no earnings married an unmarried childless adult with modest earnings, the couple would tend to receive a marriage bonus from the credit.

How did the ARPA expansion of the childless EITC change marriage penalties (and bonuses)?

ARPA temporarily expanded the childless EITC, doubling or tripling the credit amount for many eligible taxpayers, depending on their income, as illustrated below. Before this expansion, and since being enacted in 1993, the childless EITC had been small relative to the EITC for those with qualifying children, and thus did not significantly contribute to EITC marriage penalties.

Childless EITC Amount by Income, 2021

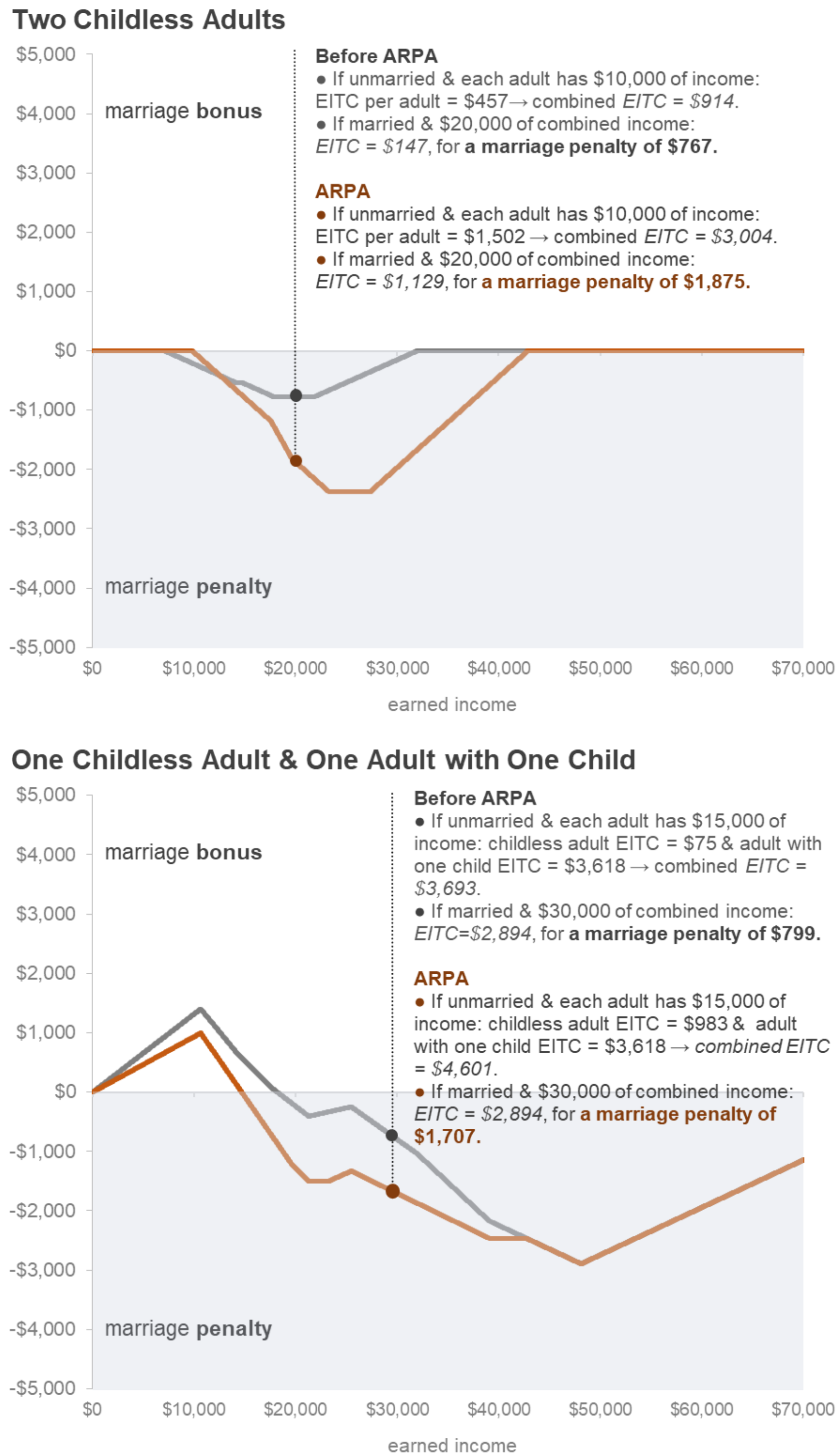


Source: CRS analysis of the Build Back Better Act (BBBA), updated text released by the Senate Finance Committee on December 11, 2021, Internal Revenue Code Section 32, IRS Revenue Procedure 20-45 and IRS Revenue Procedure 21-23.
Notes: All household income is assumed to be from earned income (i.e., adjusted gross income=earned income) and taxpayers are assumed to only claim the standard deduction.

A larger childless EITC means a potentially larger credit reduction from marriage for some couples—reducing bonuses and increasing penalties associated with marriage, as illustrated below, in cases where income is split evenly among spouses.

Stylized Examples of EITC Marriage Bonuses & Penalties Before and After ARPA for 2021

By Household Income | Income Split Equally (50/50)



Source: Internal Revenue Code Section 32, IRS Revenue Procedure 20-45, and IRS Revenue Procedure 21-23.

Notes: Dollar amounts may not equal actual amounts claimed by taxpayers due to rounding; all household income is assumed to be from earned income (i.e., adjusted gross income=earned income) and taxpayers are assumed to only claim the standard deduction. Taxpayers are assumed to meet all eligibility requirements.

What is the impact of EITC marriage penalties (and bonuses) on marriage?

The EITC, and the broader tax system, provides a financial incentive for marriage to some couples and a disincentive to others, but this is just one of many factors that may influence marital decisions. Analyzing whether the EITC affects marital behavior is challenging, as there is some uncertainty associated with existing empirical evidence. Research has produced some inconsistent findings, but studies typically suggest that the EITC has a modest negative effect or no effect overall on marriage.

How could EITC marriage penalties be reduced or eliminated?

A number of policy changes have been proposed that could reduce or eliminate EITC marriage penalties (and even increase marriage bonuses), including

- phasing out the EITC at higher income levels, particularly for married couples (this is the current approach for marriage penalty relief, first enacted in 2001 and increased in 2009) and/or phasing out the credit at a slower rate;
- basing EITC amounts on individual worker characteristics rather than those of the tax unit household (separating the EITC's work subsidy from its child-related benefit).

Each of these options involves trade-offs, such as increasing the budgetary cost of the credit or leading some individuals to be worse off in a given year relative to current policy. For example, beginning to phase out the EITC for married couples at a higher income level would reduce the marriage penalty for couples on the margin who are considering whether to enter or exit marriage, but would also increase expenditures on moderate-income households that would have been headed by a married couple regardless of the policy change. In addition, marriage penalties/bonuses can be thought of as the inverse of single-parent bonuses/penalties. If this policy change were adopted, single parents without a married partner would be more likely to receive less financial support from the credit than married couples earning the same household income.

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