STATE OF MINNESOTA
Legislative Budget Office

Marriage Credit Tax Expenditure Evaluation

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

NOVEMBER 05, 2025

Agenda

- Tax Expenditure Objective
- Background
- Evaluation Findings
- Nine Components of Review

Tax Expenditure Objective

“The objective of the Marriage Credit is to reduce marriage penalties resulting from Minnesota income tax rate brackets for qualified two-earner married couples who file a joint return.”

This objective was approved and adopted by the Tax Expenditure Review Commission on March 15, 2024.

Background

- Enacted in 1999
- Nonrefundable credit only available to joint filers
- Compensates for an increased tax liability experienced when filing income taxes jointly
- The occurrence of a penalty is a function of our progressive tax structure
- Credit is claimed through form M1MA
- 422,200 claims estimated for tax year 2023
- Maximum credit is $1,801 in 2024

Income Tax Brackets – Tax Year 2023

SINGLE

Tax Rate	Income From	Up To
5.35%	$0	$30,070
6.80%	$30,071	$98,760
7.85%	$98,761	$183,340
9.85%	$183,340	

MARRIED FILING JOINT

Tax Rate	Income From	Up To
5.35%	$0	$43,950
6.80%	$43,951	$174,610
7.85%	$174,611	$304,970
9.85%	$304,970	

Income is taxed at marginal rates; not all income is taxed at highest rate.

Example 1 – Marriage Penalty (Underpayment)

- $40,000 Taxpayer A earnings*
- $45,000 Taxpayer B earnings
- $85,000 joint earnings before taking the standard deduction $27,650 (2023)
- $57,350 joint taxable income after taking standard deduction
- **$146 marriage credit using Schedule M1MA lookup table (required)**
- $178 marriage credit using Part 2 calculation method of Schedule M1MA
- Underpayment of $32 to couple filing jointly

*The lesser-earning spouse makes less than $114K, which requires use of the M1MA lookup table to calculate marriage credit amount to claim.

Example 2 – Marriage Penalty (Underpayment)

- $105,000 Taxpayer A earnings*
- $105,000 Taxpayer B earnings
- $210,000 joint earnings before taking the standard deduction $27,650 (2023)
- $182,350 joint taxable income after taking standard deduction $27,650 (2023)
- **$235 marriage credit using Schedule M1MA lookup table (required)**
- $316 marriage credit using Part 2 calculation method of Schedule M1MA
- Underpayment of $81 to couple filing jointly

*The lesser-earning spouse makes less than $114K, which requires use of the M1MA lookup table to calculate marriage credit amount to claim.

Example 3 – Marriage Bonus (Overpayment)

- $35,000 Taxpayer A earnings*
- $38,000 Taxpayer B earnings
- $73,000 joint earnings before taking the standard deduction $27,650 (2023)
- $45,350 joint taxable income after taking standard deduction $27,650 (2023)
- **$106 marriage credit using Schedule M1MA lookup table (required)**
- $21 marriage credit using Part 2 calculation method of Schedule M1MA
- Overpayment of $85 to couple filing jointly

*The lesser-earning spouse makes less than $114K, which requires use of the M1MA lookup table to calculate marriage credit amount to claim.

Evaluation Findings

- The marriage credit covers the marriage penalty experienced by most tax filers (~59 percent)
- Under its current design, some couples receive underpayments, and some receive overpayments
- Cumulative impact is estimated to be $139,720 in marriage penalties
- Two alternatives to address effectiveness presented in Component of Review 5
- Non-refundability means some couples do not realize the full benefit of the credit

Component of Review #1:
Estimate of Annual Revenue Lost

Fiscal Year	2024	2025	2026	2027
Estimated Fiscal Impact	$98,100,000	$102,800,000	$107,300,000	$112,200,000

Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Component of Review #2: Objective of the Tax Expenditure

The objective of the Marriage Credit is to reduce marriage penalties resulting from Minnesota income tax rate brackets for qualified two-earner married couples who file a joint return.

This objective was approved and adopted by the Tax Expenditure Review Commission on March 15, 2024.

Component of Review #3:
Impacts and Efficiency in Accomplishing Objective

- Effective for married couples whose lesser-earning spouse makes $114,000 or more (2023)
- 426,974 claims for Marriage Credit in 2021
- Conducted 75 hypothetical scenarios
- Referred to the look-up table 62 times
- 24 of the 62 cases result in underpayments or overpayments of at least $10
- Underpayments and overpayments range approximately $105 in either direction

Component of Review #3: … Continued
Impacts and Efficiency in Accomplishing Objective

- 175,161 cases where credit calculations differ by $0.50 or more
- 41 percent of claims result in overpayment or underpayment
- Underpayments estimated at $636,383
- Overpayments estimated at $496,663
- Cumulative impact is estimated to be $139,720 in underpayments

Component of Review #3… Continued: Administrative Efficiency

- Determined to be administratively burdensome for paper filers (6 percent of filers)
- Electronic filing removes many of the administrative burdens for filers
- Per DOR Tax Research, administrative burden is low for the agency
- Agency experiences complication only when making manual adjustments to Schedule M1MA form to account for conformity adjustments

Component of Review #4:
Compare to Direct Expenditure with the Same Objective

- Comparison to a direct expenditure with the same purpose cannot be performed
- Such a program does not exist
- Additional Challenges:
  - Policy not designed to modify taxpayer behavior
  - Impossible to preemptively estimate an individual's annual income and filing behavior

Component of Review #5:
Potential Modifications to Increase Efficiency or Effectiveness

Alternative 1

I. Repeal the statutory requirement for the Commissioner of Revenue to devise a look-up table for the Marriage Credit, AND

II. Direct all filers to implement the calculation method provided in Part 2 of the Schedule M1MA form published by DOR

Alternative 2

I. Modify the look-up table to allow for finer income ranges for joint taxable income and the income of the lesser-earning spouse

Component of Review #6:
Revenue Neutral Tax Rate Reduction

- Income tax rates for married joint filers could be reduced by 0.045 percent

Tax Bracket	Current Tax Rate	Revenue-Neutral Tax Rate
First ($0 - $46,330)	5.350%	5.305%
Second ($46,330 - $184,040)	6.80%	6.755%
Third ($184,040 - $321,450)	7.850%	7.805%
Fourth ($321,450 and higher)	9.850%	9.805%

Estimates from the Department of Revenue 2024 Tax Expenditure Budget

Component of Review #7:
Incidence of the Tax Expenditure and Effect on State Tax System

- 94 percent of credit goes to households in the top three earning population deciles – household income of $95,361 and up
- These households have more income shifted to a higher marginal tax rate by filing jointly
- Suits Index of .088 suggests slightly progressive policy
- As income rises, the proportion of the incentive to total income reduces

Suits index calculated by Department of Revenue Tax Research Division

Component of Review #8:
Cumulative Fiscal Impacts of Other State and Federal Policies

- Federal government doubles most tax brackets for married joint filers
  - Mitigates marriage penalty, but results in marriage bonuses
- Estimated cumulative fiscal impact of state marriage penalty and federal bonus is a net gain of $277 million for 208,025 returns in tax year 2021
- State marriage penalty is not offset by federal bonus for 191,200 returns
- Federal bonus recipients are likely not the same base experiencing state marriage penalty

Component of Review #9: Recommendation to the Legislature

The Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditure, as is required of the Commission under Minnesota Statutes, section 3.8855, subdivision 5.

Thank you

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Appendix: What are other states doing?

- Four other states offer a tax credit (ND, OH, SC, and WI)
- 11 states have a flat income tax rate – considered marriage neutral
- Eight states with progressive tax structure double their brackets for married filing status – creates marriage bonuses
- MN and other states allow a fifth filing status – Married Filing Separately – creates limitations for other filing options

Appendix: Best Practices to Evaluate Tax Expenditures

At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Best Practices… Other Criteria to Consider

- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – Equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

Appendix: Minnesota Statutes 3.8855, Subd. 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minn. Stat. 3.8855, Subd. 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)
   - A significant tax expenditure, as defined in Minn. Stat. 270C.11, subd. 6, is a tax expenditure but excludes any tax expenditure that:
     a) is incorporated into state law by reference to a federal definition of income;
     b) results in a revenue reduction of less than $10,000,000 per biennium; or
     c) is a business tax credit
8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities
9. **Recommend** whether the tax expenditure be continued, repealed, or modified

Appendix: Incidence Table

Incidence: The following table shows the incidence of the tax expenditure, based on the 2021 incidence database.

Resident by Population Decile	Total Individual Income Tax	Tax Change	Share of Tax Change	Count
$15,544 & Under	-$12,885,164	$10,960	0.0%	24
$15,545 - $24,961	-$8,897,060	*	*	*
$24,962 - $35,168	$50,299,493	$16,176	0.0%	70
$35,169 - $45,808	$162,527,171	$41,060	0.0%	121
$45,809 - $58,014	$329,724,240	$9,155	0.0%	39
$58,015 - $73,668	$536,303,127	$52,781	0.1%	699
$73,669 - $95,360	$819,647,313	$2,390,730	2.4%	21,009
$95,361 - $127,780	$1,210,630,834	$17,519,092	17.9%	100,588
$127,781 - $183,475	$1,954,222,647	$34,823,052	35.5%	165,363
$183,476 & Over	$8,869,633,832	$39,314,500	40.1%	103,942
Nonresidents	$961,801,005	$3,922,494	4.0%	30,345
All	**$14,873,000,000**	**$98,100,000**	**100%**	**422,200**

*Fewer than 10 returns. Amounts were combined with an adjacent cell.

Incidence analysis from the Department of Revenue 2024 Tax Expenditure Budget

Appendix: Methodology

- Lit Review
  - Topic briefs published by non-partisan legislative research staff
  - DOR publications on marriage credit
  - Joint Committee on Taxation
  - Department of Treasury
  - Schedule M1MA
- Review of Summary Tax Filing Data
  - Summary income sample data 2018 – 2021
  - Analysis of claims by income deciles
- Review of Schedule M1MA
  - Analysis of credit calculation methods
  - Simulated 75 income combinations to determine tax liability scenarios
  - Analysis of administrative burden for filer and agency

Appendix: Determining Administrative Burden for Filer

- Eligibility Criteria
  - Income of lesser-earning spouse - floor
  - Joint taxable income – floor
  - Earned income and joint taxable income are two separate concepts to understand
- Additional Supporting Documents
  - Schedule M1
  - Schedule M1MA
  - Reference to federal tax forms may be required
- Calculation of Marriage Credit
  - Two methods to calculate credit based in income threshold of lesser-earning income
  - Either 8 or 19 line items (steps) to complete in calculating marriage credit