Minnesota

Tax Expenditure Evaluation:

Marriage Credit

Prepared for the Tax Expenditure Review Commission

by the Legislative Budget Office

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Prepared by the Legislative Budget Office on behalf of the Tax Expenditure Review Commission.

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Executive Summary

The Tax Expenditure Review Commission is responsible for reviewing the effectiveness and efficiency of Minnesota's tax expenditure policies. The Tax Expenditure Review Commission has elected to review and evaluate Minnesota's marriage credit. This report provides an assessment of the credit with consideration to the first eight components of tax expenditure review required under Laws of Minnesota 2025, 1st Spec. Sess. chapter 13, article 8, section 5. The commission may consider the findings of this report to recommend whether the expenditure be continued, repealed, or modified.

The Legislative Budget Office (LBO) has evaluated the marriage credit in its design and its application, and it has found that the credit is generally effective at addressing its stated objective of reducing marriage penalties; however, there are areas where the credit can be modified to be more effective and efficient. This applies to cases where married joint filers receive a tax credit that is either less or more than the value of the tax penalty they incur. Based on how the credit is calculated, cases have been identified with the potential for underpayments or overpayments to take place, but it is challenging to identify the rate at which this occurs. Potential solutions to structural issues in the design of the marriage credit calculation that address this concern are included in this evaluation report.

Additionally, there are few cases where the full benefit is not received by the taxpayer because the credit is not refundable. This happens in limited cases where a couple's tax liability falls below $0 as a result of claiming other credits, causing the remaining amount of their credit to be forgone. If the credit was made refundable, then all taxpayers would receive the full benefit of the credit and the credit's objective would be more fully accomplished.

The LBO would like to extend its gratitude to the Minnesota Department of Revenue Tax Research Division for their consultation, cooperation, and analysis in this evaluation.

Introduction

Minnesota's marriage credit was enacted in 1999. This is a nonrefundable credit that aims to compensate couples for an increase in tax liability experienced when filing income taxes jointly compared to when they filed individually as single filers. The increase in tax liability that married filers experience is often referred to as a marriage penalty.

A marriage penalty occurs if one or both individuals are taxed at a higher rate when filing jointly than if they had filed income taxes separately, or if more of their income is taxed at a higher rate than when they filed as a single filer. While earned income may stay constant for the individuals, the combined income of a couple filing jointly is taken into consideration to determine their tax liability. Applying the combined income of a couple to the state's progressive income tax structure, one or both individuals may find themselves in a higher income tax bracket. To understand how a marriage penalty occurs, it is important to understand two distinct features of the state's income tax structure.

First, the state has a progressive income tax system, meaning that as income increases, so does the tax rate. In Minnesota, there are four progressive tiers of income tax, each with a corresponding income range and tax rate. These are more commonly referred to as tax brackets.

Second, the income range for each tax bracket differs depending on the filing status. There are five income tax filing status options for a filer to choose from in Minnesota depending on their personal situation. These include "Single," "Married Filing Jointly," "Married Filing Separately," "Head of Household," and "Qualifying Surviving Spouse with Dependent Child." This report primarily focuses on two filing statuses, "Single" and "Married Filing Jointly." Generally, the income ranges are wider for the married joint filing status than they are for the single filing status. The varying ranges of tax brackets also contribute to the occurrence of a marriage penalty. The state's progressive tax structure and varying tax bracket ranges are critical to understand the underlying mechanics that result in a marriage penalty.

Conversely, a couple may benefit from a portion of their income falling into a lower tax bracket as married joint filers. This scenario is commonly referred to as a marriage bonus and mainly results from the wider ranges of income for tax brackets under the married joint filing status. Assessing the marriage bonus is not within the scope of this evaluation.

This evaluation is focused on determining the effectiveness and efficiency of the marriage credit in addressing marriage penalties that arise from Minnesota's progressive income tax rate structure and associated income ranges for each tax rate. To that end, the LBO analyzed the calculation methodologies that filers are directed to follow in calculating the amount of their marriage credit. Further, the LBO ran simulations of income tax filings for married joint filers, calculating marriage penalties and corresponding credit calculations to inform an assessment of efficiency and effectiveness of the marriage credit. This simulation is limited to a simplified income tax filing structure taking into consideration only wages and the standard deduction, and assuming no other sources of income, itemized deductions, or other tax credits. The findings from this analysis are provided within this report.

The LBO worked closely with the Department of Revenue Tax Research Division, hereby referred to as DOR Tax Research, to better understand the underlying policies and administration of the marriage credit. Note that the Department of Revenue, as a whole, is referred to as DOR throughout the report.

This report provides a background on Minnesota's marriage credit; descriptive statistics regarding the tax credit and its beneficiaries; and an analysis of simulated tax filings to understand the effectiveness and efficiency of the policy in addressing the marriage penalty. 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 Laws of Minnesota 2025, 1st Spec. Sess. chapter 13, article 8, section 5.

Components of Review

The objective of this evaluation is to understand the effectiveness and efficiency of the marriage credit in compensating for the additional tax burden, or marriage penalty, placed on married couples that file income taxes jointly, as opposed to the tax liability they would have if they filed income tax separately.

This evaluation also addresses the minimum review components outlined in Laws of Minnesota 2025, 1st Spec. Sess. chapter 13, article 8, section 5 and provides additional analysis. The findings are listed in corresponding order as written in law.

Component 1. Estimate of the Annual Revenue Lost

The estimated fiscal impact for fiscal year 2024 is $98,100,000, according to an analysis by DOR Tax Research. This is associated with an estimate of 422,200 returns claiming the marriage credit in Tax Year 2023.

Component 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, for the purpose of evaluating the marriage credit.

Component 3. Estimating the measurable impacts and efficiency of the tax expenditure in accomplishing the objective of the expenditure

The marriage credit is found to be effective at compensating for a marriage penalty for married couples whose lesser-earning spouse makes at least $114,000. The marriage credit can provide overpayments to a small fraction of these higher-earning couples. This only applies to couples that itemize their deductions, which is roughly 8 percent of married joint filers, based in 2021 sample tax filing data provided by DOR Tax Research. Therefore, there are few cases where this tax expenditure is not efficient from the state's perspective due to overpayments.

For married couples in which the lesser-earning spouse makes less than $114,000, the marriage credit is less effective. These couples are required to calculate their credit amount using a look-up table, which can produce underpayments or overpayments. It is challenging to identify the frequency of this occurring, but the potential exists when the use of a look-up table is implemented. The marriage credit is considered less effective for couples who receive an underpayment and considered to be effective for couples who receive a credit equal to their actual penalty. Cases where couples face an overpayment or underpayment are considered to prove the marriage credit to be inefficient.

Component 4. Comparing the effectiveness of the tax expenditure and a direct expenditure

Comparison to a direct payment program is challenging because the beneficiaries are not consuming a particular service or good, and the marriage credit is not a program designed to encourage a specific behavior that might be alternatively achieved through a direct payment to a target population. Additionally, it is impossible to preemptively estimate an individual's annual income or filing status to provide a direct payment in anticipation of a marriage penalty. The best comparison in this case may be a refundable tax rebate. The marriage credit, being a nonrefundable tax credit, could be more effective at compensating taxpayers by making the credit refundable. This would allow all eligible taxpayers to recoup the full amount of the penalty they incur even if their tax liability falls below zero dollars, regardless of whether they benefit from other credits. The refundability aspect of this credit was estimated by DOR Tax Research to be 278 out of 391,855 claims in tax year 2021. That makes up less than 0.07 percent of claims for the marriage credit.

Component 5. Potential modifications to the tax expenditure to increase its efficiency or effectiveness

One solution to making the calculation of the marriage credit more efficient is to repeal the statutory requirement for the Commissioner of Revenue to devise a look-up table for the marriage credit and to direct all filers to implement the calculation method provided in Part 2 of the Schedule M1MA form published by DOR. This method is shown to be more efficient at calculating the marriage penalty and corresponding credit for the majority of taxpayers. This would remove calculation inefficiencies for couples whose lesser-earning spouse has an income lower than $114,000, based on the 2023 Schedule M1MA form.

An alternative solution is to make the look-up table larger to allow for finer income ranges for joint taxable income and the income of the lesser-earning spouse. This would reduce the degree of the inefficiencies for couples whose lesser-earning spouse has income lower than $114,000, but it would not eliminate the inefficiencies all together since the credit amounts in the look-up table are calculated using the midpoint for each income range. Returns with more or less than the midpoint values may receive an overpayment or underpayment.

Component 6. Estimating the amount by which the tax rate for the relevant tax could be reduced if the revenue lost due to the tax expenditure were applied to a rate reduction

DOR Tax Research calculated a revenue-neutral tax rate that would reduce the current rate by 0.045 percent for each tax bracket of the individual income tax for married joint filers. Figure 1 displays the current tax rate and corresponding rate reduction for each tax bracket for married joint filers.

Figure 1. Revenue-Neutral Calculations

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

Component 7. The incidence of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system

DOR Tax Research estimated the tax change, by population decile, as a result of marriage credit claims in tax year 2021, and also calculated the percentage of tax change proportional to each decile.[1] This was performed on a sample of income tax filings. The results of this breakdown can be found in Figure 2. This breakdown indicates that the majority of fiscal impact from the credit is concentrated in the top three

[1] Population deciles rank household income into 10 equal segments, each segment containing the same number of households. The first segment, or decile, includes households with the lowest household income, while the tenth decile includes households with the highest household income.

population deciles. This results in 94 percent of the marriage credit's total value going to households with household income above $95,361. As the marriage credit is constructed to address a structural penalty that occurs when household income rises as result of a couple becoming married and filing their income taxes accordingly, it makes sense to find that the credit will disproportionately benefit households with higher incomes. This would suggest that the marriage credit reduces the progressivity of the state's income tax system by providing tax relief as income rises.

However, looking at the tax expenditure itself, DOR Tax Research calculated a Suits index of .088, which would suggest that the policy is slightly progressive. A slightly progressive tax incentive can be interpreted to mean that as income rises, the proportion of the incentive to total income reduces. In other words, the benefit that lower income households receive is larger in proportion to their income than the benefit that higher income households receive.

Figure 2. Incidence of the Marriage Credit, Tax year 2021

Population Decile	Tax Change	Percent Tax Change	Return Count
$15,544 & under	$10,960	0.0 percent	24
$15,545 - $24,961	*	*	*
$24,962 - $35,168	$16,176	0.0 percent	70
$35,169 - $45,808	$41,060	0.0 percent	121
$45,809 - $58,014	$9,155	0.0 percent	39
$58,015 - $73,668	$52,781	0.1 percent	699
$73,669 - $95,360	$2,390,730	2.4 percent	21,009
$95,361 - $127,780	$17,519,092	17.9 percent	100,588
$127,781 - $183,475	$34,823,052	35.5 percent	165,363
$183,476 & over	$39,314,500	40.1 percent	103,942
Nonresidents	$3,922,494	4.0 percent	30,345
All	$98,100,000	100.0 percent	422,200

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

Component 8. Cumulative fiscal impacts of other state and Federal taxes providing benefits to taxpayers for similar activities

There are other provisions in Minnesota law that create a marriage penalty, but there are no other tax provisions that are designed to intentionally correct for those penalties.

Therefore, there is not a similar state program or other fiscal impacts to consider alongside the impact of the marriage credit.

At the federal level, the marriage penalty is addressed by doubling the income tax brackets for married joint filers, except for the last two brackets. Doubling brackets for married joint filers often leads to marriage bonuses. The LBO asked DOR Tax Research to estimate the cumulative fiscal impact of the state Marriage Credit and the marriage bonus that may occur at the federal level.

The DOR Tax Research calculated the combined effect of the federal bonus and state penalty for all returns that claimed the marriage credit in tax year 2021. Considering their combined state and federal tax, 208,025 returns had a total estimated net gain of $277.2 million compared to filing as two single individuals. The federal bonus more than offset the state marriage penalty for this group of filers. However, for many tax returns, the federal bonus does not offset the state penalty. This applies to 191,200 tax returns, which account for an estimated net increase in tax of $49.2 million. This likely comes about because the tax returns with the largest federal bonus are not the ones with the largest state penalty. There is more discussion to this topic within the report.

Background on Minnesota's Marriage Credit

Basics

Beneficiaries of the marriage tax credit are qualified married joint filers whose income would fall into lower income tax brackets had they filed their taxes separately. To determine the credit amount, the qualified taxpayers must complete form Schedule M1MA, Marriage Credit, in addition to form M1, Individual Income Tax. The credit amount and look-up parameters in the M1MA form are adjusted annually for inflation, so tax filers should be sure to reference the forms that correspond to the appropriate tax filing year. Throughout this report, references to the M1MA are specific to the 2023 Schedule M1MA form, unless otherwise noted.

The DOR administers this tax expenditure. The Marriage Credit reduces the amount of income tax revenue that would otherwise be generated. State income tax collections are deposited in the state General Fund, except as provided in the Minnesota Constitution or Minnesota Statutes 2024, section 290.62.

The latest estimates of forgone revenue are provided in Component 1: Estimate of the Annual Revenue Lost.

Mechanics

Filers will use Schedule M1MA, provided by the DOR, to determine whether they are eligible for a credit and to calculate their credit amount. Eligibility is based on a mathematical determination of whether a penalty will occur due to the taxable income of each spouse. To be eligible for the marriage credit, the lesser-earning spouse must make at least $28,000 in income from wages, self-employment, investments, and taxable social security benefits, and the couple together must make at least $44,000 in taxable income.

After determining eligibility, filers will complete the remaining portions of Schedule M1MA to determine their credit amount. The credit is determined under one of two methods depending on the income of the lesser-earning spouse. If the lesser-earning spouse makes less than $114,000 in income from wages, self-employment, investments, or taxable social security benefits, filers are directed to a look-up table within the Schedule M1MA form to determine their credit amount. Joint taxable income and the income of the lesser-earning spouse are used to reference the corresponding credit amount in the look-up table.

If the lesser-earning spouse makes more than $114,000 in income from the previously listed sources, then the filers are directed to complete Part 2 of the M1MA form. This consists of 10 line-items that are used to calculate the credit amount. This second method walks the filers through calculating tax liability for each spouse as if they were filing under the “single” status separately. This method assumes the lower-earning spouse would take the standard deduction and implicitly assigns any itemized deduction amounts beyond the standard deduction to the higher-earning spouse. The sum of the resulting tax liabilities is compared to the tax liability the couple faces if filing under the married joint status. If tax liability for the couple is larger under the married joint status compared to their combined tax filing as two single individuals, then the difference is considered the marriage penalty amount, and this is the same amount that the couple is directed to claim for the credit.

The difference in tax liabilities between a couple filing their annual income taxes under the married joint status or filing separate under the single filer status is a result of the state’s graduated tax rate structure and income ranges that vary within each tax bracket, depending on the filing status chosen.

Minnesota’s graduated, or progressive, tax rate structure provides for a higher marginal tax rate as income increases, meaning that an individual’s income will be taxed at one rate within the first income bracket. For any income exceeding that first bracket, their tax rate will increase but only for that excess portion of income. Any portion of income that exceeds the second income bracket is taxed at a rate corresponding to the third income range tax rate. The same applies to any portion exceeding the third bracket and into the fourth bracket. In other words, in 2023, an individual filing as single is taxed at 5.35 percent on their taxable income up to $30,070. Any taxable income beyond $30,070 and up to $98,760 is taxed at 6.80 percent. Any taxable income beyond $98,760 and up to $183,340 is taxed at 7.85 percent. Finally, any taxable income beyond $183,340 is taxed at 9.85 percent. These four income ranges make up the state’s tax brackets for individuals filing taxes as single. The income ranges for each bracket widen for couples filing under the married joint status. The differing income ranges for each respective filing status combined with the four tax rates lead to a difference in tax liability for couples filing as married jointly rather than if they would have filed as single. Examples of marriage credit calculations are provided in Appendix A.

The mechanics of determining eligibility and calculating a corresponding marriage penalty is automated when filing taxes electronically based on taxpayer inputted data. Taxpayers are relieved of the administrative burden of determining their eligibility and calculating their marriage credit amount through electronic filing. Electronic tax preparation services must develop these processes into their software according to DOR Tax Research.

Legislative History

In an effort to mitigate marriage penalties, the Minnesota legislature introduced several bills during the period of 1997-1999. Initial efforts focused on modifying the tax brackets. Some bills proposed widening the individual income tax brackets for married joint filers from 30 percent to 100 percent, which would have cost the state $106 million in 1999, largely due to increases in marriage bonuses that would result.[2]

A marriage penalty credit was proposed under HF 1998 and ultimately included in the 1999 Omnibus Tax Bill, HF 2420. The legislation provided the nonrefundable credit that exists in statute today to compensate married joint filers for the marriage penalty. This nonrefundable credit is designed to minimize the marriage penalty without increasing the marriage bonus. The revenue forgone for the marriage credit was estimated at $48 million in 1999, significantly less than the alternative proposal to widen tax brackets for individual filers.

There are other provisions in state law that create a marriage penalty, but the marriage credit only addresses penalties that occur as a result of filing income taxes under the married joint status and subsequently having different proportions of income fall into a different tax bracket. See Appendix B for a listing of other state provisions that create marriage penalties, as identified by the Minnesota House of Representatives Research Department.

[2] See Appendix D for a list of bills introduced between 1997 to 1999 aimed at addressing the marriage penalty.

Evaluation

Descriptive Statistics

The LBO looked at the distribution of the marriage credit according to income deciles of adjusted gross income, analyzing aggregated income sample data from 2021.[3] This is the latest available income sample data at the time this analysis was performed. Organizing sample data by income deciles allows for a clear view on the concentration of income across the state and helps to understand the relationship of income to the marriage credit. Analysis of this data is consistent with Finding 7 related to incidence, meaning that couples in higher income groups tend to benefit the most in terms of dollar value. The statistics below illustrate the distribution of marriage credit claims.

According to 2021 income tax sample data provided by the DOR Tax Research, the state issued $88,074,000 in nonrefundable credits for 426,974 returns claiming the marriage credit. The average marriage credit amount is just over $206 per claim. Just under 40 percent of the tax filings submitted through the married joint status received a marriage credit. The percentage of filings receiving a marriage credit drops to just over 22 percent when considering filings across all filing status types (Single, Married Joint, Married Separate, Head of Household, Qualified Widow).

Just under 21 percent of claims for the marriage credit go to households in the top four income deciles - incomes of $222,209 and above. This same group receives about 37 percent of the credit's dollar value issued in tax year 2021. Households in the top four income deciles account for the top 40 percent of income under the married joint filing status.

Slightly more than 72 percent of the marriage credit claims go to households in the fourth, fifth, and sixth income deciles, accounting for just over 60 percent of the credit's dollar value issued in tax year 2021. These three deciles represent 30 percent of the income under the married joint filer status and consist of married joint filers with household incomes ranging from $96,791 to $222,208.

Fewer than seven percent of the marriage credit claims go to households in the first three income deciles. This group receives three percent of the marriage credit dollar value issued in tax year 2021. This would include married joint filers with household income below $96,790. These first three income deciles represent 30 percent of the income under the married joint filing status.

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[3] Income deciles divide households into 10 equal segments by income. Each decile will have the same amount of total household income but will differ in number of households included. The first decile will require many more households to equal the same amount of total household income as the tenth decile with far fewer households.

There are a few reasons that can explain why the first three income deciles tend to receive a marriage credit at lower rates than the next seven deciles. To start, the joint taxable income of a married couple in the first income decile might be below the joint income threshold that determines eligibility for the marriage credit ($40,000 in tax year 2021). Second, the upper limit of the first tax bracket ($39,810) for married joint filers is below the eligibility threshold for the credit, meaning that the first instance of eligible tax filers will be found in the second tax bracket by default.

The distribution of returns claiming the credit across income deciles illustrates that a disproportional amount of the marriage credit's dollar value goes to a comparatively smaller percentage of the eligible population in the higher income deciles. This is likely a result of larger amounts of income falling into a higher income tax brackets under the married joint filing status – meaning larger marriage penalties occur for individuals with higher income.

Effectiveness and Efficiency - Calculation of Marriage Penalty and Corresponding Credit

To understand how effectiveness and efficiency were assessed, both terms should be defined. The LBO considered the following definitions for the purpose of this evaluation.

Effectiveness refers to whether the calculated credit covers the full amount of the true marriage penalty experienced by a couple filing jointly. Note that this does not consider whether a couple benefits from the full amount of the credit due to its design as a nonrefundable credit. There is discussion to the refundability of the credit at the end of this section.

Efficiency refers to the degree to which the credit compensates the exact amount of the penalty. If a couple receives a credit that is larger or smaller in value than the penalty, then the LBO considers that instance of the marriage credit to be inefficient. This takes the perspective of the State of Minnesota and its fiduciary relationship to state funds. This definition of efficiency also aligns with the Department of Revenue's vision that "everyone reports, pays, and receives the right amount: no more, no less."

As previously described, the marriage penalty is calculated as the difference in tax liability between a couple filing under the married joint status and the same couple filing under the single status. The Schedule M1MA form provides two methods for determining a couple's credit amount. The following paragraphs discuss the effectiveness and efficiency of each method.

The first method, for households where the lesser-earning spouse earns less than $114,000, relies on a look-up table, which the DOR is required to provide under Minnesota Statutes 2024, section 290.0675, subdivision 3. Statute directs the Commissioner of Revenue to devise the look-up table using increments of up to $2,000 for the income of the lesser-earning spouse. Ranges for joint taxable income are provided in ranges of $20,000. The use of a look-up table will inherently provide ineffective and in some cases inefficient results. The midpoint of each range is used in the calculation of the corresponding credit. This will lead some taxpayers to receive a credit that is higher than their actual penalty and some to receive a credit that is lower than their actual penalty. Therefore, for married couples in which the lesser-earning spouse makes less than $114,000, the marriage credit is less effective. These couples are required to calculate their credit amount using a look-up table, which can produce significant underpayments, as well as significant overpayments.

An example of a significant overpayment is one where the actual marriage penalty experienced is calculated to be 73 cents, but the look-up table dictates the credit to be $106 based on income combinations. The marriage credit is considered less effective for couples that receive an underpayment and considered to be effective for couples that receive a credit equal to their actual penalty. Cases where couples face either an underpayment or an overpayment are considered to prove the marriage credit to be inefficient.

The second method of the Schedule M1MA form is used for married couples whose lesser-earning spouse makes at least $114,000. As indicated in the Mechanics section of this evaluation, this method uses a calculation to determine the amount of the penalty which then becomes the amount of the credit. The marriage credit is found to be effective at compensating for a marriage penalty for these couples. However, the marriage credit can provide overpayments to a small fraction of these higher-earning couples, specifically if they itemize their deductions. Roughly 6.5 percent of marriage credit claimants itemize their deductions. This is about 27,764 of the marriage credit claims from 2021 sample data according to DOR Tax Research. There is more discussion to these scenarios further in this section.

The LBO calculated the marriage penalty and corresponding credit for 75 hypothetical income combinations to understand the variability between the marriage penalty experienced and the credit determined by the respective calculation method. In the design of these simulations, the LBO used the income thresholds provided in the 2023 Schedule M1MA form. In 62 of the 75 income combinations, the lesser-earning spouse had income below the $114,000 threshold, requiring the use of a look-up table. Of these 62 simulations, there were 24 cases where the couple would have received a credit that was either higher or lower than their actual penalty by almost $10 or more if they would have applied the second calculation method instead. In these 24 cases, the difference in credit calculations range from an overpayment of $105.27 to an underpayment of $104.75. In cases where a couple receives a credit that covers the amount of their actual penalty, the policy can be determined to be effective and to be meeting its objective. However, in cases where the couple receives a credit that is less than their actual penalty, the marriage credit can be considered ineffective. See Appendix C for examples of simulations illustrating how the calculation of the marriage credit may be ineffective and at times inefficient due to overpayments.

The DOR Tax Research Division was able to estimate the number of cases from tax year 2021 sample data tax filings where the marriage credit calculated under the look up table differed from the credit calculated based on Part 2 of the M1MA form. Figure 3, provided by Tax Research Division, gives a breakdown of the findings organized by population deciles of Married Joint filers that received a marriage credit in tax year 2021. Based, on sample data, the Department estimates that there were 175,161 cases where the credit amount differed by $0.50 or more between the two credit calculation methods. The cumulative impact is estimated to be $139,720 in underpayments. The total amount of underpayments, estimated at $636,383, are offset by the total amount of overpayments, estimated at $496,663.

Figure 3. Inefficiencies of the M1MA Table for Minnesota Married Joint Filer, Tax Year 2021.

Inefficiencies of the M1MA Table for Minnesota Married Joint Filers, TY21			
Population Decile	**Count**	**Sum**	**Average**
$15,544 & Under	*	*	*
$15,545 - $24,961	-	-	-
$24,962 - $35,168	-	-	-
$35,169 - $45,808	*	*	*
$45,809 - $58,014	-	-	-
$58,015 - $73,668	420	($21,258)	($50.61)
$73,669 - $95,360	23,021	($284,327)	($12.35)
$95,361 - $127,780	61,819	$298,342	$4.83
$127,781 - $183,475	41,931	$338,041	$8.06
$183,476 & Over	47,970	($191,078)	($3.98)
All	175,161	$139,720	$0.80

A positive value indicates that the filer receives LESS from using the M1MA table.

A negative value, enclosed in parentheses, indicates that the filer receives MORE from using the M1MA table.

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

Again, the shortcomings described above are a result of the use of a look-up table. As part of this evaluation, the DOR Tax Research Division pointed out that the ranges in the look-up table are dictated by statute and are in increments of $2,000 for the lesser-earning spouse. However, the increments for joint taxable income have changed since the enactment of the marriage credit. Originally, the table only provided two ranges for the couple's joint taxable income. One range was between $25,000 and $99,999, and the other was for $100,000 and above. This initial structure of the look-up table was written into the enacting statute in 1999. These larger ranges for joint taxable income would have made the tax credit less efficient. In 2001, the Commissioner of Revenue was authorized to establish the look-up table and the structure previously established in statute was repealed.[4] This led to the current ranges as seen in the M1MA form.

The DOR Tax Research Division suggests two potential solutions to address the inefficiencies produced by the look-up table. The first would be to alter and expand the look-up table; the second would be to require all taxpayers to use the calculation in Part 2 of the M1MA form rather than the look-up table.

The first solution would involve expanding the look-up table to provide for finer income increments. This would reduce the differences between the actual penalty experienced and the credit as indicated in the look-up table. This would not completely address the inefficiencies in overpayments and underpayments.

The second alternative would be to repeal the statutory requirements for the Commissioner of Revenue to devise a look-up table for the marriage credit and require that every tax filer use the method laid out in Part 2 of the M1MA form to calculate their credit. This method would provide more efficient and effective results in terms of calculating a penalty and corresponding credit. While this process is relatively burdensome when performed on paper, the process is significantly streamlined for electronic filers, which account for 94 percent of all filers who claim the marriage credit. The ability to calculate this credit electronically removes many steps in the process and makes the use of a look-up table almost unnecessary. The high-level mechanics of using Part 2 of form M1MA are provided in the background section of this report. To reiterate some key aspects of this method, the combined tax liability of each spouse filing as single is compared to the couple filing as married joint. For couples that take the standard deduction, Part 2 provides a more accurate calculation of the penalty a couple is likely to incur. Based on 2021 sample income data, it is estimated that 92 percent of taxpayers filing married jointly in 2021 took the standard deduction. So, it is reasonable to determine that this calculation method is accurate for the vast majority of filers claiming the marriage credit.

For the eight percent of taxpayers that itemized their deductions in 2021, there is a potential for this method to provide a credit that exceeds a couple's actual penalty amount, benefitting the couple. For these couples, this method can distort the distribution of their income, creating an inefficiency in the calculation of the credit. This is because the couple's joint taxable income amount, which includes all of their itemized deductions, is assigned to the higher-earning spouse, minus the income of the lower-

[4] Laws of Minnesota 2001, 1st Special Session. chapter 5, article 7, section 41

earning spouse. Further, the calculation assumes that the lower earning spouse would take the standard deduction if filing single. The combination of these assumptions has the effect of minimizing the difference in the couple's income. The result is a higher calculated penalty with a corresponding higher credit than would result from the calculation assuming an equal split of itemized deductions for both spouses or a corresponding assignment of the itemized deductions. Splitting the couple's itemized deductions evenly does not necessarily reflect a more accurate representation of a couple's income distribution, though its effect of minimizing the difference in a couple's income is less than the current approach. For eight percent of taxpayers, this approach is likely to yield inefficient results when overpayments are made.

The definition of Effectiveness for the purpose of this evaluation is provided at the beginning of this section and it clarifies that the refundability of the credit is not considered in the definition. However, it should be noted that due to the fact that the credit is non-refundable, there are cases where a couple loses out on a portion of their marriage credit. This would apply to cases where the couple's tax liability falls below $0, because they claim other tax expenditures, namely refundable tax credits. DOR Tax Research estimates that this applied to about 278 returns out of 391,855 returns eligible for a marriage credit filed by Minnesota residents in tax year 2021. The total benefit lost by couples is estimated at $11,067. All 278 cases are found among taxpayers in the top three population deciles. For couples to benefit from a refundable tax credit, both spouses need to have a minimum taxable income and the couple has to claim other credits that would reduce their tax liability to zero.

Administrative Burden

The LBO asked DOR Tax Research to speak to the administrative burden the credit poses to the department. The department assures that the marriage credit is not administratively burdensome for the department to carry out. Further, it states the only complication arises when manual adjustments must be made to the M1MA form to account for conformity adjustments.[5]

In addition, the LBO completed an analysis of the administrative burden a tax filer may experience in claiming the marriage credit. The following analysis of the administrative burden of filing for the marriage credit assumes that a taxpayer is submitting a paper tax filing. It should be noted that according to the DOR Tax Research, only six percent of the marriage credit claims issued are for paper tax return filings. This means that most marriage credit recipients file their tax returns electronically. Electronic filing removes many of the administrative burdens a taxpayer would face if filing a paper tax return.

Qualification for the marriage credit is somewhat complex. To qualify for the marriage credit, the taxable income of the lesser-earning spouse must exceed $28,000 in 2023,

[5] Curtis Walker, direct email to Legislative Budget Office evaluation team, November 25, 2024.

calculated on Line 6 of Schedule M1MA, and the couple's joint taxable income must exceed $44,000 in 2023, calculated on Line 7 of Schedule M1MA. An individual must understand whether they received income from self-employment, a taxable retirement pension, profit-sharing, stock bonuses, an annuity plan, or taxable social security benefits. This information can be referenced in an individual's federal tax filing, but it may require referencing up to five separate line entries in a taxpayer's federal tax filing.

The calculation of the marriage credit itself is also not straightforward. The calculation methods are not uniform across all income levels. As mentioned above, if the income of the lesser-earning spouse is below $114,000, the taxpayers must use the look-up table on the M1MA form to determine the appropriate marriage credit. If the income of the lesser-earning spouse exceeds $114,000, the taxpayers need to switch to Part 2 and follow 10 steps to compute the applicable credit. This requires multiple references to a couple's Minnesota Income Tax Return M1 form. For part-year residents and nonresidents, there are two additional steps and one cross-reference.

The marriage credit is not a line item on Minnesota Income Tax Return M1 form. Once completing the M1MA form, the taxpayers must enter the value from Line 21 of form M1MA to Line 1 of the Nonrefundable Credit form, Schedule M1C. After adding all other nonrefundable credits on Schedule M1C, the final value will then be added to Line 16 on the M1 form.

The subtle difference between income sources, two distinct calculation methods, and multiple entries on three separate tax forms creates an administratively burdensome process for tax filers. With these considerations in mind, the marriage credit can be determined to be administratively burdensome for taxpayers with respect to paper tax filings.

Comparison to Similar Policies

Review of Similar Programs in Minnesota

Minnesota's marriage credit only rectifies the marriage penalties caused by Minnesota's tax bracket structure. To the best of the LBO's knowledge, there is no other program that is designed to address the marriage penalty resulting from filing income taxes jointly and subsequently having different portions of income fall into a higher tax bracket.

However, other programs exist which, in their original design, may penalize a married couple due to different rates of benefit based on single versus married status. Such was the case in 1999 when HF 2420 was introduced to address various instances of a marriage penalty.

Besides the marriage credit, HF 2420 included provisions to reduce marriage penalties resulting from the dependent care credit and the federal standard deduction. In the case of the dependent care credit, a phase out threshold was doubled for married couples, requiring a separate phase out table to be created. The issue of the standard deduction was that at the federal level the standard deduction for married couples was not double that of a single filer. An additional income tax subtraction was enacted to cover the difference. HF 2420 was signed into law with a line-item veto (unrelated to marriage penalty provisions) on May 25, 1999. This is no longer an issue for many taxpayers, as the federal standard deduction for married joint filers has been double the standard deduction for taxpayers filing as single in the first four income brackets since tax year 2018.

Review of Marriage Penalties at the Federal Level

Like Minnesota, the United States has a progressive income tax structure, meaning there are instances of marriage penalties and bonuses present in the federal tax system. Attempts to alleviate marriage penalties by the federal government include creating new filing statuses, allowing deduction for married couples, and altering the tax brackets of married joint filers to widen or double them.[6]

In 2001, tax brackets were widened by 15 percent for married joint filers. In 2003, the two lowest tax brackets were doubled for joint filers. Most recently, in 2017, all tax brackets were expanded to be double for joint filers, except for the top marginal 35 percent tax bracket and beyond. These adjustments reduced marriage penalties, but also increased marriage bonuses.[7] There is no marriage credit at the federal level that resembles Minnesota's marriage credit.

Additionally, at the federal level a married couple can elect to file their federal taxes separately, using the standard deduction and rate schedule that mirrors those for single filers. This would eliminate the marriage penalty, but it can also increase administrative burden and calculation complexity, as couples must decide how to split joint assets as well as deductions and any other credits. Filing under this status limits the types and amounts of other tax provisions that a couple would otherwise be eligible for under the joint filing status.

A timeline of actions taken at the federal level to address marriage penalties and bonuses can be found in Appendix E.

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[6] For more detailed history of earlier Federal efforts to address marriage penalties and bonuses, reference the Overview of Present Law and Economic Analysis Relating to the Marriage Tax Penalty, The Child Tax credit, and The Alternative Minimum Tax, prepared for the US Senate Committee on Finance on March 8, 2001, by Staff of the Joint Committee on Taxation. Available at https://www.jct.gov/CMSPages/GetFile.aspx?guid=ec80bef5-01ba-427d-9f01-6d394224a72e

[7] El-Sibaie, Amir. Marriage Penalties and Bonuses under the Tax Cuts and Jobs Act. Tax Foundation. Fiscal Fact No. 573. February 2018. https://taxfoundation.org/research/all/federal/tax-cuts-and-jobs-act-marriage-penalty/

As a component of this evaluation, the DOR Tax Research was asked to calculate the cumulative impact of the state's marriage credit and the federal marriage bonus resulting from the doubling of tax brackets for married joint filers. DOR Tax Research provided the following analysis:

> *"Married joint filers that claimed the marriage penalty credit received an estimated federal marriage bonus of $227.9 million, more than the estimated state penalty. However, for many returns the federal bonus does not offset the state penalty because the returns with the largest federal bonus are not the ones with the largest state penalty. DOR calculated the combined effect of the federal bonus and state penalty for all returns that claimed the marriage credit in tax year 2021. The federal bonus was calculated using a similar method to the marriage credit calculation but substituting federal rates and parameters. The calculation was limited to the standard income tax rates and did not account for the reduced rates on capital gains or qualified dividends. Of the 399,198 returns that claimed the marriage credit, the federal bonus more than offset their state penalty [for 208,025 returns]. Considering their combined state and federal tax, they had a net gain of $277.2 million compared to if they filed as two single individuals. For 191,173 returns, the federal bonus did not completely offset their marriage penalty. They had a net increase in tax of $49.2 million. Also, some returns in the top federal tax brackets may experience a federal marriage penalty. Those returns would have both a state and federal penalty."*

It should be noted that the taxpayers who receive the largest federal marriage bonus are not necessarily the same taxpayers that receive the largest marriage penalties and subsequent credit at the state level. Couples that tend to receive a larger federal bonus are likely to be couples with disparate incomes, whereas couples who tend to receive a larger state marriage penalty have similar levels of income. Reference Figure 4, provided by the DOR Tax Research, for a summary of net impact according to population deciles in tax year 2021.

Figure 4. Counts and Net Impact of (Federal Bonus - State Penalty) for Minnesota Married Joint Filer, TY 21**

Counts and Net Impact of (Federal Bonus - State Marriage Penalty) for Minnesota Married Joint Filers, TY21**						
Population Decile	**Positive**		**Negative**		**Total**	
	Count	**Sum**	**Count**	**Sum**	**Count**	**Sum**
1	22	$314,737	-	-	22	$314,737
2	-	-	-	-	-	-
3	*	*	69	($14,526)	69	($14,526)
4	*	*	120	($36,690)	120	($36,690)
5	*	*	-	-	*	*
6	151	$85,614	411	($30,970)	562	$54,644
7	1,577	$466,309	23,288	($2,551,709)	24,865	($2,085,400)
8	70,949	$68,350,732	38,436	($5,631,943)	109,385	$62,718,789
9	83,104	$92,855,327	79,530	($15,313,346)	162,634	$77,541,981
10	52,223	$115,082,518	49,319	($25,644,783)	101,542	$89,437,735
All	208,025	$277,155,237	191,173	($49,223,967)	399,198	$227,931,270

**Fewer than 10 returns. Results were combined with an adjacent cell.*
***Positive sums indicate that the federal bonus outweighs the state penalty.*
****Negative values are enclosed in parentheses.*

Review of Similar Programs in Other States

Four other states were identified that also offer a variation of a marriage credit to compensate qualified married joint filers for a marriage penalty. These include North Dakota, Ohio, South Carolina, and Wisconsin. North Dakota, and Wisconsin compute their marriage credit based on equations considering tax liabilities of the couple under the single and married joint filing statuses, similar to Minnesota. The maximum possible computed marriage credit in Minnesota was $1,710 in 2023.[8] North Dakota caps its marriage penalty credit at $300. Wisconsin allows a credit up to $480.

The “Two Wage Earner Credit” in South Carolina is equivalent to 0.7 percent of the lesser of $50,000 or the qualified earned income of the taxpayer with the lower qualified income in the tax year of 2023. The maximum amount is $350.

The “Joint Filing Credit” in Ohio is calculated based on the percentage of qualifying Ohio adjusted gross income more than $500. The credit was capped at $650 in 2023.

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[8] Most taxpayers do not receive the maximum calculatable marriage credit amount. To receive the highest credit possible, the lesser-earning spouse must have taxable income in the highest tax bracket for single filers.

Eleven states have a flat rate income tax including Arizona, Colorado, Idaho, Illinois, Indiana, Kentucky, Michigan, Mississippi, North Carolina, Pennsylvania, and Utah. The flat rate income tax structure is considered marriage neutral.

Among 31 states with progressive income tax rates, eight states more than double their brackets, which result in a marriage bonus for the married couples filing jointly. These states are Alabama, Connecticut, Hawaii, Kansas, Louisiana, Maine, Nebraska, and Oregon.

Minnesota, along with other states, allows a fifth filing status, “married filing separately”. Like a single filing option, this status gives married couples the ability to avoid the marriage penalty. However, the LBO does not consider this filing status option to be a feasible alternative solution to relieve couples from the marriage penalty that results from filing jointly. While the filing status does address the penalty, it introduces limitations to other filing options which may prove to be disadvantageous to a couple. This fifth filing status is more appropriate for couples that find themselves dealing with situations that may prove to be more complicated than dealing with a marriage penalty. IRS Publication 501(2024) spells out situations that may be most appropriate for individuals to choose this filing status for federal tax filings, which may impact state tax filings.

Comparison to a Direct Payment Program

Another point to consider with respect to effectiveness is how the credit compares to a direct payment program. Comparison to a direct payment program is challenging because the beneficiaries are not consuming a particular service or good, and the marriage credit is not a program designed to encourage a specific behavior that might be alternatively achieved through a direct payment to a target population. Additionally, it is impossible to preemptively estimate an individual’s annual income or filing status to provide a direct payment in anticipation of a marriage penalty. The best comparison in this case may be a refundable tax rebate.

The nonrefundable nature of the marriage tax credit means that some couples may not recoup the full amount of their credit if their tax liability falls below zero as result of other credits taken. If the marriage credit is designed to relieve taxpayers of a penalty incurred by a change in filing status after marriage, then the credit might be more effective if the full marriage credit amount was made available despite the couple’s final tax liability. The DOR Tax Research estimates that this impacted 278 tax returns out of 391,855 that received a marriage credit in tax year 2021 and were Minnesota residents. The Department estimates that the total fiscal impact was $11,067.

Evaluation Methodology

Literature Review

To understand the foundational principles of the marriage credit, the LBO began with a review of published topic briefings produced by non-partisan offices of the Minnesota Legislature. This included a review of materials dating back to 2007 to understand the history of the marriage penalty in Minnesota, along with a review of the enacting bill (HF 2420) passed 1999. Additionally, material published by the DOR were reviewed, including the Schedule M1MA forms produced for several tax years. The search of literature was expanded to published works on the marriage penalty at the federal level. These materials were limited to items that describe only the mechanics of the marriage penalty resulting from the tax structure (tax brackets) and solutions considered to rectify a structural issue in the tax code. This includes mainly works published by the US Department of Treasury and the Joint Committee on Taxation. Items that were excluded include published works that focus on determining whether the marriage credit or penalty sway a couple's decision to marry. Also excluded were studies that measure the impact of the penalty or credit on effective tax rates. These topics were eventually determined to be beyond the scope of this evaluation.

Review of Summary Tax Filing Data and the Schedule M1MA form

After reviewing published material and understanding the landscape of the policy, the LBO requested summary tax filing data from the DOR Tax Research. The LBO received summary income sample data for tax years 2018 through 2021. Data was requested by income deciles according to filing status. Producing this information in income deciles assigns the state's total household income across 10 equal segments, or deciles, varying in the number of households within each decile. This can provide more detail to the number of households that exist within each decile, i.e., the concentration of income. This summary data was analyzed to provide descriptive statistics to the marriage credit and filing trends across income deciles.

The LBO made several data requests to address other analysis approaches, which DOR Tax Research did provide. These approaches included a review of effective tax rates and were determined to be out of scope. Upon that determination, these approaches were subsequently abandoned.

As mentioned in the literature review section, the DOR Schedule M1MA form was reviewed to understand the calculation methods of the marriage penalty and the corresponding credit. The form was reviewed to understand the administrative burden associated with completing and filing the form. A simulation of tax credit claims was created using the calculations steps as outlined in this form.

Conclusion

The LBO set out to evaluate how well the marriage credit meets its stated objective as identified by the Tax Expenditure Review Commission. Based on this evaluation of Minnesota's marriage credit, the LBO has concluded that while the marriage credit generally covers the marriage penalty that couples filing jointly incur, there are instances where the calculation design could lead to underpayment and overpayments of the marriage credit. The LBO cannot determine how often this is the case as incomes may fluctuate from year to year, but there are ways that the credit's calculation could be modified to minimize underpayments and overpayments. Potential solutions include repealing the statutory requirement for the Commissioner of Revenue to produce a look-up table and require that all filers claiming the credit use the method included in Part 2 of the Schedule M1MA form; or increasing the income range increments used in the look-up table to minimize error in calculating the marriage credit. Finally, making the credit refundable would ensure that no taxpayer loses out on a portion of their credit due to their tax liability falling below zero. These changes would contribute to achieving the credit's objective.

The Tax Expenditure Review 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 Laws of Minnesota 2025, 1st Spec. Sess. chapter 13, article 8, section 5.

Appendix A. Marriage Penalty and Credit Examples

Case scenarios are depicted below illustrating how a marriage penalty may or may not manifest across different income combinations. Each of the following examples assumes for the purposes of these calculations that the two taxpayers are married without dependents, and that the couple takes no other credit, deduction, or subtraction apart from the standard deduction and the marriage credit. The 2023 Schedule M1MA form was used in calculating the following cases.

Case 1: Taxpayers A and B

Taxpayer A earns $56,000 annually and Taxpayer B earns $50,000 annually.

As single filers:

- Taxpayer A's taxable income is $42,175. Their tax liability is $2,432.
- Taxpayer B's taxable income is $36,175. Their tax liability is $2,024.
- The total single-filer tax liability for this couple is $4,456.

As married joint filers:

- Their combined total income is $106,000.
- Their joint taxable income is $78,350, making their tax liability as married joint filers $4,691.
- Their marriage penalty is $235.

Because Taxpayer B earns less than $114,000, this couple will use the look-up table on Form M1MA to find their marriage credit. According to that table, they will receive a marriage credit of $235.

Case 2: Taxpayers C and D

Taxpayer C earns $180,000 annually and Taxpayer D earns $160,000 annually.

As single filers:

- Taxpayer C's taxable income is $166,175. Their tax liability is $11,572.
- Taxpayer D's taxable income is $146,175. Their tax liability is $10,002.
- The total single-filer tax liability for this couple is $21,574.

As married joint filers:

- Their combined income is $340,000.
- Their joint taxable income is $312,350, making their tax liability as married joint filers $22,196.
- Their marriage penalty is $622.

Because Taxpayer D, as the lesser earning spouse, makes more than $114,000, this couple will receive a marriage credit equal to their marriage penalty, using the calculations in Part 2 of Form M1MA.

Case 3: Taxpayers E and F

Taxpayer E earns $30,000 annually and Taxpayer F earns $28,500 annually.

As single filers:

- Taxpayer E's taxable income is $16,175. Their tax liability is $865.
- Taxpayer F's taxable income is $14,675. Their tax liability is $785.
- The total single-filer tax liability for this couple is $1,650.

As married joint filers:

- Their combined income is $58,500.
- Their joint taxable income is $30,850, making their tax liability as married joint filers $1,650.

This couple does not qualify for the marriage credit, because their joint taxable income falls below $44,000, so their tax liability when filing married joint is the same as their total tax liability if both would file as single.

Case 4: Taxpayers G and H

Taxpayer G earns $65,000 annually and Taxpayer H earns $175,000 annually.

As single filers:

- Taxpayer G's taxable income is $51,175. Their tax liability is $3,044.
- Taxpayer H's taxable income is $161,175. Their tax liability is $11,179.
- The total single-filer tax liability for this couple is $14,223.

As married joint filers:

- Their combined income is $240,000.
- Their joint taxable income is $212,350, making their tax liability as married joint filers $14,199

This couple does not qualify for the marriage credit, as their tax liability when filing married joint is lower than their total tax liability if both would file as single. This couple receives a marriage bonus. This is a result of more income falling within a lower tax bracket under the married joint status.

Appendix B: Provisions of the Minnesota Income Tax System That Create Marriage Penalties or Bonuses

The Minnesota House Research Department identified provisions in 2017 that create marriage penalties or bonuses, depending on a couple's situation. For purposes of accessibility, a summary table is recreated on the next page to identify those provisions and their maximum penalties or bonuses at that time. The DOR Tax Research provided updated estimates of penalty and bonus maximums since 2017 – see footnote. [9] The original brief can be found online at https://www.house.mn.gov/hrd/pubs/mrgcred.PDF

[9] Several of these provisions have been revised since 2017. The Social Security subtraction has been expanded, and the maximum penalty or bonus is now 100 percent of taxable benefits. A similar subtraction for public pension benefits was enacted in 2023 with similar penalties and bonuses. For the education credit, the maximum penalty is now $1,500 times the number of children. The maximum child and working family credit penalty is now $350 plus $1,750 per qualifying child and up to $2,500 for older qualifying children. The maximum bonus is now $700 plus $1,750 per qualifying child plus and up to $2,500 for qualifying older children. The student loan credit was revised in 2021 to eliminate the marriage penalty.

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	1,000	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

Appendix C. Marriage Credit Inefficiency and Ineffectiveness Examples

Three cases are provided to illustrate the inefficient calculation of a couple's marriage credit using the statutorily required look-up table. These examples include overpayments and underpayments to tax filers based on hypothetical wages and the look-up table included in the 2023 Schedule M1MA form. Each case also includes a calculation of the marriage credit using the method outlined in Part 2 of the Schedule M1MA form, proven to be a more accurate representation of a couple's penalty and corresponding credit.

Case 1

Taxpayer A earns $35,000 and Taxpayer B earns $38,000 annually. They are married without dependents. It is assumed that there are no federal adjustments to income and that the couple takes the standard deduction to get to a joint taxable income of $45,350

The lesser earning spouse in this couple earns less than $114,000, so this couple would use the look-up table of Schedule M1MA to calculate their marriage credit. The table indicates the couple will receive a credit of $106.

However, using Part 2 of Schedule M1MA, the marriage penalty for this couple is only $21. As married joint filers, this couple's tax liability is $2,447. Their total tax liability if each would file as single is $2,426. The difference equals a marriage penalty of $21 This couple benefits by using the look-up table as directed to receive an overpayment of $85. In this case, the marriage credit is inefficient as it covers more than the amount of the penalty.

Case 2

Taxpayer C earns $40,000 and Taxpayer D earns $45,000. They are married without dependents. The same assumptions are made as in Case 1 to dependents, federal adjustments, and use of the standard deduction. Joint taxable income is estimated at $57,350.

The lesser earning spouse earns less than $114,000, so this couple would use the look-up table of Schedule M1MA to calculate their marriage credit. The table indicates a credit of $146.

Using Part 2 of Schedule M1MA, the actual marriage penalty this couple experiences is $178. As married joint filers, this couple's tax liability is $3,263. Their total tax liability if each would file as single is $3,084. The difference is a marriage penalty of $178. If this couple used Part 2 of Schedule M1MA, they would receive a credit that is $32 higher than the credit that they receive using the look-up table. In this case, the marriage credit is not effective at covering the entire amount of the penalty.

Case 3

Taxpayer E earns $105,000 and Taxpayer F earns $105,000. They are married without dependents. Again, the same assumptions are made as in Cases 1 and 2 to dependents, federal adjustments, and use of the standard deduction. Joint taxable income is estimated at $182,350.

Because the taxpayers earn the same amount, and it is less than $114,000, this couple would use the look-up table of Schedule M1MA to calculate their marriage credit. Using the table, the amount of their credit is $235.

However, using Part 2 of Schedule M1MA, the actual marriage penalty this couple faces is $316. As married joint filers, this couple's tax liability is $11,844. Their total tax liability if each would file as single is $11,528. The difference is a penalty $316. If this couple used Part 2 of Schedule M1MA, they would receive a credit that is $81 higher than the credit that they receive using the look-up table, and sufficiently covers the value of their marriage penalty. This is another example of the marriage credit not being effective at covering the true value of the marriage penalty using the required look-up table.

Appendix D. Bills Introduced to Address a Marriage Penalty in Minnesota

Bills introduced during the period of 1997 to 1999 by the Minnesota Legislature aimed at addressing the marriage credit are listed below by legislative session.

The 80th Legislature (1997-1998)

- HF 2063 - widen the tax brackets and modify the alternative minimum tax
- HF 2513 - widen the tax brackets and modify the alternative minimum tax
- HF 3411 / SF 2642 - widen the tax brackets and modify the alternative minimum tax
- HF 3453 - widen the tax brackets and modify the alternative minimum tax

The 81st Legislature (1999-2000)

- HF 267 / SF 448 - widen the tax brackets by 100 percent and modify the alternative minimum tax
- HF 890 / SF 960 - reduces tax rates and widens the tax brackets by 100 percent
- HF 1998 – introduces marriage penalty credit; doubles the threshold for phasing out the dependent care credit for married couples; provides an additional subtraction to married joint filers beyond the standard deduction; modifies the alternative minimum tax
- HF 2420 - Omnibus tax bill establishes the marriage penalty credit and reduces tax rates
- HF 3989 / SF 3773 - expands the definition of earned income used in determining the marriage penalty credit to include pension income and taxable social security income.
- HF 4127 - Omnibus tax bill expands the definition of earned income used in determining the marriage penalty credit to include pension income and taxable social security income; reduces tax rates.

Appendix E. Timeline of Federal Changes to Address the Marriage Penalty and Bonuses

Federal Marriage Credit History:

- Pre-1948: A single tax structure was used for all taxpayers regardless of marriage status. No marriage penalties or bonuses existed
- 1948: Marriage bonus introduced when a new filing status (married couples filing jointly) was introduced. Rate brackets for this new status were double those of single filers and allowed "income splitting" between the couple. This created a marriage bonus, but no marriage penalty.
- 1969: Tax brackets were widened for single filers, but not for married filing jointly couples. This created the marriage penalty for some couples.
- 1981-86: A two-earner deduction was introduced, allowing married couples to deduct 10 percent of the lower earner's income up to $30,000. This addressed the marriage penalty but was repealed in 1986.
- 2001: Tax brackets were widened by 15 percent for joint filers.
- 2003: The 10 percent and 15 percent tax brackets were widened for joint filers.
- 2017: Tax brackets are doubled for joint filers except for the top marginal 37 percent bracket.