

TAXES AND TRANSFERS: A NEW LOOK AT THE MARRIAGE PENALTY

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Abstract - *The transfer system typically has large marriage disincentives, while the income tax system is likely to subsidize marriage for many low-income families. In other words, the tax system may mitigate the loss of transfer benefits associated with marriage. The relevance of the income tax system for low-income families is even greater with the recent expansion of the Earned Income Tax Credit, which filers may be eligible for even if their tax liability is zero. The interaction of the transfer system with the income tax system has been largely overlooked. This paper describes the distribution of the joint change in transfer benefits and tax liability associated with a change in marital status for low-income married couples with children. In addition, we predict changes in transfer benefits and tax liability that accompany marriage for a sample of low-income single women with children.*

INTRODUCTION

Economic theory concerning family structure, beginning with Becker (1973, 1974), suggests that economic incentives play a role in family structure decisions. In Becker's model, marital unions occur if the benefits available within a union are greater than the benefits outside a union. Government policy affects the benefits of marriage and provides incentives for couples to marry or separate through two mechanisms: the income tax system and the transfer system.¹ The transfer system's high implicit taxes on earned income and restrictive eligibility requirements for two-parent families provide disincentives for low-income couples to live together. That is, transfer benefits are typically lower for a cohabiting couple than for a couple living apart. Because of the tax system's progressive rate structure and its attempt to tax families with equal income equally, the joint tax liability of a married couple may not equal the sum of the individuals' tax liabilities if they were unmarried. Tax liability may increase or decrease with marriage and, therefore, has the potential to mitigate or exacerbate a decline in transfer benefits.

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Changes in household structure are important routes on and off welfare, yet, surprisingly, no one has examined marriage incentive created by the interaction of the tax and transfer systems using a sample of representative households.² Recently, research has emerged on the relationship between income taxes and marriage decisions; however, the results are inconclusive (Alm and Whittington, 1994, 1995a, 1995b; Sjoquist and Walker, 1995; and Whittington and Alm, 1997). As in the tax literature, no clear consensus exists on whether welfare benefits affect marriage decisions (Clarke and Strauss, 1994; Hoffman and Duncan, 1995; Hoynes, 1995; Moffitt, 1992, 1994; and Schultz, 1994). The inconclusive evidence may arise because the literature on the effect of transfer benefits on marriage decisions overlooks the tax system, thereby overstating the government-imposed financial benefits of separating. Likewise, the income tax literature does not focus on low-income families, for whom the welfare system is most relevant and for whom changes in tax liability are likely to be larger fractions of total income.

This paper describes the distribution of marriage disincentives arising from the transfer system and examines the extent to which the federal income tax mitigates or exacerbates these disincentives. The marriage penalties measured in this paper describe the change in tax liability and available transfer benefits that arise solely from a change in living arrangements or marital status. The results are the first step in understanding the effects of the interaction of the transfer and tax systems on family structure.

One reason that the interaction between the tax and transfer systems has received little attention is that low-

income families who are likely to be eligible for transfer payments have historically faced zero or low tax liabilities. However, the expansion of the refundable earned income tax credit (EITC) has brought more poor families into the tax system. The EITC may increase or decrease with marriage and, therefore, can mitigate or exacerbate a change in transfer benefits arising from a change in living arrangements or marital status.

We use the nationally representative Survey of Income and Program Participation (SIPP) to calculate how 1990 tax liability and available transfer benefits would change for a sample of low-income, nonelderly married couples with children if they were unmarried and living apart. We focus on families with children because the transfer system and the EITC target most benefits to families with children; we exclude elderly couples to focus on families who are more likely to change marital status.³ We calculate the 1990 transfer payments and tax liability for each family using a microsimulation model that captures the interaction of Aid to Families with Dependent Children (AFDC), food stamps, Supplemental Security Income (SSI), and state and federal income taxes (including the EITC). We then simulate a separation and recalculate the family's available transfer benefits and tax liabilities. The difference between separated and married transfer benefits and tax liabilities gives a measure of the gains or losses from separation.

Our calculations confirm that most poor two-parent families could significantly increase their transfer benefits if they separated. The median poor married couple could increase its transfer benefits by an amount equal to 26.5 percent of income if the husband and

wife separated. In fact, for more than 25 percent of the poor families, separation would increase their transfer benefits in excess of 38.8 percent of their income. We find that this income gain may be partially offset by the income tax system. Approximately 80 percent of the poor couples face higher tax liabilities if they separate, and the median increase in tax liability is equal to 9 percent of the family's income. Therefore, the net gain to separating for the median poor family in our sample exceeds 16 percent of income. In general, those families with the most to gain in terms of increased transfer benefits have the most to lose in terms of higher tax liability if they separate.

The marriage penalty among near-poor families (those with reported income between one and two times the poverty line) is smaller on average than the penalties faced by poor families. Half of the near-poor families would qualify for higher transfer benefits and would face higher tax liabilities if they separate. On the other hand, more than 25 percent of the couples face an increase in transfer benefits that is accompanied by a decline in tax liability if they separate. This is largely due to the high incidence of two-earner families in this income range. Viewing the transfer system in isolation understates the marriage disincentives for these families.

The tax and transfer systems also create incentives for unmarried women to marry or to remain single. To characterize these incentives, we calculate how 1990 tax liability and transfer benefits would change for a sample of unmarried women between the ages of 18 and 44 with children if they were married and living with a spouse. We use a selection method to predict the earnings of their potential husbands and simulate their transfers and taxes as

unmarried persons and as a married couple. The difference between married and unmarried transfer benefits and tax liability gives a measure of gains or losses from marriage. We find that more than 25 percent of all poor single women with children face a loss of transfers in excess of 25 percent of their income if they marry; the median loss is equal to 18 percent. The tax system subsidizes marriage for 82 percent of these poor families, thereby mitigating the decline in transfer benefits associated with marriage. The median net change with marriage is equal to 12 percent of unmarried income, substantially below the loss of transfers viewed in isolation. We also find that, although near-poor women face smaller declines in transfer benefits as a fraction of their income than the poor, most face an *increase* in tax liability if they marry, exacerbating their loss of transfer benefits.

The paper proceeds as follows: the next section describes the tax and transfer systems, with emphasis on how marriage and living arrangements influence tax liability and transfer program eligibility and benefits. The third section gives our definition of the marriage penalty, incorporating the interaction of the income tax and transfer systems. The fourth and fifth sections describe the distributions of changes in tax liability, transfer income, and their combination for samples of married couples and unmarried women. The sixth section provides conclusions.

DESCRIPTIONS OF THE TAX AND TRANSFER SYSTEMS

In Becker's (1973, 1974, 1981) model of marriage, a woman will choose marriage if the utility from being married exceeds the utility from being single. Utility is a function of the woman's own

wage, the wage of her actual or potential spouse, the available welfare benefits, and a vector of other characteristics that determine marital status. The income tax and transfer systems affect the marital decision because transfer benefits and after-tax wages may differ depending on the woman's marital status. For families with children, the level of benefits available to single parent families is usually greater than the level of benefits available to married couples, suggesting that the transfer system discourages marriage or encourages separation. The income tax system may cause a woman's marginal tax rate to increase when she marries, thereby reducing her after-tax wage and discouraging marriage. The purpose of this paper is to quantify the magnitude and distribution of the financial incentives imposed by the tax and transfer system for choosing one family structure over another.

The following descriptions of the transfer and tax systems emphasize how family structure influences tax liability and transfer program eligibility and benefits. In general, transfer benefits change when actual living arrangements change, increasing with the number of people in the unit and decreasing with income in the unit (refer to Appendix Table 1 for a summary of the transfer program parameters).⁴ Tax liability changes when legal marital status changes and may increase or decrease with marriage depending on the distribution of income between the spouses (refer to Appendix Table 2 for a summary of tax parameters).

*Aid to Families with Dependent Children*⁵

Aid to Families with Dependent Children provides cash benefits to low-income families in which the children are

deprived of parental support because at least one parent is absent or incapacitated. In general, if both natural or adoptive parents live with the child, regardless of legal marital status, the family is not eligible for basic AFDC. Therefore, if one parent marries or cohabits with the other parent of her children, the family becomes categorically ineligible for AFDC (likewise, if a couple separates, the spouse with custody of the children becomes categorically eligible for AFDC). Two-parent families may be categorically eligible for AFDC-Unemployed Parent (AFDC-UP) if the primary wage earner is unemployed, although the eligibility requirements are more strict for AFDC-UP than basic AFDC.⁶ If a single mother cohabits with or marries someone *other* than the natural or adoptive father of the children, the new spouse is not necessarily included in the AFDC unit. If the couple cohabits without marrying, the unrelated male's income is not counted in the family's income unless there is evidence of an explicit contribution to the family's maintenance.⁷ If the couple marries, seven states count stepparents like natural parents and, therefore, the children would no longer be deprived of parental support due to absence. The remaining states count a portion of the stepparent's income toward the AFDC unit's income, which may reduce or eliminate AFDC benefits.⁸

Food Stamps

The food stamp program provides low-income families with coupons that are redeemable for food. The food stamp unit includes all members of a household who prepare food together, regardless of their kin or legal marital relationship. Federal maximum benefit allotments increase with family size but decrease with income. Thus, marriage to someone with income may reduce the

amount of food stamps for which a family is eligible but will not affect categorical eligibility.

Supplemental Security Income

Supplemental Security Income provides cash payments to poor blind, disabled, or elderly individuals or married couples.⁹ Federal SSI benefit standards depend on whether the unit is eligible as an individual, a couple, or an individual living with an ineligible spouse. Benefits decline as the unit's income increases. Unlike the AFDC and food stamp programs, legal marital status rather than actual living arrangements determines SSI benefits. Marriage may reduce SSI benefits in two ways. First, if a person eligible for SSI marries someone who is not eligible for SSI, a portion of the ineligible spouse's income is counted toward the eligible person's income. Marriage to a spouse with sufficiently high income may leave the person ineligible for SSI. Second, if a person eligible for SSI marries someone who is also eligible for SSI, their joint payment is less than two times the individual payment.

Federal Income Taxes

In the federal income tax system, legal marital status determines the type of return that the tax unit files. Typically, married couples file joint returns and unmarried persons file single or, if they have dependents, head of household returns. The filing status then determines many of the parameters of the federal income tax system, including standard deductions, exemptions, and rate schedules.¹⁰ For example, the standard deduction for married joint filers is less than two times the standard deduction of single filers, and tax brackets for joint filers are wider than those for single filers.

Although married couples with the same joint incomes, all else equal, have the same tax burdens, the tax system is not marriage neutral. Feenberg and Rosen (1995) and Rosen (1987) show that the difference between married and unmarried tax liabilities depends largely on the distribution of income between the spouses. Generally, spouses with similar incomes have a joint tax liability that is greater than the sum of their individual tax liabilities if they were unmarried. Likewise, spouses with dissimilar incomes have a joint tax liability that is lower than the sum of their tax liabilities if they were unmarried.

Marriage and living arrangements may also affect the EITC. In 1990, the year of our data, the EITC was available only to filing units with qualifying children and positive adjusted gross income.¹¹ Unlike other credits, the EITC is refundable; that is, if a filing unit's credit is greater than its tax liability, the difference is paid to the filer by the Treasury. The credit increases with earnings until it reaches a maximum. Over a range of income, taxpayers receive the maximum credit, and then it is phased out with additional income above a certain amount. Although the amount of the EITC does not vary with filing status *per se*, the EITC may subsidize or penalize marriage depending on the distribution of income between spouses. For example, if a single mother with no income marries a man with low earnings, the new unit may become eligible for the EITC. Likewise, a married couple with two low earners filing jointly may substantially increase their EITC benefits if the couple separates and one parent (or both) files a head of household return.

Marital status may also affect the level of the child care credit. The percentage of child care expenses that is credited to

taxpayers decreases with income; therefore, the child care credit will be lower for couple with two earners who are married and file jointly than if the couple separates and the woman with earnings claims the credit as a head of household. However, the child care credit is not refundable, so filing units with low tax liabilities may not receive the full amount of the credit.

State Income Taxes

State income tax systems create marriage disincentives in much the same way as the federal income tax. However, most states have provisions to mitigate a change in tax liability arising from marriage. For example, 11 states allow couples to file combined separate returns, 10 states have special joint rate schedules, and 7 states have flat tax rates. Seven states have no income tax and therefore no marriage penalty.

DEFINING THE MARRIAGE PENALTY

Previous literature defines the “marriage penalty” in a variety of ways. The limited literature measuring penalties imposed by the transfer programs defines the marriage penalty as a change in disposable income that arises from a change in marital status (Primus and Carlson, 1994; U.S. Congress, 1993). Because AFDC and food stamp benefits change with living arrangements but not marriage *per se*, the use of the word “marriage” to describe the penalty is somewhat misleading. A couple may experience a change in transfer benefits if they change living arrangements rather than their legal marital status.¹² In defining the marriage penalties that arise because of the transfer system, we hold all behaviors constant except for marriage or cohabitation. To do this, we do not make any assumptions about participation in

transfer programs. We instead calculate the amount of benefits that families are eligible to receive given their assets, earnings, other income, state of residence, and family structure. These benefits are available independent of any participation decision and therefore allow us to isolate the effect of marital status or cohabitation on the level of benefits. We define a “transfer penalty” or “transfer subsidy” as the difference in transfer payments available to a couple if cohabiting rather than living separately.

The federal income tax filing unit, in contrast, is based on legal marital status.¹³ A marriage penalty in the income tax literature arises if tax liability is greater (or the refunded portion of the EITC is lower) when a couple is married rather than single (Feenberg and Rosen, 1995; Rosen, 1987). We define the “tax penalty” or “tax subsidy” as the difference in federal and state tax liabilities families face if they file as a married couple (married filing jointly) rather than as unmarried individuals (single or head of household).

Our definition of the “marriage penalty” or “marriage subsidy” is the difference in tax liability *and* transfer benefits that arise if a couple cohabits *and* marries, rather than lives unmarried in separate households. This definition of the marriage penalty ignores separate effects of cohabitation on transfers; these effects will be examined in subsequent research.

Hypothetical Families

Because the interactions between the tax and transfer systems and marriage are very complex, we illustrate how marriage penalties arise using hypothetical families.¹⁴ This discussion is summarized in Table 1. Suppose a single

TABLE 1
TAX AND TRANSFER PENALTIES FOR HYPOTHETICAL LOW-INCOME COUPLE WITH DISSIMILAR INCOMES

	0	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Earnings	0	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000	\$15,000
Federal tax liability (without EITC)	0	(\$1,455)	(\$1,455)	(\$615)	(\$203)	(\$1,455)	(\$203)
EITC	0	0	\$528	\$528	\$528	0	\$528
AFDC	\$5,052	0	0	0	0	\$5,052	\$0
Food stamps	\$2,640	0	\$406	\$406	\$406	\$406	\$406
Total	\$7,692	\$13,545	\$21,237	\$15,319	\$15,731	\$19,003	\$15,730
Change in transfer income as % of combined income if live separately ^a				(\$7,286) ^a (34.3)	(\$7,286) (34.3)	(\$2,234) (10.5)	(\$7,286) (34.3)
Change in tax liability as % of combined income if live separately				\$1,368 ^c 6.4	\$1,780 8.4	0	\$1,780 8.4
Net change in transfer income and tax liability as % of combined income if live separately				(\$5,918) ^d (27.9)	(\$5,506) (25.9)	(\$2,234) (10.5)	(\$5,506) (25.9)

woman living in Pennsylvania in 1990 with two children and zero earnings receives the maximum of \$2,640 per year in food stamps and \$5,052 in AFDC benefits. Because she has no earnings, she does not file income taxes and is not eligible for the EITC. Further, suppose the father of the children lives alone and has \$15,000 annual earned income but does not support his children. He is not categorically eligible for AFDC or the EITC because he has no children, and he is not eligible for food stamps because his income is too high. Assuming he takes the standard deduction and one exemption, his federal tax liability is \$1,455.¹⁵ If the father moves into the household *without marrying* the mother, the AFDC and food stamp programs include him in their units. Therefore, the family is no longer categorically eligible for AFDC because the children are not deprived of parental support. Because of the father's earned income, the annual food stamp benefit for the family of four falls to \$406. The family experiences a transfer penalty of \$7,286 [that is, $\$406 - (\$2,640 + \$5,052)$]. Now the father may claim the children on his tax return and file as a head of household. With the standard deduction and three exemptions, his federal tax liability is \$615. He is also eligible for a \$528 EITC, making his total tax liability only \$87. By cohabiting, the family receives a tax subsidy of \$1,368 [that is, $(-\$87) - (-\$1,455)$]. Although the decline in tax liability partially offsets the loss in transfer benefits, the net loss is still \$5,918, which represents 28 percent of their combined income when living apart.

In contrast, if the father moves into the household and *marries* the mother, the family would file a joint tax return. Their tax liability, with the higher standard

deduction for married filers and additional personal exemption, falls to \$203 and they are again eligible for a \$528 EITC.¹⁶ This family receives a tax subsidy of \$1,780 [that is, $(\$528 - \$203) - (-\$1,455)$]. The transfer penalty is the same as when they cohabit, because legal marital status does not affect AFDC and food stamp benefits. However, marriage increases the portion of the transfer penalty offset by a lower tax liability. The net loss is \$5,506, 26 percent of combined income when living apart.

The outcome of this hypothetical example is different if the mother cohabits with or marries someone who is *not* the father of the children. If the hypothetical couple cohabits but *does not marry*, its tax liability remains unchanged from its precohabiting level, because the children are not the natural children or stepchildren of the man with earnings.¹⁷ The AFDC benefits do not change relative to the base case because the man is neither the natural father nor the stepfather of the children (we assume that the man does not report contributing to the family). Because the man is likely to be included in the food preparation unit, food stamp benefits decrease to \$406. The family faces a transfer penalty of \$2,234 [that is, $\$5,052 + \$406 - (\$5,052 + \$2,640)$] or a 10.5 percent decline in their combined income when living apart. The penalty for cohabiting arises solely from the loss of food stamps and this loss is not mitigated by a reduction in tax liability.

Marriage to an unrelated male results in the same outcome as if the spouse were the father of the children. The tax system sees no difference between the spouse's relationship to the children, so this family may file a joint tax return. Food stamp benefits decrease because

of the spouse's income. Because the spouse is not the natural or adoptive father of the children, the children are still deprived of parental support and are categorically eligible for AFDC. However, the stepfather's income is counted toward the AFDC unit's income, and they will become financially ineligible for AFDC benefits.¹⁸

At least two points are clear in these hypothetical cases where the spouses earn dissimilar incomes. First, the largest penalties arise when a woman cohabits with the father of her children but does not marry him. The family faces a large loss in transfer benefits but does not gain the full benefit of the income tax's higher standard deduction and additional personal exemption. Second, families in which the man is not the children's father are better off cohabiting rather than marrying because of the transfer system's lenient treatment of contributions by unrelated individuals.

The outcome is significantly different if we consider a couple with similar incomes (see Table 1A). An unmarried woman with two children in Pennsylvania in 1990 who earned \$10,000 was eligible for the maximum \$953 refundable EITC and had no additional tax liability. She is eligible for \$1,723 in food stamps but no AFDC. Consider her potential spouse as the man in the above example who makes \$15,000 and owes \$1,455 in tax liability if he lives in his own household. If the man is the father of the children and the couple cohabits without marrying, he will file as head of household because he provides at least half of the support for the children and the woman files a single tax return. They face a small tax penalty, \$65, because the EITC is smaller when the head of household's income is higher, and their joint federal tax liability

is somewhat higher because the woman's income is now subject to federal income tax. The man would be added to the food stamp unit, making the family financially ineligible for food stamp benefits. Their net penalty is \$1,788 or 6.8 percent of their income. If the couple marries instead, they are no longer eligible for the EITC because their income is too high. In addition, their tax liability increases to \$1,703 because the standard deduction for a married couple is less than the sum of the standard deduction for head of household and single filers. The increase in tax liability exacerbates the decrease in transfer benefits for a low-income family with similar incomes. They face a net marriage penalty of \$2,924 or 11.2 percent of their combined income when living apart.

If the woman cohabits with someone who is not the father of the children, we assume that he does not support the children (for comparison's sake); therefore, the tax liability of the family is unchanged from their tax liability when they were living separately. That is, they face no tax penalty, but they face the \$1,723 transfer penalty because their food stamp unit's income is above the income threshold. Marriage to an unrelated male has the same affect on taxes and transfers as marriage to the father of the children. These examples highlight the potentially large marriage penalties in the tax system for couples with similar incomes.

Although these hypothetical examples illustrate the complicated changes that occur with a change in marital status or living arrangements, they cannot be generalized to all families and do not describe the distribution of potential subsidies or penalties faced by families in the United States.

TABLE 1A
TAX AND TRANSFER PENALTIES FOR HYPOTHETICAL COUPLE WITH SIMILAR INCOMES

	\$10,000	\$15,000	\$25,000	\$25,000	\$25,000
Earnings					
Federal tax liability (without EITC)	0	(\$1,455)	(\$1,455)	(\$1,703)	(\$1,703)
EITC	\$953	0	\$953	0	0
AFDC	\$0	0	\$0	0	0
Food stamps	\$1,723	0	\$1,723	0	0
Total	\$12,676	\$13,545	\$26,221	\$23,297	\$23,297
Change in transfer income as % of combined income if live separately ^a				(\$1,723) (6.6)	(\$1,723) (6.6)
Change in tax liability as % of combined income if live separately				(\$65) ^f (0.2)	\$1,201 (4.6)
Net change in transfer income and tax liability as % of combined income if live separately				(\$1,788) (6.8)	(\$2,924) (11.2)

CALCULATING TRANSFER AND TAX PENALTIES FOR A SAMPLE OF MARRIED COUPLES

In this section, we calculate changes in tax liability, transfer benefits, and the combination of the two that arise with a change in cohabitation and marital status for a sample of married couples with children. We are interested in the financial incentives or disincentives for separating that are created by the tax and transfer systems.¹⁹

The distribution of changes in transfer benefits associated with cohabitation is not well documented. Previous attempts to measure penalties imposed by the transfer system focused on hypothetical families (Primus and Carlson, 1994; U.S. Congress, 1993). However, the analysis of a hypothetical family does not provide any sense of the actual magnitude and prevalence of the penalties that arise from complicated interactions of programs, different state-level tax and transfer rules, and the wide range of family types. Information on the distribution of marriage penalties is needed to determine the extent of marriage disincentives imposed by the transfer system and the potential effects of reforms that change these disincentives.

In contrast, the distribution of changes in tax liability associated with marriage is well documented. Earlier research shows that the income tax system is likely to subsidize marriage for low-income families. That is, total tax liabilities for joint tax returns are lower than if the individuals filed single or head of household returns. Feenberg and Rosen (1995) and Rosen (1987) show that the tax system subsidizes marriage for a relatively large fraction of families with adjusted gross incomes below \$10,000. Specifically, under 1988 tax laws, only

1.5 percent faced a tax penalty for marriage and 37 percent faced a tax subsidy. In 1993, 15 percent faced a penalty and 23 percent faced a subsidy. These analyses are based on the Tax Simulation Model of the National Bureau for Economic Research, which uses a stratified random sample of joint tax returns. The model simulates a separation and calculates the tax liability of the individuals if they were not married. Because tax returns do not include information on the distribution of income between spouses, the tax returns are augmented by Current Population Survey data to predict what fraction of income each spouse contributes to total income. In addition, the researchers assume that any itemized deductions on the return are allocated to the higher earning spouse and that childless couples file as singles when they are separated. If there is one child, the spouse with the higher income receives the exemption. If there is more than one child, the spouse with the higher income receives all but one of the exemptions for the children.

We calculate a distribution of changes in transfer benefits and tax liability using a sample of married couples and a microsimulation model (Appendix 1 and Dickert, Houser, and Scholz, (1994), contain more detail on the program rules and the microsimulation model). The microsimulation carefully models AFDC, food stamps, SSI, federal and state income taxes, and their interactions. The model uses families from the 1990 calendar year in the 1990 SIPP panel as its input and, therefore, the 1990 rules for the tax and transfer programs. We drop units with members who were not in the sample for the entire calendar year or who changed marital status during the year. We restrict our sample in two additional ways. First, we only include women

between the ages of 18 and 44, which is the age range in which most changes in marital status occur (Alm and Whittington, 1994 and 1995a; Moffitt, 1994; Whittington and Alm, 1997). Excluding very young and elderly women also avoids the complicated family structures of teenage mothers and the different set of transfer programs for the elderly. Second, we include only low-income (income below two times the poverty line) families with children under 18 in our sample because the transfer system and the EITC target low-income families with children.²⁰ In the final sample, there are 1456 observations, representing, with the SIPP weights, 6.8 million families.

The model calculates income taxes based on the demographic structure of the household as of December 1990. The state and federal tax modules determine adjusted gross income, taxable income, and tax liability. We first calculate annual tax liability for the couple. We then simulate a separation and recalculate tax liabilities for the two “new” families. Unlike Feenberg and Rosen, we know the distribution of income between spouses. However, we do not know exact tax liability and, therefore, a number of assumptions are necessary.

- (1) All filers take the standard deduction.²¹
- (2) When married, the couple files a joint return.²²
- (3) When separated, the woman claims the children as dependents. Therefore, the husband files a single return and the wife files a head of household return.²³
- (4) We divide earned and unearned income according to individuals’ reported shares of each.
- (5) We allocate all reported child care expenses to the woman if she is

employed; otherwise, child care expenses are set to zero.

- (6) We calculate the amount of the EITC that is available to all families with earnings. Although less than 100 percent of eligible families participate in the EITC, including the EITC in the calculation of marriage penalties yields a measure of the tax penalty that is consistent with our measure of transfer penalties.²⁴
- (7) We ignore alimony following a separation.²⁵
- (8) There are no behavioral changes following a marriage or separation.

Within the transfer program modules—AFDC, food stamps, and SSI—the model tests for monthly categorical, asset, and income eligibility before determining benefits. Monthly benefits are aggregated into an annual benefit amount for the couple. Then, we simulate a separation and recalculate transfer benefits for the two “new” families. Together with the previous assumptions, the following assumptions apply.

- (1) Transfer benefits reflect the amounts for which families are eligible, not necessarily those which the families receive. Therefore, simulated benefits are not dependent on participation decisions that may differ for reasons other than marital status. These calculated transfer penalties represent the change in *potential* income associated with cohabiting.²⁶
- (2) We use the reported relationships from SIPP.²⁷

Our strict assumption that no other behavioral changes accompany a

change in marital status deserves further explanation. As discussed in the third section, we define the marriage penalty in terms of the changes in taxes and available transfers that result from a change in marital status. We do not account for any behavioral changes in defining either the transfer penalty or the tax penalty. Benefits from the transfer programs and from the EITC are the amounts for which the family is eligible and may not be the amounts that families actually receive. Decisions about whether to participate in transfer programs or in the EITC are likely to be made jointly with decisions about marriage; by looking at available transfer income rather than actual transfer income, we can isolate the changes in net income that arise from the marital decision. We also do not allow for changes in other behaviors including labor force participation or payment of alimony or child support. These other behavioral changes are interesting and will be examined in future research.

These assumptions imply that our measures of tax, transfer, and marriage penalties are lower bounds, in most cases, of the changes that occur with a change in marital status. For example, consider our hypothetical family in Table 1. If they are married and considering separating, they face an increase of \$5,506 (minus any stigma that might be associated with participation in AFDC) in transfer benefits, conditional on participation. The increase in satisfaction net of increased living expenses must exceed this amount for the family to separate. The woman might also choose to enter the labor force if the couple separates; if so, her net income from her job must exceed \$5,506 minus any stigma from welfare participation. Now consider the family with similar incomes in Table 1A who are unmarried and considering marriage. The change in

income is the minimum marriage penalty amount. If the woman drops out of the labor force upon marriage, they stand to lose more financially than the \$2,924 loss that arises simply from the change in marital status and the gains from lower living expenses and increased satisfaction must be even higher than our measured marriage penalty.

The following subsections describe the distributions of changes in transfer benefits, tax liability, and their combination when we simulate a separation for our sample of married couples. We focus on the distributions for “poor families” with reported incomes below the poverty line and “near-poor families” with reported incomes between one and two times the poverty line. Reported income (reported earned, unearned, and transfer income minus their simulated taxes) describes a family’s income situation before simulating a change in family structure, and the poverty line accounts for family size.²⁸ For each family, we divide the value of the change in transfer benefits, tax liability, and the combination by the family’s potential income when married.²⁹ Potential income includes reported earned and unearned income and simulated transfer benefits net of simulated state and federal income taxes and payroll taxes. As discussed above, this measure abstracts from any transfer program or income tax participation decisions. We use *married* potential incomes as the normalizing factor because we are interested in the change in tax liability and transfer income relative to the family’s initial status. Appendix Table 3 has means and standard deviations of selected variables for each of the income groups.

Poor Families

Table 2 shows the aggregate changes in transfer income and tax liability if

TABLE 2
WEIGHTED DISTRIBUTION OF CHANGE IN TRANSFER BENEFITS, TAX LIABILITY, AND THEIR COMBINATION
SIMULATING A SEPARATION FOR A SAMPLE OF POOR (REPORTED INCOME BELOW THE POVERTY LINE)
MARRIED COUPLES^a

	Millions of \$	As a % of Income ^b			
	Aggregate	25th Percentile	Median	75th Percentile	Mean
Change in transfer benefits ^c	4,572	10.7	26.5	38.8	41.9
Change in tax liability	-1,296	-13.4	-8.9	-0.8	-7.7
Net change	3,276	8.0	16.2	28.9	34.2

^aThe sample consists of poor married couples with children in which the wife is between the ages of 18 and 44. $N = 277$; weighted $N = 1,201,400$.

^bChanges in benefits or tax liability are divided by potential income when married.

^cObservations greater than zero represent gains from separation; transfer payments are higher when separated than when married (penalty for being married), and tax liabilities are lower when separated than when married (penalty for being married).

married couples legally separate and live apart. A positive number indicates that available transfer income is higher or tax liability is lower for couples when separated relative to married (i.e., a positive number represents a penalty for marriage). The aggregate increase in available transfers is \$4.6 billion; this amount is offset to some extent by an aggregate loss to separating couples of \$1.3 billion in the form of higher tax liability. The net gain is substantial, representing a 25 percent increase in these poor families' aggregate potential income.

Table 2 also confirms the presumption that the transfer system imposes large financial incentives for separating on individual families. The median poor couple could increase its transfers by 26.5 percent of its income if separated. Twenty-five percent of the poor face an increase in transfer benefits, if they separated, that exceeds 38 percent of their income. As expected, total tax liabilities would increase for most poor married couples if they separated. Ignoring the tax system, therefore, overstates the financial gains from separation facing some married couples. The median poor family faces an increase in tax liability equal to 8.9 percent of its income, and at least 25

percent of these families face increases in tax liability that exceed 13 percent of income. In spite of the ability of the tax system to offset a portion of the transfer penalty, the net penalties are still quite large. The median net change in transfers and tax liability is a 16.2 percent loss of income, and at the 75th percentile, it is 28.9 percent of income.

Table 3 gives more insight into how the tax and transfer programs interact to create these aggregate marriage disincentives (see Appendix Table 4 for more details on penalties arising from individual programs). Ninety-three percent of the poor married couples face higher transfer benefits and 79 percent face higher tax liability if they separate. The large proportion of poor couples who have *dissimilar income*, 82 percent of the sample, drives these results.³⁰ In total, 74.2 percent of the sample face an increase in transfer benefits and a simultaneous increase in tax liability if they separate. The average increase in transfers for these families is 33.3 percent of income, but that increase is partially offset by an average increase in tax liability of 9.9 percent of income. Even with the partial offset of the transfer penalty, the average net benefit from separation for these couples is 23.4 percent of their income.

TABLE 3
WEIGHTED MEAN CHANGES IN TAX LIABILITY, TRANSFER BENEFITS, AND NET CHANGE AS A PERCENT OF
INCOME SIMULATING A SEPARATION FOR A SAMPLE OF POOR MARRIED COUPLES

			Change in Tax Liability ^a			
			None	Increases if Separate	Decreases if Separate	All
Change in Transfer Benefits ^a	None	Percent of Sample ^b	0.0	4.9	1.4	6.3
		Mean Change in Transfer Benefits ^c	—	0.0	0.0	0.0
		Mean Change in Tax Liability	—	-11.2	0.5	-8.7
	Decrease if Separate	Percent of Sample	0.4	0.0	0.3	0.7
		Mean Change in Transfer Benefits	-1.5	—	-4.3	-2.7
		Mean Change in Tax Liability	0.0	—	6.6	2.8
	Increase if Separate	Percent of Sample	10.6	74.2	8.2	93.0
		Mean Change in Transfer Benefits	156.9	33.3	7.4	45.1
		Mean Change in Tax Liability	0.0	-9.9	1.3	-7.8
	All	Percent of Sample	11.0	79.1	9.9	100.0
		Mean Change in Transfer Benefits	150.9	31.2	6.0	41.9
		Mean Change in Tax Liability	0.0	-9.9	1.3	-7.7
		Mean Net Change	150.9	21.3	7.4	34.2

^aChanges in benefits or tax liability are divided by potential income when married.

^bThe sample consists of poor married couples with children in which the wife is between the ages of 18 and 44. $N = 277$; weighted $N = 1,201,400$.

^cObservations greater than zero represent gains from separation; transfer payments are higher when separated than when married (penalty for being married), and tax liabilities are lower when separated than when married (penalty for being married).

In general, those families with the most to gain in terms of increased transfer benefits if they separate have the most to lose in terms of higher tax liability. These families are similar to our hypothetical family in Table 1. The woman has zero or very low income and the husband's earnings are also low; therefore, when they separate, the wife and her children become categorically eligible for AFDC and financially eligible for food stamps, but the couple loses the higher standard deduction, exemptions, and EITC eligibility when the wife and children are no longer part of the tax unit, increasing their joint tax liability. Most of this transfer penalty arises from large losses of AFDC and

food stamp benefits. Ninety-two percent of these families face an increase in AFDC benefits if they separate with a conditional mean increase of 26.8 percent of income. Somewhat more, 98 percent, of these families face an increase in food stamp benefits, but the average increase is only 8.3 percent of income due to the higher income and asset limits and lower benefit levels of food stamps relative to AFDC. Eighty-two percent of these families face an increase in their federal tax liability with a conditional mean of 6.7 percent of income. A total of 94 percent face a change in their EITC if they separate with a conditional mean decrease of 3.9 percent.

Only 8.2 percent of the poor married sample experience an increase in transfers that is accompanied by a simultaneous decrease in tax liability upon separation. In addition, these families for whom the tax system exacerbates the marriage disincentives of the transfer system have relatively small average increases in transfer benefits (7.4 percent) and declines in tax liability (1.3 percent). All of the families in this category are two-earner families and 70 percent have similar incomes. The ability of the EITC to penalize marriage is evident in this group. All of these families are eligible for the EITC, either when married or separated; they face an average increase in the EITC of 2.4 percent of their income if they separated. The subsidy for separation arises because their joint married income exceeds the EITC maximum adjusted gross income (AGI) or places them in the phase out range for EITC benefits.

Almost 11 percent of the sample of poor married couples face no change in taxes, but an increase in transfers, if they separate. These families have the lowest incomes and are below the federal tax threshold whether they are married or separated. Most of these cases arise because the husband has no

earnings or attachment to the labor force, and the family becomes categorically eligible for AFDC if he is absent from the household. The marriage neutrality of the EITC is clearly illustrated by this group; approximately 37 percent of these couples are eligible for the same EITC regardless of whether they are married because the woman earns all the income.³¹

Among the 6.3 percent of the sample who face no change in transfer benefits if they separate, most are penalized by the tax system for separating, and the average penalty exceeds 11 percent of income. In most cases, high asset levels leave these families ineligible for transfer benefits in either marital status.³² The increase in tax liability is a combination of lost EITC and higher federal and state tax liability.

Near-Poor Families

Table 4 shows that near-poor married couples could increase their aggregate available transfers by \$16.5 billion if they separate. The increased transfers are offset to some degree by an aggregate loss of \$3.7 billion in the form of higher tax liabilities. Although these aggregate disincentives for marriage seem large, they may be less

TABLE 4
WEIGHTED DISTRIBUTION OF CHANGE IN TRANSFER BENEFITS, TAX LIABILITY, AND THEIR COMBINATION SIMULATING A SEPARATION FOR A SAMPLE OF NEAR-POOR (REPORTED INCOME BETWEEN ONE AND TWO TIMES THE POVERTY LINE) MARRIED COUPLES^a

	Millions of \$	As a % of Income ^b			
	Aggregate	25th Percentile	Median	75th Percentile	Mean
Change in transfer benefits ^c	16,540	1.4	11.5	24.7	14.7
Change in tax liability	-3,721	-8.8	-2.8	2.6	-3.2
Net change	12,819	4.0	10.2	18.1	11.6

^aThe sample consists of near-poor married couples with children in which the wife is between the ages of 18 and 44. $N = 1179$; weighted $N = 5,626,400$.

^bChanges in benefits or tax liability are divided by potential income when married.

^cObservations greater than zero represent gains from separation; transfer payments are higher when separated than when married (penalty for being married), and tax liabilities are lower when separated than when married (penalty for being married). Changes in benefits or tax liability are divided by potential income when married.

of a concern than the penalties facing poor families because they represent a smaller fraction of total income for near-poor families. For example, the median net change for near-poor families equals a loss of 10.2 percent of income, compared to 16.2 for poor families. The median family faces a loss of transfer benefits equal to 11.5 percent of income. The magnitude of the change is substantially lower for the near-poor compared to the poor, primarily because, by definition, the near-poor have higher incomes and are eligible for fewer benefits. However, 25 percent of near-poor families still face increases in transfer benefits in excess of 24 percent of their incomes if they separate. The median change in tax liability is only a

2.8 percent increase in tax liability, which suggests that taxes play little role in mitigating or exacerbating the decline in transfer benefits for this group. Table 5 shows that these numbers are misleading with respect to individual families.

In fact, 51.5 percent of the sample of near-poor married couples face an increase in transfer benefits if they separate, which would be offset to some extent by an increase in tax liability. This reflects the fact that, like poor couples, many near-poor couples also have dissimilar incomes. As in the sample of poor families, these families have a great deal to gain in transfer benefits (an average of 25 percent of

TABLE 5
WEIGHTED MEAN CHANGES IN TAX LIABILITY, TRANSFER BENEFITS, AND NET CHANGE AS A PERCENT OF INCOME SIMULATING A SEPARATION FOR NEAR-POOR MARRIED COUPLES

			Change in Tax Liability ^a			
			None	Increases if Separate	Decreases if Separate	All
Change in Transfer Benefits ^c	None	Percent of Sample ^b	0.08	9.9	9.7	19.7
		Mean Change in Transfer Benefits ^d	0.0	0.0	0.0	0.0
		Mean Change in Tax Liability	0.0	-6.9	3.7	-1.6
		Mean Net Change	0.0	-6.9	3.7	-1.6
	Decrease if Separate	Percent of Sample	0.2	0.0	0.0	0.2
		Mean Change in Transfer Benefits	-33.7	—	—	-33.7
		Mean Change in Tax Liability	0.0	—	—	0.0
		Mean Net Change	-33.7	—	2.3	-33.7
	Increase if Separate	Percent of Sample	0.8	51.5	27.2	80.0
		Mean Change in Transfer Benefits	18.4	24.6	7.1	18.5
		Mean Change in Tax Liability	0.0	-7.4	3.6	-3.5
		Mean Net Change	18.4	17.2	10.7	15.0
All	Percent of Sample	1.2	61.4	37.4	100.0	
	Mean Change in Transfer Benefits	7.4	20.7	5.2	14.7	
	Mean Change in Tax Liability	0.0	-7.3	3.6	-3.2	
	Mean Net Change	7.4	13.3	8.9	11.6	

^aChanges in benefits or tax liability are divided by potential income when married.

^bThe sample consists of near-poor married couples with children in which the wife is between the ages of 18 and 44. *N* = 1179; weighted *N* = 5,626,400.

^cObservations greater than zero represent gains from separation; transfer payments are higher when separated than when married (penalty for being married), and tax liabilities are lower when separated than when married (penalty for being married).

their income) if they separate, and the average increase in tax liability accompanying this gain is a substantial 7.4 percent of income. Changes in AFDC and food stamp benefits are the primary source of the transfer penalties facing these couples (see Appendix Table 5 for more detail on penalties arising from individual programs). If they separate, over 86 percent face an increase in AFDC benefits with a conditional mean increase of 17.4 percent of income and 98 percent face an increase in food stamps with a conditional mean increase of 9.5 percent of income. Conditional on being affected by the federal tax system, federal tax liability increases by a mean of 6.7 percent of income, and, conditional on being eligible for the EITC, the average change from the EITC is an increase of 0.5 percent of income.

Compared to the poor families, the tax system is much more likely to exacerbate the transfer system's marriage disincentives among near-poor families primarily because near-poor families are more likely to have couples with similar incomes. Thirty percent of near-poor families have similar incomes, compared to 18 percent of poor families. About 27 percent of the families in the sample face higher transfer benefits and lower tax liability if they separate, combining to average 10.7 percent of income. The hypothetical family in Table 1A appears to be fairly typical for these near-poor families with similar incomes.

Not surprisingly, the transfer system affects a smaller proportion of near-poor families than poor families (80.3 versus 93.7 percent), primarily because they are more likely to be ineligible for transfer payments regardless of whether they are married. The tax system penalizes separations for slightly more than half of those unaffected by the

transfer system with an average increase in tax liability of 6.9 percent of income. The remaining couples whose transfer benefits would not change if they separate would be subsidized by the tax system if they separate, although the mean change is only 3.7 percent of their income, mostly due to an increase in their EITC, if they separate.

CALCULATING TRANSFER AND TAX PENALTIES FOR A SAMPLE OF UNMARRIED COUPLES

Feenberg and Rosen (1995) express concern that using a sample of married couples to characterize the distribution of penalties associated with family structure ignores the financial incentives facing unmarried persons. In this section, we examine the distribution of tax and transfer penalties faced by poor or near-poor unmarried women. We focus on unmarried *women* because they are more likely to have custody of children than single men and therefore qualify for more transfer benefits. Conditional on being between the ages of 18 and 44 and the presence of children under 18, we have a sample of 912 unmarried women, representing 3.7 million families with the SIPP sample weights.

The obvious impediment to calculating penalties faced by unmarried women is that the characteristics of their potential spouses are unknown. A few attempts have been made to address this difficulty. Feenberg and Rosen (1995) use a sample of unmarried cohabiting couples from the National Longitudinal Survey Mother-Child database to calculate tax penalties. They calculate tax liabilities of unmarried couples and subtract those from their simulated tax liabilities if they were married. Unfortunately, SIPP, the data set used in this paper, does not identify cohabiting

couples. In addition, using a sample of cohabiting couples ignores the non-cohabiting single population. Assuming assortative mating across wages, Alm and Whittington (1994) determine income of potential mates by multiplying a person's potential income by annual average male-to-female income ratios. In this case, the relationship of husband to wife's income varies only by a constant multiplicative factor. Cancian (1995) uses data from the National Longitudinal Survey of Young Women and the National Longitudinal Survey of Youth to predict husbands' earnings based on premarriage characteristics.³³ The coefficients from these estimates could be used to predict husbands' earnings for unmarried women. However, the SIPP does not contain premarriage information on most women because of its relatively short panels.

Cancian (1995) acknowledges that women may be married because they are able to attract higher earning men than unmarried women for some unobservable reason. Using the coefficients from a cross-sectional regression of the earnings of married women's husbands to predict the earnings of potential spouses for unmarried women may overestimate the potential spouse's earnings. Following Schultz (1994), we use a maximum likelihood, two-step selection procedure to predict the earnings of potential spouses. A probit equation predicts whether a woman has a wage-earning spouse, and the second step predicts the natural log of the spouse's annual earnings. Appendix Table 6 shows the regression results using a sample of women from the 1990 SIPP.³⁴

In the probit regression, education, age, having a child, and having a child under age 6 are positively and statistically

significantly related to the probability that a woman has a wage-earning husband. Being African American, disabled, or living in an urban area are all negatively related to the probability that a woman has a husband with earnings. Own property income is also negatively related to the probability that a woman has a husband with earnings for property income below \$1,238. All else equal, a woman is more likely to have a husband with earnings in the Midwest and South, relative to the East, although these are not statistically significant.

To identify the system of equations, we include variables in the probit equation that predict marital status but not the earnings of the husband. We include a state-level ratio of the population of "marriageable men" to the women within a race and age category. Marriageable men are defined as men enrolled in school or participating in the labor force.³⁵ Wilson and Neckerman (1986) hypothesize that differences in the number of marriageable men may account for differences in marriage rates. That is, marriage rates among some groups of people may be low because of a low availability of high-quality spouses. The coefficient on this variable is positive and statistically significant, suggesting that women facing better marriage markets are more likely to be married to men with earnings. Like Schultz (1994), we also include the sum of the maximum AFDC and food stamp benefits for a family of three in the woman's state. A woman may be less likely to marry someone with earnings if generous welfare benefits are available. The coefficient on this variable has the expected negative sign and is statistically significant. In addition, we include the percentage of the state's population who report being a member of a fundamentalist religious

organization (Winkler, 1995) with the hypothesis that, if many people belong to fundamentalist organizations, they may be more likely to marry to avoid “living in sin.” The coefficient on this variable has the expected positive sign but is statistically insignificant.

In the second stage of the regression, all else equal, education, age, living in an urban area, the state unemployment rate, having a child, and having a child under age 6 are positively correlated with the husband’s earnings at statistically significant levels. Hispanic, African American, and disability are negatively related to the husband’s earnings. Own property income is also negatively related to the husband’s earnings if own property income is greater than \$414. Husband’s earnings in the Midwest, South, and West are lower than the earnings in the East.

Given our log specification, our predicted values of earnings reflect the median earnings of the potential husband for a woman with the observed characteristics (Greene, 1990). These predicted values, calculated by taking the exponential of the point estimates of log earnings, ignore the random variation around the median that might exist in the true distribution of potential spouse’s earnings. To generate a more realistic earnings distribution for potential husbands, we added a random component to our predicted earnings before taking the exponential of the point estimates of log earnings. This component came from a randomly generated distribution with mean zero and standard deviation equal to the predicted standard deviation of the error term in our earnings equation. Given these predicted earnings, we use the assumptions made in the previous section and the following assumptions about the potential

husbands of single women to calculate their tax and transfer penalties.

- (1) The husband’s predicted annual earnings are divided evenly over the year, assuming he works full-time.
- (2) The husband has no assets or unearned income.³⁶
- (3) If the woman is the natural mother of the children, the husband is the father of the children (or, he legally adopts the children upon marriage).³⁷

Like the married sample, we classify families by the ratio of the woman’s reported income to the poverty line. We divide the change in transfer benefits, tax liability, and their combination by the family’s *potential income when separated*.³⁸ Potential income when separated is the sum of the woman’s potential income and her predicted husband’s potential income. As in the married sample, we choose initial income as the normalizing factor because we are interested in the change in tax liability and transfer income relative to their initial status. Appendix Table 7 shows the means and standard deviations of selected variables for each of the income groups.

Poor families

The large marriage disincentives in the transfer system are also evident in the sample of unmarried women. Table 6 shows that unmarried women face an \$8.2 billion aggregate loss of transfer benefits if they marry their potential spouses. The median poor couple faces a decline in transfer payments equal to 17.6 percent of their combined unmarried income if they marry. Over 25 percent of all poor families face a loss of

TABLE 6
DISTRIBUTION OF CHANGE IN TRANSFER BENEFITS, TAX LIABILITY, AND THEIR COMBINATION
SIMULATING A MARRIAGE FOR A SAMPLE OF POOR (REPORTED INCOME BELOW THE POVERTY LINE)
UNMARRIED WOMEN^a

	Millions of \$	As a % of Income ^b			
	Aggregate	25th Percentile	Median	75th Percentile	Mean
Change in transfer benefits ^c	-8,232	-25.9	-17.6	-8.5	-18.3
Change in tax liability	2,582	2.4	6.2	9.7	5.1
Net change	-5,650	-20.1	-11.9	-5.3	-13.2

^aThe sample consists of poor unmarried women between the ages of 18 and 44 with children. *N* = 521; weighted *N* = 2,139,800.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

TABLE 7
WEIGHTED MEAN CHANGES IN TAX LIABILITY, TRANSFER BENEFITS, AND NET CHANGE AS A PERCENT OF
INCOME^a SIMULATING A MARRIAGE FOR POOR UNMARRIED WOMEN

			Change in Tax Liability ^b			
			None	Increases if Marry	Decreases if Marry	All
Change in Transfer Benefits ^b	None	Percent of Sample ^a	0.0	2.3	1.9	4.2
		Mean Change in Transfer Benefits ^c	—	0.0	0.0	0.0
		Mean Change in Tax Liability	—	-2.6	5.5	1.2
		Mean Net Change	—	-2.6	5.5	1.2
	Decrease if Marry	Percent of Sample	0.3	15.1	80.2	95.6
		Mean Change in Transfer Benefits	-31.5	-10.1	-20.8	-19.1
		Mean Change in Tax Liability	0.0	-6.7	7.6	5.3
		Mean Net Change	-31.5	-16.8	-13.2	-13.9
	Increase if Marry	Percent of Sample	0.0	0.0	0.2	0.2
		Mean Change in Transfer Benefits	—	—	3.6	3.6
		Mean Change in Tax Liability	—	—	4.7	4.7
		Mean Net Change	—	—	8.3	8.3
All	Percent of Sample	0.3	17.3	82.3	100.0	
	Mean Change in Transfer Benefits	-31.5	-8.8	-20.2	-18.3	
	Mean Change in Tax Liability	0.0	-6.2	7.5	5.1	
	Mean Net Change	-31.5	-15.0	-12.7	-13.2	

^aThe sample consists of poor unmarried women between the ages of 18 and 44 with children. *N* = 521; weighted *N* = 2,139,800.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

transfers in excess of 25 percent. The tax system partially offsets this loss for most families. In aggregate, tax liability decreases by \$2.6 billion if these couples marry. The median family faces a

decrease in tax liability equal to 6.2 percent of their income, and the median net change is 11.9 percent of their income. Even with the offset, 25 percent of the families face net losses

TABLE 8
WEIGHTED DISTRIBUTION OF CHANGE IN TRANSFER BENEFITS, TAX LIABILITY, AND THEIR COMBINATION
SIMULATING A MARRIAGE FOR A SAMPLE OF NEAR-POOR (REPORTED INCOME BETWEEN ONE AND TWO TIMES
THE POVERTY LINE) UNMARRIED WOMEN^a

	Millions of \$	As a % of Income ^b			
	Aggregate	25th Percentile	Median	75th Percentile	Mean
Change in transfer benefits ^c	-917.2	-2.0	0.0	0.0	-2.3
Change in tax liability	-720.9	-0.04	-1.8	-4.0	-1.9
Net change	-1638.1	-6.6	-3.0	-1.0	-4.2

^aThe sample consists of near-poor unmarried women between the ages of 18 and 44 with children. $N = 391$; weighted $N = 1,564,600$.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

TABLE 9
MEAN CHANGES IN TAX LIABILITY, TRANSFER BENEFITS, AND NET CHANGE AS A PERCENT OF INCOME^a
SIMULATING A MARRIAGE FOR NEAR-POOR UNMARRIED WOMEN

			Change in Tax Liability ^b				
			None	Increases if Marry	Decreases if Marry	All	
Change in Transfer Benefits ^b	None	Percent of Sample ^a	0.0	42.7	8.8	51.5	
		Mean Change in Transfer Benefits ^c	—	0.0	0.0	0.0	
		Mean Change in Tax Liability	—	-3.1	1.9	-2.3	
			Mean Net Change	—	-3.1	1.9	-2.3
	Decrease if Marry	Percent of Sample	0.0	32.9	15.0	47.9	
		Mean Change in Transfer Benefits	—	-3.2	-8.5	-4.9	
		Mean Change in Tax Liability	—	-4.0	3.8	-1.5	
			Mean Net Change	—	-7.2	-4.7	-6.4
	Increase if Marry	Percent of Sample	0.0	0.0	0.5	0.5	
		Mean Change in Transfer Benefits	—	—	0.5	0.5	
		Mean Change in Tax Liability	—	—	1.4	1.4	
			Mean Net Change	—	—	1.9	1.9
All	Percent of Sample	0.0	75.5	24.4	100.0		
	Mean Change in Transfer Benefits	—	-1.4	-5.2	-2.3		
	Mean Change in Tax Liability	—	-3.5	3.0	-1.9		
		Mean Net Change	—	-4.9	-2.2	-4.2	

^aThe sample consists of near-poor unmarried women between the ages of 18 and 44 with children. $N = 391$; weighted $N = 1,564,600$.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

from marriage in excess of 20 percent of income.

As in the sample of married couples, the means and medians do not reveal the

detailed interaction between the tax and transfer systems. Table 7 shows that, like the sample of married couples, most (80.2 percent) poor unmarried women and their potential spouses face

reductions in transfer benefits accompanied by increases in taxes if they marry.³⁹ Ninety-two percent of the couples in this group have dissimilar income, which drives the large decline in transfer benefits and tax liability faced by these families. Again, the hypothetical example in Table 1 appears to be quite typical for a poor family. The average decline in transfer benefits for these families is 20.8 percent of income. More than 90 percent face a decline in AFDC or food stamps benefits because marriage to a spouse with income makes the family categorically (in the case of AFDC) or financially (in the cases of AFDC and food stamps) ineligible for benefits (see Appendix Table 8 for more details). State and federal tax liabilities decrease and families become eligible for the EITC as mothers marry spouses with earnings. The average decline in tax liability is 7.6 percent of income, making the average net loss 13.2 percent. Ignoring taxes overestimates the penalty for marriage among the poor.

Most of the remaining poor unmarried women (15.1 percent) face declines in transfer benefits that are exacerbated by increases in tax liability if they marry. Despite facing smaller average losses in transfer benefits (only 10.1 percent compared to 20.8 percent) than the poor whose increase in tax liability offsets the increase in transfers, their average net change, a loss of 16.8 percent of income, is larger. The average increase in tax liability of 6.7 percent is primarily a combination of higher federal tax liability and a loss of the EITC. These women have some earnings and marry someone with similar income. Marriage to a spouse with similar income raises tax liability and phases out the EITC. Although only 58 percent face a decline in AFDC if they marry, 98 percent of these families still

face losses in available food stamps if they marry.

Near-Poor Families

The marriage penalty in the tax system faced by single parents with earnings is especially clear in the sample of near-poor unmarried women (Table 8). Because we define relative poverty based on the woman's income, 95 percent of the near-poor women work. Their predicted husbands are likely to have income similar to theirs; therefore, 75.5 percent of the sample face increases in joint tax liability if they marry. In aggregate, tax liability increases by \$721 million, which compounds the \$917 million loss in transfer benefits if families in this sample marry. Table 9 shows that, although the tax system is likely to penalize marriage for most near-poor families, the average net change never exceeds ten percent of income (see Appendix Table 9 for more details).

Conclusions

Tax liability and transfer payments may constitute a large fraction of a low-income family's total income. Both have the potential to vary significantly with a change in marital status or living arrangements, creating substantial penalties or subsidies for marriage. Until now, no study has quantified the penalties imposed by the transfer system or by the interaction of the tax and transfer systems. Using data from the SIPP and a microsimulation model, we characterize the marriage penalties and subsidies imposed by the tax and transfer systems for samples of married and unmarried women with children.

Our results suggest that the transfer system penalizes cohabitation and the

tax system subsidizes marriage for most poor families. While the tax subsidy for marriage may mitigate the high penalties imposed by the transfer system, the remaining penalties are still large and create strong financial incentives for low-income families to avoid or conceal cohabitation. For many near-poor families, the tax system may exacerbate the transfer penalty by also penalizing marriage.

Policy changes since the time of our data suggest that there is a dissatisfaction with the degree of marriage non-neutrality in the transfer and income tax systems. In particular, all states were required to offer AFDC-UP programs beginning in 1990. In addition, at least 32 states had welfare demonstrations that relaxed AFDC-UP's restrictions on past work history and maximum work hours allowed. This effort was intended to increase the number of married couples who were eligible for AFDC, especially young couples who may not have previous work experience. In addition, the EITC has been greatly expanded from its 1990 level, the maximum payment in 1996 for one-child families being \$3,556. Proponents of the EITC argue that this expansion will improve the ability of the EITC to mitigate the loss of transfer benefits associated with marriage. Although this is true for single-earner couples, the expanded EITC provides greater marriage disincentives for the near-poor or, more generally, for two-earner couples. Finally, a proposal under consideration by the House and Senate in 1996 would have given a \$145 tax credit to two-earner families, which would mitigate some of the income tax penalty for marriage.

The recent passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 will further

change how the tax and transfer systems interact. At least two of the changes have obvious implications. More single mothers will leave the welfare rolls and become eligible for the EITC. The non-neutrality of the EITC with respect to marriage may become more significant for these families. In addition, the legislation's provisions for enforcing child support may simultaneously reduce the incentives for marriage and for welfare participation. Concern about marriage penalties in the tax and transfer system has also entered the debate about a unified approach to tax and welfare issues (see, for example, Steuerle, 1997).

At least two obvious extensions emerge from this work. Measuring changes in disposable income is the next logical step in this research. While this paper measures the financial changes imposed by government programs and taxes associated with a change in family structure, expenses (e.g., child care and housing) are likely to change even without changes in labor supply. Second, a further extension would be to incorporate labor supply choices into the family structure decision. In the current analysis, we assume that labor supply does not change with family structure and calculate the tax and transfer penalties that families face if they maintain their current labor force status. Allowing labor supply to change following a change in family structure would more fully define the financial choices before the family and allow family members to respond to the labor supply incentives that arise from marriage penalties.

ENDNOTES

The authors wish to thank John Karl Scholz, Harvey Rosen, Len Burman, Joel Slemrod, and three anonymous referees for very helpful comments and suggestions. We also thank participants at the

American Enterprise Institute Conference on Disconnected Youth and in the microeconomics workshop at the University of Kentucky.

- ¹ Even if marital status were unaffected, distortions in the price of marriage imposed by the tax and transfer systems are inefficient (Feldstein and Feenberg, 1996). They distort labor market decisions because marginal tax rates on earnings vary with family structure. For example, secondary earners may experience a change in their after-tax wages upon marriage, which could discourage them from working. Large penalties may also inspire tax and transfer fraud.
- ² Using the Panel Study of Income Dynamics (PSID), Bane and Ellwood (1986) find that 46 percent of AFDC spells begin with a divorce or separation. Also using the PSID, Greg Duncan and Johanne Boisjoly find that 17.3 percent of first welfare spells between 1986 and 1991 began with a divorce or separation. In addition, 21.7 percent of welfare spells ended during this period due to the mother marrying or acquiring a cohabitor. (We thank Duncan and Boisjoly for providing us with these currently unpublished numbers.)
- ³ Results for childless couples are available upon request.
- ⁴ Medicaid is an important omission from the discussion of transfer programs. Moffitt and Wolfe (1992) find that the mean annual AFDC plus food stamp guarantee was \$5,912 in 1986 and the mean annual value of expected medical expenditure for those on AFDC (and therefore covered by Medicaid) was \$4,229. A single mother receiving AFDC may be reluctant to marry a person who does not have health insurance because his income may make her ineligible for AFDC and Medicaid. School lunch and housing assistance are two other transfer programs that might also be affected by changes in marital status or living arrangements.
- ⁵ The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 eliminated the AFDC program and replaced it with Temporary Aid to Need Families (TANF). Because all the data in the paper are from 1990, we continue to refer to the AFDC program.
- ⁶ Prior to the 1988 Family Support Act (FSA), the UP program was optional, and by 1990, the year of our data, only 26 states offered AFDC benefits to unemployed parents. The FSA, however, mandated that the remaining states adopt UP programs by October 1990. AFDC-UP requires the unemployed parent to show previous attachment to the labor force and to work less than 100 hours per month. States adopting AFDC-UP programs after the FSA may limit participation to six months per calendar year.
- ⁷ See Moffitt, Reville, and Winkler (1995) for a thorough description of the ways that states treat this income. They conclude that the AFDC program treats cohabitators quite leniently, based on information that most states exclude cohabitor's contributions toward rent and many states also exclude other cash contributions when calculating income available to the AFDC unit. There is also little evidence to suggest that rules are enforced in states that require contributions of cohabitators to be included in the unit's income.
- ⁸ Moffitt, Reville, and Winkler (1995) estimate that, in 1987, 5 percent of AFDC recipients were cohabiting and 14 percent were married.
- ⁹ We identify the disabled as those who report themselves as unable to work because of a disability or who receive government benefits because of their disability. We exclude persons over the age of 44 from our sample; therefore, we do not address the SSI eligibility of elderly individuals.
- ¹⁰ A recent report by the General Accounting Office (1996) identifies "59 provisions in the income tax code where tax liability depends, at least in part, on whether a taxpayer is married or single" (p. 3).
- ¹¹ A qualified child is a natural or adopted child or stepchild of taxpayers filing joint or head of household returns. In 1990, a parent had to provide more than half the support for the child, regardless of whether he lived with the child. Beginning in 1991, a parent could claim the EITC only if the child lived with him for more than half the year.
- ¹² For ease of exposition, we will refer to penalties as arising from an actual change in marital status or an actual change in a household arrangement, although misreporting living arrangements may allow families to avoid penalties. It should be noted that it is difficult to monitor marital status and living arrangements, so misreporting may be a large problem.
- ¹³ In some circumstances, if the taxpayer's spouse is not living in the taxpayer's household for the last half of the year, the taxpayer can qualify as a head of household.
- ¹⁴ Much of this discussion comes from the *1990 Green Book* (U.S. Congress, 1990).
- ¹⁵ State income taxes in the Commonwealth of Pennsylvania do not vary by filing status or by the number of dependents. Our hypothetical man pays \$315 in state income taxes regardless of his situation.
- ¹⁶ Note that the EITC is not directly related to legal marital status.
- ¹⁷ The tax code states that an unrelated male may claim the children as dependents if they lived in his home "as a family member" for the entire year and he provides over half their support. If the male does this, there is no difference in the tax treatment of the natural father and the tax treatment of an unrelated male. For the sake of comparison, we assume he does not claim the children.

- ¹⁸ In the seven states with general applicability rules, the stepfather is treated like the natural father, and, no matter what the man's income, the family would be categorically ineligible for basic AFDC because the children are no longer deprived of parental support.
- ¹⁹ Because we are isolating the financial incentives of the tax and transfer system, we do not include home production. If families actually change their living arrangement, rather than just misreport it, home production is likely to change a great deal. We also ignore differences in child care, work expenses, and housing expenses.
- ²⁰ The federal poverty line for a family of four in 1990 was \$12,700.
- ²¹ This is a reasonable assumption for low-income families. More than 94 percent of taxpayers with AGI below \$20,000 filed the standard deduction (Internal Revenue Service, 1993).
- ²² Only 1.9 percent of all tax returns and 4.3 percent of all married tax returns in 1990 filed separate married returns (Internal Revenue Service, 1993). This option is beneficial primarily to families where one spouse has high deductible expenditures (such as medical expenses).
- ²³ We do this to remain consistent with our transfer penalty calculations described in the text. Another way to deal with this assumption would be to calculate the tax liabilities with variations in who claims the children and choose the variation that minimizes tax liability. For example, in a single-earner family, the person with earnings would claim the children as dependents. In other cases, the secondary wage earner may be better off claiming the children because she may be eligible for the EITC. In both cases, our assumption, if incorrect, overestimates the tax liability of the separated couple, and thus tends to overstate the absolute value of the tax penalty.
- ²⁴ Scholz (1994) finds that about 14 to 20 percent of those households eligible for the EITC do not file tax returns.
- ²⁵ Alimony paid is deductible from income and alimony received is taxable income. Because alimony is typically paid by the higher earning spouse who is likely to face a higher marginal tax rate than the lower earning spouse, ignoring alimony is likely to overstate the increase (or understate the decrease) in taxes associated with a separation.
- ²⁶ According to Dickert, Houser, and Scholz (1995), the participation rate (number of participants divided by the number of eligibles) for AFDC is 76 percent for single parents and 25 percent for married couples. The food stamp participation rate is 67 percent for singles and 32 percent for married couples.
- ²⁷ This is especially important in calculating AFDC benefits. If, for example, a mother is married to the stepfather of the children, he is not in the AFDC unit in most states and his income is treated differently from members of the unit. Or, if a grandmother lives with her grandchildren and they are all in an AFDC unit, their benefits will not change when she marries because her husband is not related to the children.
- ²⁸ The official measure of income used to determine poverty does not include taxes or cash value of food stamps. Our measure of income includes both of these, as suggested by the National Research Council (1995).
- ²⁹ All observations are weighted by the SIPP person weights.
- ³⁰ We define dissimilar income as one spouse accounting for more than 70 percent of the family's income.
- ³¹ Recall that we assume the woman takes custody of the children after a separation.
- ³² These families could spend down their assets in either marital state to become eligible for transfers; however, this behavioral change is outside the scope of this analysis.
- ³³ Duncan and Hoffman (1990) use a PSID sample to predict expected earnings (including the earnings of potential spouses) for teenagers using a sample of women at age 26.
- ³⁴ These regressions do not include women under age 18 or over 44 because of our focus on families that are likely to change their marital status. In addition, the sample used in the regression does not include women whose husbands are self-employed because of the difficulty of interpreting reported earnings of self-employed persons. Finally, SIPP aggregates nine states into three groups, due to small sample size. We exclude observations from these nine states in the estimation. However, we predict husbands' earnings for these observations by randomly assigning observations to the aggregated states.
- ³⁵ See Appendix 2 for a detailed discussion of how we created this variable.
- ³⁶ These could also be predicted for future versions of this research.
- ³⁷ The calculated transfer penalties could be smaller if we assumed the women married someone other than the father of the children, primarily because of AFDC's liberal treatment of unrelated cohabiting males.
- ³⁸ "Potential income" is after-tax, after-transfer income for which families are eligible.
- ³⁹ The income tax system is rarely marriage neutral for the sample of unmarried women because of our assumption that all potential husbands have earnings. This assumption also results in the absence of many families whose transfer benefits increase with marriage. If the spouse had no income, food stamp benefits may increase when he is added to the unit.
- ⁴⁰ Married persons may file married separate returns, but in 1990, only 4.5 percent (1.9 percent) of

married couples (all filing units) filed married separate returns. Married separate returns are beneficial for families in which one spouse has very high deductions, such as medical expenditures.

⁴¹ We cannot identify filers, itemizers, or the amount of itemizations without the tax topical modules. For this reason, tax liabilities will be overstated for those filing units that would itemize (particularly high-income households).

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APPENDIX 1: MICROSIMULATION MODEL

The microsimulation model contains detailed modules for AFDC, food stamps, SSI, the federal income tax, state income taxes, and the payroll tax. All modules have a common structure: Each defines the unit of analysis for tax and transfer programs, performs income and assets tests or determines adjusted gross income and taxable income, and determines benefits or taxes. The model uses monthly data from the 1990 SIPP for the period January to December 1990. Transfer program eligibility and benefits are calculated on a monthly basis, and state and federal taxes are calculated by adding incomes over the calendar year.

Supplemental Security Income

Categorically eligible SSI units must have countable assets and income below federal limits. We identify the disabled as those who report themselves as unable to work because of a disability or who receive government benefits because of their disability. Countable income is calculated by excluding \$20 of monthly income from any source of income and \$65 plus an additional one-half of the remaining earnings from total income. The federal government sets a national SSI benefit standard for individuals and couples. Benefit levels depend on whether the unit is eligible as an individual, a couple, or an individual living with an ineligible spouse. The income of an ineligible spouse is *deemed* available to an eligible person. Some states supplement the national SSI benefit standard to cover daily expenses. The model, according to federal regulations, calculates benefits as the difference between the combined federal and state benefit standards and countable income (see Appendix Table 1 for the 1990 parameters of the transfer programs).

Aid to Families with Dependent Children

The model captures the federal government's broad rules on filing units and calculating income and assets; in addition, the states set many eligibility rules and benefit levels. Filing units include deprived children and their natural or adoptive parents (regardless of parents' marital status) or guardian. The model identifies stepparents. Stepparents are included in the unit in seven states, and in other states a portion of the stepparent's income is deemed to the unit. In the model, we assume stepparents are included in the unit in the seven states that require their inclusion.

Families with two parents have additional restrictions. The unemployed parent must have previous labor force attachment and cannot work more than 100 hours per month to be considered unemployed. In addition, some states that adopted AFDC-UP programs following the 1988 Family Support Act limit benefits to six months. The model only calculates AFDC-UP benefits for the 26 states that offered the AFDC-UP program in 1990.

The AFDC units must have assets less than \$1,000. In addition, each unit must pass two income tests. Total income must be below 185 percent of the state's determined need standard, based on family size, and countable income cannot exceed the state's payment standard. Countable income is total income minus \$90 per month for work expenses, up to \$175 per child per month for child care expenses, and, for the first four months of work, \$30 plus an additional one-third of remaining earnings. After four months of working, earnings are taxed at 100 percent and the \$30 deduction is available for only eight more months. Because SIPP does not identify how long a family has been receiving AFDC, the model assumes the tax rate on earnings is 100 percent for all months. States determine benefits in a variety of ways based on their payment standards and countable income. The model captures this variation.

Food Stamps

The food stamp program provides coupons that are redeemable for food items to low-income families. The food stamp unit is all members of a household that prepare food together, regardless of legal relationship. Because SIPP does not identify food preparation units, the model assumes families are the unit. Families composed entirely of AFDC or SSI recipients are automatically eligible for food stamps and therefore do not need to pass asset or gross income tests. All other units must have "countable" assets and monthly income below federal limits. That is, monthly gross income (which includes AFDC or SSI) cannot exceed 130 percent of the federal poverty guidelines. Countable income (gross income less a standard deduction of \$127 and 20 percent of earned income) may not exceed the federal poverty guidelines. The federal government sets national maximum food stamp allotments that increase with family size. A unit's benefit is determined by the appropriate maximum allotment less 30 percent of counted income.

Federal Income Tax

The model's federal tax module first determines the appropriate tax-filing unit. All subfamilies are treated as potentially separate (from the primary family) tax-filing units. Married couples are assumed to file joint tax returns.⁴⁰ Unmarried people without dependents

file single tax returns, and unmarried people with dependents file head of household returns. After filing units are determined, the model generally follows the 1040 tax schedule. The SIPP does not provide detail for calculating adjustments to total income, so AGI is total income. Taxable income is calculated by subtracting from AGI the standard deduction (for all taxpayers) and exemptions.⁴¹ Taxes before credits are calculated using the appropriate tax schedules for each filing unit. Tax liability is adjusted by nonrefundable credits for child care expenses and for the elderly and disabled. Finally, the model calculates the refundable EITC (see Table 1B for the 1990 tax parameters).

The EITC, in 1990, was available to filing units with children and positive AGI. The 1990 EITC is calculated at 14 percent of AGI up to AGI of \$6,810 and a maximum EITC of \$953. The EITC is phased out at a rate of ten percent for AGIs above \$10,750, to a maximum AGI of \$20,264. If a filing unit's tax liability is greater than tax liability, the difference is refunded.

State Income Taxes

State tax liabilities are based on the tax laws of the family's state of residence in December 1990. The model assumes that the filing status for state income taxes is the same as for federal taxes. The model reflects the fact that states have different definitions of taxable income, deductions, and exemptions. Tax liability is calculated using brackets and rates for each state and filing status. The model captures special joint rate schedules in ten states that substantially eliminate the marriage penalty.

Payroll Taxes

All workers in the United States are subject to a payroll tax to fund Social Security and Medicare expenditures. The tax is nominally paid by both the employee and the employer in equal shares. The model assumes that the payroll tax is borne entirely by the employee and, therefore, increases reported gross income by $(1 - 0.765)$; it then uses 0.0765 percent of the gross wage as the employer's share and 0.0765 of reported wage as the employee's share.

State Aggregations

For confidentiality reasons, SIPP aggregates nine small states into three groups. Because we are unable to disaggregate among the states, we randomly assign observations within the group to a state within the group, based on state population ratios. For example, suppose SIPP aggregates states X, Y, and Z and the total population in these states is 10, 25, and 65, respectively. The model randomly assigns 10 percent

of the observations in the group to state X, 25 percent of the observations in the group to state Y, and the remaining 65 percent to state Z. While this is clearly not ideal and implies that the data from these states should be viewed with this caveat in mind, it allows us to use more of the data.

APPENDIX 2: METHODOLOGY FOR CREATING A RATIO OF MARRIAGEABLE MEN

We construct ratios of the number of marriageable men to women in the same age and race category. We use the 1990 Census of Population and Housing Public Use Microdata Samples, which contains a five percent sample of the U.S. population. We use state-level ratios because SIPP does not include highly detailed geographic indicators. In addition, Brien (1997) finds that state characteristics explain more of the racial differences in marriage than local difference and argues that there is evidence of measurement error in the Census Bureau's local variables. Like Brien, we consider all men who are either enrolled in school

or participating in the labor force to be marriageable men. Our state-level ratio of marriageable men is constructed based on the Lichter et al. (1992) calculation:

$$MMR_{r,a} = \frac{M_a^{a+9}}{F_a^{a-2}}$$

where $MMR_{r,a}$ is the marriageable-men ratio for a specific race and age, M_a is the number of marriageable men within a race of age a in the state, and F_a is the number of women within a race of age a in the state. For example, the marriageable men ratio for a 20-year-old white women is the number of white men in her state who are between the ages of 20 and 29 divided by the number of white women in her state who are between the ages of 18 and 27. Like Brien (1997), our measure includes all individuals regardless of their 1990 marital status. Fossett and Kiecolt (1991) show the high correlation between various alternative measures of sex ratios.

APPENDIX TABLE 1
1990 SELECTED TRANSFER PROGRAM PARAMETERS

Program	Unit	Monthly Standard Deduction	Monthly Earnings Deduction	Gross Monthly Income Limit ^a	Net Monthly Income Limit ^b	Asset Limit	Maximum Payment ^c
AFDC	deprived (at least one parent absent, incapacitated, or unemployed) children and natural or adoptive parents	\$175/child of child care \$90 for work expenses	\$30 + 1/3 remaining earnings for 1st 4 months \$30 for 8 additional months	\$673 ^b	\$364 ^b	\$1000	\$364 ^b
Food stamps	individuals who prepare food together	\$112	20%	\$1,090	\$839	\$2,000 ^c	\$260
SSI	disabled, elderly, or blind individual or couple	\$20 any income	\$65 + 1/2 remaining earnings	—	individual: \$857 couple: \$1,243	individual: \$2,000 couple: \$3,000	individual: \$386 couple: \$579

^aThe monthly income limits and benefits for the AFDC and food stamp programs are based on a family of three.

^bThe AFDC income limits and benefits are for the median state.

^cThe asset limit is \$3,000 if there is an elderly person in the household.

Source: U. S. Congress, Committee on Ways and Means (1990).

APPENDIX TABLE 2
TAX PARAMETERS FOR 1990

Marginal Tax Rate	Married Joint	Married Separate	Single	Head of Household
15%	\$0-\$32,450	\$0-\$16,225	\$0-\$19,450	\$0-\$26,050
28%	\$32,450-\$78,400	\$16,225-\$39,200	\$19,450-\$47,050	\$26,050-\$67,200
33%	\$78,400-\$162,770	\$39,200-\$123,570	\$47,050-\$97,620	\$67,200-\$134,930
28%	>\$162,770	>\$123,570	>\$97,620	>\$137,930
Standard deduction	\$5,450	\$2,725	\$3,250	\$4,750

Note: The personal exemption is \$2,050 per person regardless of filing status.

EITC PARAMETERS

	Credit Rate	Phase-In Range	Maximum Credit	Phase-Out Rate	Phase-Out Range
1990 EITC	14%	\$0-\$6,810	\$953	10%	\$10,750-\$20,264
1996 EITC					
1 child	34	\$0-\$6,330	\$2,152	15.98	\$11,610-\$25,078
2 children	40	\$0-\$8,890	\$3,556	21.06	\$11,610-\$25,078
No children	7.65	\$0-\$4,220	\$323	7.65	\$5,280-\$9,500

Note: All parameters are in current dollar amounts.

APPENDIX TABLE 3
 MEANS AND STANDARD DEVIATIONS OF SELECTED VARIABLES IN SAMPLE OF MARRIED COUPLES
 BY INCOME TO POVERTY LINE RATIO

	Poor	Near-Poor
Reported income/poverty line	<1	1-2
Unweighted <i>n</i>	277	1179
Weighted <i>n</i> (millions)	1.20	5.62
Age of wife in years	32.4 (6.5)	32.9 (5.9)
Number of children	2.8 (1.4)	2.1 (0.9)
Reported income	\$12,181 (4,331)	\$21,183 (4,885)
Simulated married income	\$13,600 (4,347)	\$21,439 (4,839)
Simulated separated income	\$16,318 (5,308)	\$23,718 (4,965)
Change in transfer benefits if separate (>0 if increase)	\$3,793 (3,070)	\$2,939 (2,824)
(Change in transfer benefits/ simulated married income)* 100	41.9% (194.6)	14.7% (14.7)
Change in tax liability if separate (<0 if increase)	-\$1,076 (897)	-\$661 (1,398)
(Change in tax liability/ simulated married income)* 100	-7.7% (6.2)	-3.2% (6.3)
Combined change in transfer benefits and tax liability if separate (>0 if net increase)	\$2,718 (2,639)	\$2,278 (2,308)
(Combined change/ simulated married income)* 100	34.2% (195)	11.6% (12.1)

Note: All income amounts are annual 1990 dollars.

APPENDIX TABLE 4
WEIGHTED MEAN CHANGES IN TAX LIABILITY AND TRANSFER BENEFITS AS A PERCENT OF INCOME
SIMULATING A SEPARATION FOR POOR MARRIED COUPLES^a

	Change in Tax Liability ^b						
	None	Increases if Separate		Decreases if Separate		All	
		% of Conditional Cell*	% of Conditional Mean	% of Conditional Cell	% of Conditional Mean		% of Conditional Cell
None	AFDC ^c	—	—	0	—	0	—
	Food Stamps	—	12	0.0	0	0	0.0
	SSI	—	0	—	19	0.0	0.0
	Federal Tax Liability	—	100	-6.7	100	-3.0	-5.9
Decrease if Separate	EITC	—	100	-3.3	100	5.2	-1.5
	State Tax Liability	—	100	-1.2	100	-1.7	-1.3
	AFDC	100	—	—	0	—	-9.1
	Food Stamps	100	—	—	100	-4.3	2.5
Increase if Separate	SSI	0	—	—	0	—	—
	Federal Tax Liability	0	—	—	100	1.8	1.8
	EITC	0	—	—	100	4.8	4.8
	State Tax Liability	0	—	—	100	0.0001	0.0001
Change in Transfer Benefits ^d	AFDC	86	118.4	92	26.8	43	36.1
	Food Stamps	100	44.9	98	8.3	97	12.3
	SSI	52	19.2	21	1.8	24	5.6
	Federal Tax Liability	0	—	82	-6.7	71	-6.3
	EITC	37	0.0	94	-3.9	100	-3.1
	State Tax Liability	2	0.0	61	-1.0	50	-1.0

APPENDIX TABLE 5
 MEAN CHANGES IN TAX LIABILITY AND TRANSFER BENEFITS AS A PERCENT OF INCOME
 SIMULATING A SEPARATION FOR NEAR-POOR MARRIED COUPLES^a

		Change in Tax Liability ^b								
		None		Increases if Separate		Decreases if Separate		All		
		% of Cell*	Conditional Mean	% of Cell	Conditional Mean	% of Cell	Conditional Mean			
Change in Transfer Benefits ^b	None	AFDC ^c	0.0	—	0.0	—	0.0	—	0.0	—
		Food Stamps	0.0	—	0.7	0.0	0.7	0.0	0.7	0.0
		SSI	0.0	—	1.7	0.0	3.1	0.0	2	0.0
		Federal Tax Liability	0.0	—	98	-6.5	99	0.8	98	-2.8
	Decrease if Separate	EITC	100	0.0	62	0.8	9	2.9	74	2.0
		State Tax Liability	0.0	—	78	-1.4	82	0.5	80	0.4
		AFDC	100	0.0	—	—	—	—	100	0.0
		Food Stamps	100	13.9	—	—	—	—	100	13.9
	Increase if Separate	SSI	100	-47.6	—	—	—	—	100	-47.6
		Federal Tax Liability	0	—	—	—	—	—	0	—
		EITC	0	—	—	—	—	—	0	—
		State Tax Liability	0	—	—	—	—	—	0	—
None	AFDC	62	10.7	86	17.4	46	5.1	72	14.6	
	Food Stamps	100	5.2	98	9.5	98	4.8	98	7.9	
	SSI	61	10.8	11	2.2	11	0.1	12	2.0	
	Federal Tax Liability	0	—	99	-6.7	99	-0.06	98	-4.4	
Decrease if Separate	EITC	41	0	71	0.5	97	3.6	80	1.8	
	State Tax Liability	0	—	83	-1.3	77	0.2	80	-0.8	

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All	AFDC	65	7.7	72	17.4	34	5.1	58	14.6				
	Food Stamps	93	6.9	83	9.5	73	4.8	79	7.9				
	SSI	63	-6.2	10	2.2	9	0.1	10	0.9				
	Federal Tax Liability	0	—	99	-6.7	99	0.2	98	-4.1				
	EITC	38	0	69	0.5	94	3.4	78	1.8				
State Tax Liability	0	—	82	-1.3	78	-0.3	80	-0.7					

*Percent of cell eligible for program or subject to tax liability when either married, separated, or both.

^aThe sample consists of poor married couples with children in which the wife is between the ages of 18 and 44. $N = 1179$; weighted $N = 5,626,400$.

^bChanges in benefits or tax liability are divided by potential income when married.

^cObservations greater than zero represent gains from separation; transfer payments are higher when separated than when married (penalty for being married), and tax liabilities are lower when separated than when married (penalty for being married).

APPENDIX TABLE 6
SELECTION EQUATIONS FOR PREDICTING EARNINGS OF POTENTIAL HUSBANDS

Independent Variable	Earnings Equation		Probit Equation	
	Dependent Variable = ln (Husband's Annual Earnings)		Dependent Variable = 1 if Wage-Earning Husband and 0 Otherwise	
	Coefficient Estimate	Standard Error	Coefficient Estimate	Standard Error
Grade completed	0.048*	0.028	0.113**	0.045
Grade squared	0.0008	0.0007	-0.0001	0.001
Age	0.148**	0.0159	0.168**	0.25
Age squared	-0.002**	0.0002	-0.001**	0.0004
Age*grade	-3.10e-06	0.0006	-0.003**	0.0009
African American (yes = 1)	-0.801**	0.031	-0.557**	0.098
Hispanic (yes = 1)	-0.311**	0.036	-0.067	0.058
Urban (yes=1)	0.189**	0.024	-0.072	0.040
Disabled (yes = 1)	-0.291**	0.043	-0.326**	0.066
State unemployment rate	0.023**	0.011	0.003	0.050
Midwest (yes = 1)	-0.120**	0.030	0.055	0.054
South (yes = 1)	-0.108**	0.027	-0.019	0.050
West (yes = 1)	-0.112**	0.030	0.024	0.019
Children (yes = 1)	0.196**	0.027	0.395**	0.042
Children < 6 year (yes = 1)	0.128**	0.025	0.486**	0.042
1990 own property income	0.0003	0.0002	-0.002**	0.0003
(1990 own property income) ²	-3.62e-07**	1.25e-07	8.08e-07**	1.69e-07
Marriageable men ratio			1.942**	0.0001
Maximum AFDC + food stamps			-0.0004**	0.001
Percentage fundamentalist			0.001	0.357
Constant	5.878**	0.355	-5.864**	0.723
Lambda	0.651	0.003		
n	5898			
Log likelihood	-21714.1			

**Significant at the five percent level.

*Significant at the ten percent level.

Note: Sample of women ages 18 to 65 in states disaggregated in SIPP's 1990 public use file.

APPENDIX TABLE 7
 MEANS AND STANDARD DEVIATIONS OF SELECTED VARIABLES IN SAMPLE OF UNMARRIED WOMEN
 BY INCOME TO POVERTY LINE RATIO

	Poor	Near-Poor
Reported income/poverty line	<1	1-2
Unweighted <i>n</i>	521	391
Weighted <i>n</i> (millions)	2.1	1.6
Age of wife in years	31.1 (6.4)	33.6 (5.7)
Number of children	2.1 (1.2)	1.5 (0.7)
Unmarried woman's reported income	\$7,536 (2,967)	\$14,063 (3,275)
Simulated married income	\$20,495 (11,820)	\$30,439 (12,497)
Simulated separated income (includes predicted husband's income)	\$23,136 (11,328)	\$31,487 (11,939)
Change in transfer benefits if marry (>0 if increase)	-\$3,847 (2,709)	-\$586 (1,339)
(Change in transfer benefits/ simulated unmarried income)*100	-18.3% (11.8)	-2.3% (5.4)
Change in tax liability if marry (>0 if decrease)	\$1,206 (1,755)	-\$461 (1,310)
(Change in tax liability/ simulated unmarried income)*100 (>0 if decrease)	5.1% (7.2)	-1.9% (4.4)
Net change in transfer benefits and tax liability if marry (>0 if net increase)	-\$2,641 (2,392)	-\$1,047 (1,520)
(Net change/ simulated married income)* 100	-13.2% (11.6)	-4.2% (5.9)

Note: All income amounts are annual 1990 dollars.

APPENDIX TABLE 8
WEIGHTED MEAN CHANGES IN TAX LIABILITY AND TRANSFER BENEFITS AS A PERCENT OF INCOME
SIMULATING A MARRIAGE FOR POOR UNMARRIED COUPLES^a

		Change in Tax Liability ^b								
		None		Increases if Marry		Decreases if Marry		All		
		% of Cell*	Conditional Mean	% of Cell	Conditional Mean	% of Cell	Conditional Mean			
Change in Transfer Benefits ^b	None	AFDC:	—	—	0	—	0	—	0	—
		Food Stamps	—	—	6	0.0	0	—	3	0.0
		SSI	—	—	21	0.0	16	0.0	19	0.0
		Federal Tax Liability	—	—	100	0.1	100	5.9	100	2.8
	Decrease if Marry	EITC	—	—	87	-3.1	77	-1.4	82	-2.3
		State Tax Liability	—	—	78	0.1	80	0.8	79	0.4
		AFDC	100	-23.2	58	-9.1	91	-17.4	86	-16.5
		Food Stamps	100	-8.3	98	-4.9	99	-4.8	99	-4.8
	Increase if Marry	SSI	0	—	18	0.0	22	-0.9	21	-0.7
		Federal Tax Liability	0	—	98	-4.5	93	5.3	94	3.7
		EITC	0	—	61	-2.8	65	2.7	64	1.9
		State Tax Liability	0	—	83	-0.6	80	1.1	80	0.8
Increase if Marry	AFDC	—	—	—	—	100	5.4	100	5.4	
	Food Stamps	—	—	—	—	100	-1.7	100	-1.7	
	SSI	—	—	—	—	100	0.0	100	0.0	
	Federal Tax Liability	—	—	—	—	100	4.4	100	-4.4	
Increase if Marry	EITC	—	—	—	—	0	—	0	—	
	State Tax Liability	—	—	—	—	100	0.2	100	0.2	

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	All	AFDC	Food Stamps	SSI	Federal Tax Liability	EITC	State Tax Liability											
		100	-23.2	50	-9.1	89	-17.3	82	-16.5									
		100	-8.3	86	-4.9	97	-4.8	95	-4.8									
		0	—	18	0.0	22	-0.8	21	-0.7									
		0	—	98	-3.9	93	5.3	94	3.7									
		0	—	65	-2.9	65	2.6	65	1.7									
		0	—	82	-0.6	80	1.0	80	0.8									

*Percent of cell eligible for program or subject to tax liability when either unmarried, married or both.

^aThe sample consists of near-poor unmarried women between the ages of 18 and 44 with children. $N = 391$; weighted $N = 1,564,600$.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments and EITC are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

APPENDIX TABLE 9
WEIGHTED MEAN CHANGES IN TAX LIABILITY AND TRANSFER BENEFITS AS A PERCENT OF INCOME
SIMULATING A MARRIAGE FOR NEAR-POOR UNMARRIED COUPLES^a

	Change in Tax Liability ^b							
	None		Increases if Marry		Decreases if Marry		All	
	% of Cell*	Conditional Mean	% of Cell	Conditional Mean	% of Cell	Conditional Mean	% of Cell	Conditional Mean
None	AFDC ^c	—	0.0	1	0	—	1	0.0
	Food Stamps	—	0.0	4	3	0.0	4	0.0
	SSI	—	0.0	3	3	0.0	3	0.0
	Federal Tax Liability	—	-1.7	100	100	1.9	100	-1.1
Change in Transfer Benefits ^b	EITC	—	-1.6	67	59	-1.1	66	-1.5
	State Tax Liability	—	-0.5	79	87	0.7	81	0.2
	AFDC	—	-3.7	36	51	-13.1	41	-7.4
	Food Stamps	—	-1.8	99	86	-2.0	95	-1.9
Decrease if Marry	SSI	—	-0.9	8	23	-0.3	13	-0.6
	Federal Tax Liability	—	-1.4	98	100	2.9	99	-0.04
	EITC	—	-2.7	89	63	-0.3	80	-2.1
	State Tax Liability	—	-0.3	73	84	1.3	77	0.3
Increase if Marry	AFDC	—	—	—	0	—	0	—
	Food Stamps	—	—	—	42	-0.8	42	-0.8
	SSI	—	—	—	100	0.9	100	0.9
	Federal Tax Liability	—	—	—	100	1.4	100	1.4
Change in Transfer Benefits ^b	EITC	—	—	—	100	-1.1	100	-1.1
	State Tax Liability	—	—	—	100	1.0	100	1.0

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All	AFDC	—	—	16	-3.5	32	-13.1	20	-7.2				
	Food Stamps	—	—	45	-1.7	55	-1.9	48	-1.8				
	SSI	—	—	5	-0.6	17	-0.1	8	-0.4				
	Federal Tax Liability	—	—	99	-1.6	100	2.5	99	-0.6				
	EITC	—	—	76	-2.2	62	-0.6	73	-1.8				
	State Tax Liability	—	—	76	-0.4	86	1.1	79	0.01				

*Percent of cell eligible for program or subject to tax liability when either unmarried, married or both.

^aThe sample consists of near-poor unmarried women between the ages of 18 and 44 with children. $N = 391$; weighted $N = 1,564,600$.

^bChanges in benefits or tax liability are divided by potential income when unmarried.

^cObservations greater than zero represent gains from marriage; transfer payments are higher when married than when unmarried (subsidy for being married), and tax liabilities are lower when married than when unmarried (subsidy for being married).

