

## “WHO WANTS MARRIAGE PENALTY RELIEF? I DO. I DO.”

In the past, saying “I do” also meant saying, “I do” to paying more taxes as a married couple than you would as two single filers. But this year, new tax laws have improved the financial picture for married couples by partially alleviating the so-called marriage penalty.

### What is the marriage penalty?

The marriage penalty means Americans pay more tax when they file as a married couple than they’d pay if they filed two single tax returns. In a sense, taxpayers are penalized for being married. Seem unfair? Congress agrees.

The marriage penalty doesn’t affect couples equally, though. Married couples with two similar incomes are hit much harder than couples with dissimilar incomes, such as a main breadwinner and a stay-at-home parent. In fact, the more similar the incomes the bigger the marriage penalty hit. (Of course the reverse is also true: The less similar the incomes, the smaller the penalty. In fact some couples with extremely disparate incomes actually get a “marriage bonus.”)

Still, it’s not as if married people get an extra tax because they file jointly. It only looks like a penalty when you make a side-by-side comparison of the taxes you pay as Married Filing Jointly (MFJ) and the taxes you’d pay if you filed as Single.

### Alleviating the penalty

The new 2003 tax laws changes for married couples are designed to balance the scales

between single and married taxpayers by broadening the 15 percent bracket, as well as the standard deduction for married couples.

The best way to appreciate the tax law change is to take a look at what married taxpayers paid before the penalty was alleviated – and after.

- Before the 2003 tax change, the 15 percent bracket for people who are married filing jointly was \$47,500; while the 15 percent

bracket for their single friends was \$28,400. You’ll notice that \$47,500 is not twice the single amount; hence the penalty. But in 2003, the 15 percent bracket was expanded to exactly twice that of single filers: \$56,800 and \$28,400, respectively; hence marriage penalty “relief.”

- Also, before the 2003 tax change, the standard deduction for MFJ taxpayers was not twice that of their single friends: \$7,950 and \$4,750, respectively. For 2003, MFJ taxpayers will enjoy a standard deduction of \$9,500 – exactly twice that of single filers.

It’s important to remember that the marriage penalty “kicks” in again above the 15 percent bracket. However, taxpayers reaching into the upper income brackets will

still see some relief: The new tax law also lowers the top four tax rates to 25, 28, 33 and 35 percent.

### Relief won't last forever

Originally, the marriage penalty relief was going to phase in gradually between 2005 and 2008. However, the latest tax law changes accelerated the relief to the full amount for 2003 and 2004 only.

**/// Many married taxpayers may now want to opt for the standard deduction rather than itemizing. But, before you do, go through your paperwork and add up your deductions...you may be surprised that itemizing will in fact reap you greater tax savings. ///**

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Beginning in 2005, the penalty relief will take a bit of a roller coaster ride when it reverts to the previous phase-in schedule from the 2001 tax bill. The MFJ 15 percent bracket won't be double that of single filers until 2008; the standard deduction doesn't get there until 2009.

<b>YEAR</b>	<b>15% BRACKET</b>	<b>STANDARD DEDUCTION</b>
2005	180%	174%
2006	187%	184%
2007	193%	187%
2008	200%	190%
2009		200%

In 2011, the sunset provision kicks in and the marriage penalty returns. Unless new legislation is passed, getting married will be more “taxing” than ever in 2011.