THE RESEARCH ROOM

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Wisconsin's Income Tax MARRIAGE PENALTY

There is a host of literature showing the many physical, emotional and financial benefits of marriage. Obviously, paying higher taxes is not among them. Yet, Wisconsin is one of 15 states with a tax structure that "penalizes" some couples if they are married.

Wisconsin's income tax

Wisconsin's income tax has a lot of moving parts, but the most relevant for understanding the state's "marriage penalty" are the standard deduction, tax brackets and married couple credit.

Tax filing begins with income (Wisconsin adjusted gross income) from which filers subtract a standard deduction. Unlike the federal deduction, which is a single amount that does not depend on income, Wisconsin's "sliding scale" standard deduction declines as income rises. It is ultimately eliminated for higher-income filers. The size of the deduction and the rate at which it declines differs for single and married filers.

Wisconsin has four income tax brackets with higher rates for higher taxable incomes.[1] Each bracket is a range of income on which a tax rate is applied. The four rates range from 3.5% to 7.65%. Like the standard deduction, the tax brackets differ by filer type. The income levels on which each rate is applied differ for single and married filers.

Another feature of the Wisconsin income tax also affects the marriage penalty. Married couples who both work are eligible for the married couple credit, which is equal to 3% of the lowest earnings and capped at $480. This credit was created in 1983 to address the marriage penalty. It was altered several times over the years, with the last change occurring in 2001.

Penalties and bonuses

While the income tax can generate a marriage penalty for some filers, it also creates a marriage "bonus" for others. To get a sense of what these penalties and bonuses look like, 2024 taxes for three hypothetical couples are examined.

First, consider a Wisconsin couple who each earn $50,000.[2] If single, each would owe $1,723 in tax, or $3,446 total. If married, their $100,000 of earnings would generate a tax liability of $3,694 after accounting for the $480 married couple credit. Thus, they incur a tax "penalty" of $248 for marrying. While seemingly small, that $248 is 7% more than they would have paid had they remained single.

The difference in individual incomes impacts the size of the penalty and for some creates a bonus. A couple earning $65,000 and $35,000, respectively, faces a slightly smaller $202 (6%) penalty. However, for a couple with one individual earning most of the income ($90,000 of the $100,000 total), the tax bill declines by $223, or 5%, when married.

This pattern generally holds for most incomes. Couples with widely different incomes receive a marriage bonus while those with similar incomes are "penalized" for being married. Moreover, the penalties and bonuses are generally higher as the couple's total income increases. For example, a couple who each earn $75,000 would owe an extra $454 in state income taxes if they were married. For couples with total incomes of $475,000 or more, the penalty can be $1,000 or

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Penalty drivers

The primary reason for the marriage penalty is that the standard deduction and the tax brackets are not aligned between single and married filers. Consider first the impact of the varying standard deductions. A single filer with $50,000 of adjusted gross income has a standard deduction of $9,488 and taxable income of $39,812.[3] Thus, two single filers each earning that amount would have standard deductions totaling $18,976 and taxable income totaling $79,624. If that couple were married, they would be eligible for a $10,105 standard deduction on their $100,000 income, 46% less than had they been single. With taxable income of $88,495, or $8,871 more than if single, they would owe $470 more in taxes due to the misalignment.

We can also look at the effect of the unaligned tax brackets. The two single filers pay a total of $3,447 in state income taxes on their $79,624 of taxable income. If the standard deductions for singles and married couples were aligned and the married couple had that same $79,624 of taxable income, they would have an initial tax (before credits) of $3,705. This is $258 more than the unmarried couple due to the tax brackets not lining up.

Combining the effects of the two misalignments, the married couple's initial tax is $728 higher than the two single filers. The married couple credit of $480 offsets 65% of the penalty in this situation.

A second penalty

While lower-income couples often get a marriage bonus, for some, that savings can be negated due to reductions in the Earned Income Tax Credit. This federal credit is available to low- and moderate-income earners to incentivize work. Wisconsin offers a credit that is linked to the federal credit for families with at least one qualifying child.

To show how marriage can impact this credit, consider a single mother of two children. She earns $20,000 and lives with her boyfriend who earns $30,000. If they were married, they would pay $248 less in state taxes due to a marriage "bonus."

As a single mother earning $20,000, though, she is eligible for the federal EITC credit of $6,960 and the state credit of $766. If the couple were married, these are reduced by $4,293 and $473, respectively, due to their combined income of $50,000. The $473 state penalty more than offsets the $248 marriage bonus. However, the $4,293 loss of the federal EITC makes marriage a "losing" proposition financially.

Solving the problem

For most filers, the marriage "penalty" may not be large enough to forgo marriage. However, given the state's declining youth population, it must be asked if there should be, in the tax system, any financial disincentive to marriage.

Other states have aligned their standard deductions and tax brackets to eliminate the marriage penalty for most taxpayers. Alternatively, the married couple credit could be increased to eliminate the penalty for all but the highest earners.

Eliminating the EITC penalty is more difficult because the state credit is tied to the federal credit. In 2021, Assembly Bill 692 was introduced to help with the issue. It would have allowed the married couple to claim, for three years, the greater of the credit available as a married couple or the amount each was eligible for in the year prior to marriage. The bill was not enacted. While not a perfect solution, it seems it was a step in the right direction. ■

Forward Analytics is a Wisconsin-based research organization that provides state and local policymakers with nonpartisan analysis of issues affecting the state.

1. Taxable income is adjusted gross income minus the standard deduction minus a $700 personal exemption for the filer, his or her spouse, and each dependent. Filers and their spouses get an additional $250 if they are 65 or older.
2. This is their only source of income, so earnings are the same as their adjusted gross income.
3. After accounting for the $700 personal exemption.