

The Impact of Marriage Tax Bonus and Penalty on Marital Decisions in the U.S.

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June, 2022

The US tax system is not marriage-neutral, creating incentives and disincentives for marriage. This paper re-examines the impact of marriage tax bonus and penalty on flows into and out of marriage. Two challenges exist in estimating the causal relationship of marriage bonus and penalty and marital decisions. The first is the measurement of financial incentives generated by taxation. We calculate the ratio of marriage bonuses and after-tax income for each couple (MB-to-income ratio), which measures the relative value of marriage bonus and penalty faced by the family and thus allows us to set apart the effects on couples of different income levels. The second challenge, which is also the major one, comes from the fact that marriage bonus and penalty are endogenous to couples' decisions on marital status. We create an instrument that captures the exogenous changes in MB-to-income ratio. Using a whole representative sample of couples in each year, we calculate the couple's MB-to-income ratio under each states tax policy and then take the averages at the level of women's residential state and the demographic groups defined by their race, education level, and age level. The instrument exploits the variations in marriage bonus and penalty across states and the demographic groups and captures couples' unobservable characteristics on the basis of women's demographic groups. We show that our instrument has no statistically significant correlation to the factors explaining the marriage market and the conditions shaping couples' preference towards marriages. We investigate flow into and out of marriages by using the data from the Survey of Income Program and Participation. Flow data can capture couples' behavior response to policy changes and verify the asymmetric decisions of marriage entry and exit. To our best knowledge, our paper is the first under this topic to estimate the flow of marriages and divorces by using an instrument. Our results show that, for cohabitating couples, 1% increase in MB-to-income ratio leads to 0.12% increase in the likelihood of getting married. As for married couples, the elasticity of MB-to-income ratio to the likelihood of marital dissolution is -0.14%. These results are robust when eliminating the couples who migrate across states or give birth to children through the survey window.