

October 15, 2024

The Honorable Jason Smith, Chairman
The Honorable Mike Kelly, Tax Subcommittee Chairman
The Honorable Brian Fitzpatrick, Working Families Tax Team Chairman
Ways and Means Committee
U.S. House of Representatives
1102 Longworth House Office Building
Washington, DC 20515

Submitted via RepublicanTaxTeams@mail.house.gov

RE: Tax Teams Comment on Working Families

Dear Congressmen Smith, Kelly, and Fitzpatrick:

I submit this letter in response to your request (dated May 21, 2024) for information related to the impending expiration of key provisions of the Tax Cuts and Jobs Act of 2017 (TCJA).

In next year's tax reform debate, Congress should seize the opportunity to eliminate the greatest injustice in the federal income tax code: marriage penalties.

Governments recognize marriage primarily because it is in a child's best interest to be raised in the loving home of his or her married father and mother. It is fundamentally wrong to force even one family to pay higher taxes or to take away a valuable benefit simply because a man and a woman choose to commit to one another as husband and wife. Yet the federal government regularly punishes millions of working families in this very way, even though 60-80 percent of the public across the ideological spectrum agrees that marriage penalties should be eliminated.

Republicans have made some progress in recent decades toward reducing marriage penalties, but, perplexingly, they have placed the highest priority on eliminating those that most affect dual-earner couples *without* children. As a result, it is now typically parents—particularly lower-income working parents—who face the largest marriage penalties. Given that children from lower-income families stand to benefit the most from being raised by their married biological parents, this is a travesty.

In fact, on several occasions, as recently as in the House vote for the Tax Relief for American Families and Workers Act earlier this year, Republicans have perhaps unwittingly voted overwhelmingly to *increase* marriage penalties for low-income parents. But a child needs his or her mother and father, not his or her mother and a larger check from the government. This remains the case even if the check is characterized as a “tax cut.”

The tax reform that would *most benefit* working families is not simply the tax reform that appears to *benefit the most* working families. True pro-family policy requires careful attention to incentives for work, marriage, and childbearing throughout the tax and welfare systems:

1. All child-related tax code provisions should be consolidated into a larger Child Tax Credit (CTC).

- The Earned Income Tax Credit (EITC) was not addressed in TCJA, but it is responsible for the most damaging marriage penalties and should not be neglected any longer.
- Head of Household (HOH) tax-filing status primarily benefits the highest-income unmarried mothers. It creates marriage penalties for millions of middle-class couples who would not otherwise experience them.
- The Child and Dependent Care Tax Credit (CDCTC) primarily benefits higher-income families who choose paid childcare. It inappropriately incentivizes married parents to pursue a dual-earner model, even though many prefer to have a stay-at-home parent, particularly when their children are young.
- The EITC, HOH status, and the CDCTC should be eliminated in favor of a CTC of up to approximately \$5,000 per child. This is roughly the additional resources required for a family to provide for a child’s most basic needs, according to federal poverty guidelines.

2. As earnings increase, the phase-in of the expanded CTC should be coordinated with the phase-out of traditional welfare benefits.

- Providing a greater portion of the maximum CTC benefit to those with less work, such as by phasing it in proportional to the product of earnings and the number of children on the tax return, reduces one of the few marriage incentives lower-income couples currently receive, thereby increasing overall net marriage penalties for these couples. There is a better way.
- The portion of its potential CTC that a family receives should instead increase as the family pays FICA and income taxes and as it loses common welfare benefits, such as food stamps.

3. Program administrative data should be shared with the IRS and used to prevent fraud.

- Families may currently (largely with impunity) report a different family structure and different income data to the IRS than they report to state welfare agencies. Typically, an unmarried mother can conceal the father and his income to qualify for larger traditional welfare benefits yet assign one or more of their children to him for purposes of the EITC and/or CTC. She may also claim nonexistent self-employment earnings to qualify for larger

credits, while reporting lower earnings for traditional welfare programs. In this way, the family's total benefits may far exceed what Congress intended (or what is reasonable).

- The solution appropriately requires those who apply for welfare benefits to consent to this sharing of their data as a condition of receipt of those benefits. We cannot force families to tell the truth, but we should at least check to see whether they consistently tell the same lie.

4. The tax computation for married couples filing jointly should be adjusted so that the benefit of adding a spouse to the tax unit does not exceed the benefit of adding a child.

- It is true that, in a progressive income tax system, setting tax bracket thresholds for married couples filing jointly to twice those for single filers eliminates marriage penalties. This has been Republicans' preferred method to achieve this goal.
- However, it also creates many unnecessary (and unwise) marriage bonuses.
- For example, a wealthy man can save up to \$37,464 in federal taxes in 2024 alone if he marries a non-working woman. Federal policy should not incentivize a "sugar daddy" to obtain a "trophy wife" more than it incentivizes a middle-class couple to bear a child.
- Married couples should also be allowed to file taxes as if they were single, if that is to their advantage, so that a dual-income couple will be no worse off for having married.

Adherence to these recommendations will enable a budget-neutral solution to marriage penalties in the federal income tax code and, indirectly, throughout much of the means-tested welfare system. In the coming months, I plan to release a detailed proposal to this end. I also intend to evaluate proposals under consideration by your committee in terms of their effects on incentives for work, marriage, and childbearing.

Please follow my research at <https://eppc.org/author/jhall/>, and feel free to contact me at any time. I would be honored to discuss options for pro-family tax and welfare reform with you and/or your staff. Thank you for your time and for your consideration of these recommendations.

Respectfully submitted,

Jamie Bryan Hall