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## A Tax Boon for Working Women

Jeb Bush's tax-reform proposal ends the 'marriage penalty' by allowing spouses to file separately.

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The U.S. tax code is unfair to women who work. It also discourages women from working and from obtaining the skills that would lead to higher wages. In addition, there is a "marriage penalty" for many working couples with either very low incomes or very high incomes who face a tax increase if they marry. The tax plan released last month by Republican presidential candidate Jeb Bush would correct these unfair rules.

According to the U.S. Bureau of Labor Statistics, 38% of married women with income in the U.S. earned more than their husbands in 2013. The U.S. tax code is unfair to the lower of the two earners, discouraging efforts to raise family income, regardless of whether that individual is the husband or the wife.

The key to the Bush plan is to allow married couples to file separate returns when doing so is in their interest. In adopting this option, the United States would join most high-income countries that already have some form of separate income taxation for married couples.

Here's how Jeb Bush's tax plan would work. The spouse with lower earnings would file a separate tax return based on that individual's wage and salary income, using the ordinary tax schedule for single individuals. The rest of the couple's income (including the other earner's wages and their interest and dividends) and their tax deductions (or standard deduction) would be taxed using the tax schedule for married taxpayers filing jointly. The result would be a lower total tax bill, and often lower marginal tax rates for those who choose this option. In contrast to the Bush plan, today's tax code imposes a totally different schedule of tax rates that penalizes those rare couples who choose to file separate returns.

Consider a married couple in which the man earns \$70,000. If his wife works and earns \$40,000, the first dollar that she earns is taxed at 25% (the same as the last dollar of her husband's income) and the couple's extra tax on her earnings would be \$7,450. By filing separately under the Bush plan, the extra tax on her earnings would be \$4,532.50. That's a 40% reduction in the tax on her earnings.

Consider also a woman who is working half time and earning \$20,000 while her husband earns \$70,000. By shifting to full-time work, her pretax earnings would rise by \$20,000 but she would pay income tax of \$4,450. Under the Bush plan with separate filing, that extra tax would be cut nearly in half to \$2,532.40.

The Bush tax plan would also benefit couples with much lower earnings. A couple in which one has wages of \$30,000 and the lower makes \$20,000 would pay tax under current law of \$3,487.50. The extra \$20,000 of income of the lower earner adds \$2,547.50 to the couple's tax bill. Under the Bush plan, the extra income of the lower earner would add \$1,940 to the couple's tax bill, less than 10% of the lower earner's wage.

For many couples, the Bush option to file separately would reduce marginal tax rates on incremental earnings as well as lower their overall tax liabilities. In the example of the couple in which one member earns \$70,000 and the other earns \$20,000, the marginal tax rate faced by both earners would be only 10%, providing a clear stimulus to increased employment and earnings. The lower-earning couple with wages of \$30,000 and \$20,000 would also have marginal tax rates of just 10%.

Among all of today's two-earner couples, about 40% would reduce their taxes by using the new option to file separate returns. In many other couples in which only one member is now working, this new opportunity to file separately would lead to increased participation in the labor force. Since separate filing would be optional, no one would pay higher taxes on their existing earnings as a result of this option.

It is difficult to estimate how much extra tax revenue would be generated as individuals respond to lower marginal tax rates by entering the labor force or increasing their earnings. But the net effect of the separate filing option and the resulting

decline in marginal tax rates may be to increase the government's total revenue.

The current tax code was written for a very different society in which married couples typically had a single earner. The fraction of married women who work has risen from about 20% in 1950 to 60% today. Among today's married couples, 60% of husbands and wives both work if either one of them is working. The tax rules from an earlier era are unfair to working women today. Jeb Bush's plan to allow these women to be taxed separately on their own wage income would correct that unfairness and strengthen their labor-market incentives.

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