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February 2, 2022
Assembly Committee on Ways and Means
Testimony from Rep. William Penterman in favor of AB 692

Chairman Macco and members of the Assembly Committee on Ways and Means:

Much progress has been made on Wisconsin's Tax Code by the state legislature to relieve the tax burden. However, the Earned Income Tax Credit (EITC) is a tax credit that is in need of reform. It is currently calculated as a percentage of the federal EITC. The EITC provides a refundable credit to low-income parents that is determined by both the claimant's earned income through paid employment and the number of dependent children. The federal EITC gradually phases down at an income level determined annually by the IRS.

Under current law, low-income couples receive a lower EITC upon marriage compared to the EITC amount the two individuals were able to claim prior to marriage. This is colloquially known as a "marriage penalty."

Why would we monetarily penalize marriage? Single mothers who expect to lose the federal EITC benefits upon marriage are 2.5 percentage points less likely to marry their partners and 2.5 percentage points more likely to cohabit compared to single mothers who expect no change or gain EITC benefits upon marriage. A married couple should not be any worse off than an otherwise identical couple that is cohabitating.

AB 692 seeks to level the playing field for married and unmarried couples by implementing a hold harmless policy that would allow newly-married spouses to continue to claim the higher of either the state EITC they had claimed immediately prior to marriage or the credit they would normally receive for married filers for the first three years of their marriage. Moreover, the bill would allow a married couple otherwise ineligible to claim the state EITC to continue to claim the credit if their federal adjusted gross income (AGI) is less than the federal phase down level, plus \$20,000.

This bill is about leveling the playing field for married and non-married individuals. By itself this bill will not necessarily serve to incentivize marriage, it will help to alleviate one of the disincentives against marriage that exists under current law.

Thank you for your time and I would be happy to answer any questions you may have.



DUEY STROEBEL

STATE SENATOR • 20TH DISTRICT

Testimony on AB 692

February 2, 2022

Thank you Chairman Macco and members of the Assembly Committee on Ways and Means for holding a public hearing on Assembly Bill 692, a bill I authored with Representative Penterman to address the marriage penalty that exists under the state earned income tax credit (EITC).

The state-level EITC is calculated as a percentage of the federal EITC. It provides a refundable tax credit to qualifying parents and is tied to both the claimant's income earned through paid employment and number of dependent children. The federal EITC gradually phases down at income level determined annually by the IRS.

Under current law, it is not uncommon for a qualifying couple to receive a lower EITC upon marriage compared to the EITC amount the two individuals were able to claim prior to marriage. This is known as a "marriage penalty."

In addition to the vast body of research highlighting the benefits of marriage with regard to the improved outcomes for children raised by two parents, studies have also shown that single mothers who expect to lose benefits under the federal EITC upon marriage are less likely to marry their partners compared to single mothers who expect either no change or an increase in EITC benefits.¹⁻²

AB 692 seeks to level the playing field for married and unmarried couples by implementing a "hold harmless" policy for the first three years of marriage that would allow newly-married spouses to continue to claim the higher of either the state EITC they claimed immediately prior to marriage or the credit they would normally receive as married filers. The bill would also allow a married couple that is otherwise ineligible to claim the state EITC to continue to claim the credit if their federal adjusted gross income is less than the federal phase down level set by the IRS, plus \$20,000.

While the changes proposed under AB 692 may not necessarily serve to incentivize marriage, the bill will at the very least help to remove one of the disincentives to marriage that exists under current law. A married couple should not be any worse off than a similar cohabiting couple.

Thank you again for your time and consideration of AB 692. I hope you will join Rep. Penterman and me in supporting this legislation.

¹ Ribar, David. (2015). Why Marriage Matters for Child Wellbeing. The Future of Children. 25. 11-27. <https://files.eric.ed.gov/fulltext/EJ1079374.pdf>

² Micheltore, Katherine (2018). The earned income tax credit and union formation: The impact of expected spouse earnings. Review of Economics of the Household. 16(2). 377-406. https://ideas.repec.org/a/kap/reveho/v16y2018i2d10.1007_s11150-016-9348-7.html



Testimony on AB 692, allowing certain married individuals to claim the Earned Income Tax Credit

Prepared by Julie Kersick, Senior Policy Advocate

February 1, 2022

For Hearing on AB 692 before the Assembly Ways and Means Committee

AB 692 summary from bill text:

This bill authorizes an Earned Income Tax Credit claimant, who becomes married in the taxable year to which his or her claim relates, to claim the greater of either the EITC that is calculated based on his or her current status as a married individual, or the combined EITC that each spouse claimed in the immediately preceding taxable year. For the next two taxable years, the individual may continue to claim the credit. Under current law, married individuals generally may not claim Wisconsin EITC.

Also under the bill, a married couple that would otherwise be ineligible to claim the state credit may continue to claim the credit if the claimants' federal adjusted gross income is less than an amount, calculated annually by the Internal Revenue Service, at which the federal credit begins to phase down, plus \$20,000. The bill first applies to taxable years beginning after December 31, 2021.

I'd like to begin by saying that we are proud of the long-standing and bi-partisan support for the Earned Income Tax Credit (EITC) for low income workers in our state. The state and federal EITCs have had major positive impacts on the economic stability and well-being of Wisconsin families. Thank you for continuing that support for working families. There is always room for improvement, however, and AB 692 is putting the spot light on one key area for improvement.

We are encouraged that Rep Penterman and colleagues have taken on the issue of the marriage penalty and the WI Earned Income Tax Credit. We agree that it is important to mitigate or remove the marriage penalty. It can be a devastating surprise to discover, when filing taxes for the first time as a married couple, that you will lose most or all of your eligibility for the tax credit. If both parents have earnings within the ranges of the maximum credit as single adults with children, their filing as a married couple can mean the loss of hundreds to thousands of dollars in the state's EITC credit. We strongly believe that public policy should not penalize those who marry but previously qualified for the EITC.

We also appreciate that this later version of the bill has eliminated some of the original complexity of stepping down the credit over months, by using the tax year for the “honeymoon” provision.

That said, we remain concerned that this bill delays the cliff, rather than mitigates or eliminates it. We have previously proposed ways to address the marriage penalty. These approaches move the start of the phase-out to a higher income level, extend the phase out over a longer period and eliminate the marriage penalty cliff. Obviously, this approach will require significant additional funding of the credit from the state. But it is the right thing to do.

Thank you for the opportunity to share these comments with you. Again, we want to express appreciation that you are taking up the issue of the marriage penalty, and hope you will consider our suggestion.

Julie Kerksick

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WISCONSIN CATHOLIC CONFERENCE

TO: Assembly Committee on Ways and Means

FROM: Barbara Sella, Associate Director for Respect Life and Social Concerns

DATE: February 2, 2022

RE: AB 692, Eliminating the EITC Marriage Penalty

The Wisconsin Catholic Conference (WCC), the public policy voice of the Catholic bishops, urges you to support Assembly Bill 692, which allows newly married individuals struggling with poverty to retain assistance through Wisconsin's Earned Income Tax Credit (EITC).

Both the federal and state EITC provide added income to low-wage workers and help stabilize families facing financial challenges. The current Wisconsin EITC is limited to workers with children and is calculated as a percentage of the federal credit, with four percent provided to families with one qualifying child (\$110 maximum credit), 14 percent for two children (\$635 maximum credit); or 43 percent with three or more children (\$1,950 maximum credit).

Poverty scholars, including researchers at the University of Wisconsin Institute for Research on Poverty (IRP), have demonstrated that the EITC significantly helps alleviate poverty for struggling families. While recent increases in earnings, resulting in payroll tax increases, have reduced the effect of EITC refunds, in times of more limited wage growth, the IRP has found that "[t]he second largest antipoverty effect was from tax provisions such as the EITC."¹ In times of strife, this funding helps families meet large, one-time expenses and allows them to more fully participate in the economic life of their communities.

Under AB 692, individuals who are eligible for the EITC will not have to forgo marriage to preserve a credit of hundreds or thousands of dollars. Instead, an EITC claimant who marries can claim the greater of either the EITC calculated based on his or her married status, or the combined EITC that each spouse claimed individually in the immediately preceding taxable year. The credit may continue to be claimed for the next two taxable years. Assembly Bill 692 also allows a married couple that would otherwise be ineligible to claim the Wisconsin EITC, to continue to claim the credit if the claimants' federal adjusted gross income is less than the annual U.S. Internal Revenue Service's federal credit phase down amount plus \$20,000.

Assembly Bill 692 removes any impediment to marriage by ensuring couples are not penalized for their nuptials. This is not a "bonus" for getting married – a newly married couple does not receive more per person than what they were eligible to receive prior to marriage. However, AB

¹ Timothy M. Smeeding and Katherine A. Thornton, *Wisconsin Poverty Report: The Recovery from the Great Recession Lowers Poverty Rates in 2015*, Institute for Research on Poverty University of Wisconsin–Madison, May 2017. p. 11.

692 ensures that the EITC program does not discriminate against newlyweds. Instead, EITC refunds can be used to meet the emerging needs of a newly married couple, such as acquiring safe and stable housing, becoming new parents, or meeting the needs of a growing family.

We strongly believe that this bill is the type of meaningful reform that addresses real needs and improves the lives of children and families. We are confident that this legislation is something that all can support.

Thank you.



February 2, 2022

Thank you, Chairman Macco and Members of the Assembly Committee on Ways and Means, for holding this hearing on AB 692.

This is more than a tax issue or even a fairness issue. As you know, families are one of the most important institutions in society — and they play a critical role in the wellbeing of children.

Time and again, research bears out what societies have long recognized: Family structure plays a role in child outcomes.

In a [2015 report](#), Princeton University sociology professor Sara McLanahan and Brookings Institution Fellow Isabel Sawhill concluded that “most scholars now agree that children raised by two biological parents in a stable marriage do better than children in other family forms across a wide range of outcomes.”

These [outcomes](#) include school achievement, future economic success and avoiding behavioral pitfalls.

Unfortunately, Wisconsin’s Earned Income Tax Credit can penalize and discourage marriage in certain circumstances.

The EITC is designed to incentivize and reward work for low-income parents by providing a refundable credit that grows as a parent earns more through paid employment. Once a certain income level is met, the credit gradually tapers off.

The credit amount is determined by both income and the number of dependent children.

A substantial body of [academic research](#) indicates that the EITC encourages non-working parents to enter the labor market.

But the program can include a “marriage penalty,” where means-tested public benefits are reduced when cohabitating couples get married.

Benefits may be reduced because income for the married couple is considered jointly instead of separately, increasing the couple’s income over the eligibility threshold.

According to a Badger Institute [policy brief](#) published in 2019, the penalty can be as large as \$1,000 depending on how many children are in the household and how much the couple earns independently and jointly.

So, there is a built-in incentive to stay unmarried.

Syracuse University professor Katherine Michelmore finds that:

“Single mothers who expect to lose the federal Earned Income Tax Credit benefits upon marriage are 2.5 percentage points less likely to marry their partners and 2.5 percentage points more likely to cohabit compared to single mothers who expect no change or to gain Earned Income Tax Credit benefits upon marriage.”

From a policy perspective, it makes no sense that a married couple should be worse off than an otherwise identical couple that is cohabitating.

The bill we’re discussing today, [AB 692](#), would address this issue by allowing an EITC participant who gets married to claim either the credit that is calculated based on his or her current status as a married individual or the combined credit that each spouse claimed in the preceding taxable year, whichever is greater.

It would also allow a married couple to continue to claim the credit if their federal adjusted gross income is less than an amount, calculated by the IRS, at which the federal credit begins to phase down, plus \$20,000.

This bill would rectify an unintended policy that serves no purpose. The state of Wisconsin, while rightfully encouraging work, should not be discouraging marriage.

A handwritten signature in black ink that reads "Michael D. Jahr". The signature is written in a cursive style with a horizontal line at the end.

Michael Jahr, Badger Institute Senior Vice President



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**TESTIMONY IN SUPPORT OF ASSEMBLY BILL 692
ASSEMBLY COMMITTEE ON WAYS AND MEANS
WEDNESDAY, FEBRUARY 2, 2022
JULAIN K. APPLING, PRESIDENT**

Thank you, Chairman Macco and committee members, for the opportunity to testify on Assembly Bill 692. Wisconsin Family Action supports this bill but urges some reconsideration of one provision in the bill.

I am Julaine Appling, president of Wisconsin Family Action. Wisconsin Family Action is proudly and vitally concerned about marriage and family as the foundational institution of our society. Strong marriages and families are essential for Wisconsin to be a strong, prosperous, free, and even well-ordered state. This truth is at the core of our mission. Every day in every way we can think of, we look for ways to strengthen marriage and family in The Badger State and then take steps to accomplish that.

At the outset, I want to make it very clear that we are in no way tax experts—and we have no desire to become that. That said, I did speak with a tax attorney about this bill and its provisions, in order to get as clear of an understanding of the EITC and this proposal as possible. We do know that how our tax law and code are structured definitely impacts the foundational institution of marriage and family. We are grateful that over the past decade steps were taken by the legislature and Governor Walker to alleviate a marriage tax penalty that had been created over time in the tax code. We supported that effort and applauded when it was fixed.

Fundamentally, we believe the state should never disincentivize marriage, but rather should always be looking for ways to encourage marriage. This bill does that by at least not penalizing people for being married when it comes to qualifying for the Earned Income Tax Credit. Our current law does not generally allow married individuals to claim the Wisconsin Earned Income Tax Credit. So that means a man and a woman who individually qualify for the EITC as single parents but want to get married, lose the benefit of the EITC if they marry. This loss can be a significant reason for them to not marry, but to rather co-habit. When that happens, not only does the couple and their children lose the benefits that come with marriage, but the state also loses because co-habitation is not marriage and does not bring the stability to the children, nor to the adults, that marriage brings. When that happens, the social costs begin adding up.

This bill allows an individual claiming the EITC to claim the greater of either the EITC that is calculated based on his or her current status as a married individual, or the combined EITC that each spouse claimed in the immediately preceding taxable year. Wisely, the authors have built in a sunset provision.

The bill also allows a married couple who would otherwise not be eligible to claim the state credit to continue to do so if their income does not exceed a prescribed amount. Since the EITC requires that an individual works, this provision keeps the incentive to work but gives lower-income married couples, especially those with children, some additional help. However, this provision also could become a disincentive for married couples to better their income because they would then lose the EITC. We need to be encouraging families to be independent of government, not dependent. Since I'm not a tax expert, I'm not sure how the bill would need to be amended to try to avoid this type of situation; but I would strongly encourage that we explore any possibilities for this.

I recall several conversations with former Department of Children and Families secretary Eloise Anderson about how to control welfare and government subsidies without discouraging marriage. One thing she repeatedly told me was to not pull the rug out from under people when they get married. She suggested phasing-out benefits over time. That approach makes sense to me. I think to some degree this bill is doing what former-Secretary Anderson was recommending.

Marriage rates are falling in Wisconsin. That bodes badly for our state. Policies that encourage people to marry, or at a minimum don't discourage them from doing so, are appropriate and appreciated.

Thank you for your time today and for your careful consideration of our position on this bill.