Breadwinners, Single Parents, Dual Earners: Who’s Overtaxed?

Robert VerBruggen

Fellow
Manhattan Institute

Introduction

Among wonkish tax topics, perhaps the most controversial is the treatment of parents—depending on whether they’re single or married and whether one or both work. For decades, we have had a version of the “mommy wars” played out through the tax code, as society struggles over how policy should treat single parents, dual-earning couples, and breadwinners.

For years, I’ve written about the various features of our tax code that pull American parents in different directions. For instance, the system is quite friendly to the old one-earner model: the tax burden on a worker falls enormously if he marries a nonworker, and the nonworking spouse gets a Social Security benefit equal to half the worker’s, despite not paying into the system.

On the other hand, if two parents both work—leaving no one home to watch their kids—the government will absorb some of the costs associated with that decision through a credit for child care. Unmarried parents also receive unique treatment, under the “head of household” status, and they benefit disproportionately from the Earned Income Tax Credit (EITC).

It’s a system with something for everyone. But not every “something” has the same value, and family-policy analysts strongly disagree as to how exactly the current system is skewed. So I looked at all these features simultaneously, and attempted to quantify, albeit loosely, their relative impact over the course of a taxpayer’s entire life.

I wrote a computer program that, using the tax system as it existed in 2022, estimates the tax burdens of various family and income configurations. It focuses on adults in the 25th–75th percentile of full-time wage and salary income for each age: the broad middle class, as distinct from the poor, for whom the safety net can be more of a factor than the tax system; and the wealthy, whose tax situations vary widely and who are, frankly, less of a concern.
The upshot: the federal tax system does a good job of reducing taxes for those with lower incomes and those with children in general. (Indeed, low-income parents may receive even more favorable treatment soon, under a Child Tax Credit agreement that Congress is working on.) Single parents and one-worker married couples also receive substantial relief.

But one type of family configuration is left behind: working married couples with kids, particularly when both partners earn similar amounts. This is a crucial category: over the past half-century, working-couple households have decidedly become the norm, working mothers have increasingly worked full- instead of part-time, and men’s and women’s wages have converged as well. Whatever the wisdom of the child-care tax credit—see Appendix 2 for a digression on that topic—it simply isn’t big enough to match the benefits targeted to other parents. Dual-earning couples often pay higher taxes married than they would separately, and they’re overtaxed relative to couples where one parent stays at home, too.

Both sides of the political aisle should support tax relief for the demographic of dual-earner couples with kids. Two-thirds of married mothers and nine-tenths of married fathers work, so to disadvantage working couples is to disadvantage marriage itself, which should be anathema to the right. And addressing this inequity could make it easier for mothers to work, a goal of the left. More radically, the time may have come to reconsider the especially favorable treatment given to couples in which only one parent works, as well.

I do not say this as a partisan for the dual-earner model. My mother stayed home while I was growing up, and I worked part-time so that I could watch my kids for a period around when my third child was born. I believe that day care can be bad for kids in some circumstances, and, contrary to some on the left who might like much of what I propose here, I do not think that prodding mothers into the workforce in the name of “gender equity” is a legitimate aim of government policy. I have reached this conclusion merely as someone who wants the tax system to allow parents to make the right decisions for their own families and to treat all types of families as fairly and neutrally as possible. The status quo fails working-couple families in that regard.

The Family Policy Status Quo

My computer program runs via the interactive tool found here. It shows the tax burden incurred from ages 23 to 80, and it also sums the burden over the entire life cycle. (The payroll taxes are the employee’s side; to include the employer’s side, roughly double them. However, as currently implemented, payroll taxes are basically just a flat tax for earners in this income range, so they’re not particularly interesting in terms of family policy.) Users can select an income percentile for each partner, whether the couple is married, how many kids they have, how much income they dedicate to a 401(k), and how many years the second spouse drops out of the labor force after having a child (if the couple is married with kids and the second spouse works). If the couple is unmarried and “No Income” is selected for the second partner, the tool calculates the trajectory of a single person.

As for the calculations under the hood, think of it like Groundhog Day. These hypothetical Americans live their entire working lives inside the year 2022, earning the wages and salaries typical for that year and their age, being taxed according to that year’s rates and policies, and receiving Social Security and perhaps 401(k) income in retirement. It’s similar to the way that public-health experts calculate “life expectancy” for a particular year. But it makes a large number of simplifying assumptions—see the Appendix for more details—but provides a reasonable approximation of how various middle-class families are treated.
As the results show, the federal tax system implements some preferences extremely well. It is definitely progressive: if you take any given situation and increase the couple’s income, their tax burden goes up, in both absolute and percentage terms. Lower-income parents can even receive a net refund from the tax system in some years, with their subsidy from the income-tax system outweighing their payroll-tax burden. They don’t pay taxes; taxes pay them.

The system is also pro-child: take any situation and increase the number of kids, and the tax treatment improves because of the Child Tax Credit and a more generous EITC.

It’s also striking how far the system goes out of its way to avoid taxing seniors. Only a portion of Social Security benefits are taxable to begin with (though, of course, these benefits are contingent upon paying taxes at an earlier point in time). Seniors also get a somewhat higher standard deduction than everyone else, except the blind. Those whose only income comes from Social Security are essentially guaranteed to pay no tax at all; in 2022, even a couple with $100,000 in Social Security income (an extreme case where two high-earners retired late to receive the maximum benefit) would face taxes on only about $11,000 of that, which their nearly $29,000 standard deduction would effortlessly wipe out.

One can debate whether the system is progressive enough or pro-child enough or pro-senior enough, but it is clearly reducing tax burdens for the people generally believed to deserve lower tax rates, and substantially so.

Oddities of the Current System

Yet it’s also possible to generate disturbing comparisons. Marriage penalties still exist, despite numerous reforms in recent decades aimed at lessening them. Take a couple with two 25th-percentile incomes and two kids. If they are married, they pay a little over $100,000 in income taxes over the course of their lives; but if they’re not married—in which case they’re treated as a single person with two kids plus a childless single—they pay only about $30,000. (Their payroll taxes, by contrast, are unaffected.) Even a couple with median incomes and two kids is a little worse off if married, paying about $330,000 instead of $310,000 in lifetime income taxes.

This stems mainly from the structures of EITC and the head-of-household filing status. For the 25th-percentile working couple with two kids, for instance, total lifetime EITC benefits are zero if they marry, but over $65,000 if they do not. As of 2022, a single parent with two kids earning $27,000 qualified for about $6,000 (while the noncustodial parent with the same income would get nothing), but a married couple with two kids earning $54,000 would get a paltry $300.

Meanwhile, tax brackets and standard deductions for married couples are exactly double those for singles (except for the very high-income, who can still pay a marriage penalty by the very structure of their tax brackets). This ensures that two single, childless people with the same income will be no worse off if they get married. But that changes if you add a child to the mix because a single parent can file using head-of-household status, which raises the standard deduction and some brackets—thus making the married thresholds less than double the single ones, which leads to a marriage penalty.

A couple in which only one person works, however, provides some of the most interesting comparisons. A single, childless worker at the median wage pays over $200,000 in lifetime income taxes in my simulation, which falls to about $125,000 if he adds a spouse with no income. The very feature of the tax code that holds equal-earning couples harmless if they wed—married tax thresholds that are double the single ones—provides a massive marriage bonus to single workers, doubling
their thresholds and standard deductions. Meanwhile, despite no increase in payroll taxes paid, the married version of this household also gets 50% more Social Security, thanks to the spousal benefit,\textsuperscript{11} a value of almost $190,000 by age 80.

It’s also instructive to compare one- and two-working families with roughly the same income. For example, in my simulation, a 75th-percentile worker with a nonworking spouse earns about the same in total ($3.7 million over his working life) as does a couple where one partner earns the median and the other is at the 25th percentile. Despite the equal incomes, the latter couple is worse off by any reasonable measure: \textit{For them, it takes two workers to earn what the other couple earns with one.} They do not have the option of sending another person to work to increase their income, they do not have a person dedicated full-time to the home, and if they have kids, they will likely need to pay for child care or have one partner take extensive time off.

A tax system concerned with fairness, one that sought to avoid burdening people in more difficult economic circumstances, would tax the dual-earner couple quite a bit less. That doesn't happen.

Under the status quo, the dual-earner couple does have access to the child-care tax credit, but even if they have two kids and use the full credit for the first 10 years (as the tool assumes), their lifetime tax burden is reduced by only $12,000, or less than 5%. And even this advantage is wiped out in retirement: the two couples mentioned above paid about the same amount in payroll taxes, but the couple with only one working person gets a 75th-percentile Social Security benefit, plus another 50% of that benefit for the nonworking spouse—which is about 15% more than the combined benefits for a median worker and a 25th-percentile worker, a difference of about $100,000 by age 80. The latter couple worked more to earn the same amount, paid the same into the system, and was rewarded with less of a Social Security benefit.

The spousal benefit is an especially bizarre feature of today’s system. It doesn’t merely provide some support for homemakers; it provides support that increases with the income of their working spouse. And it stands in stark contrast to the system’s treatment of single individuals with sporadic work histories: to qualify for any Social Security benefit, a single worker must log at least 10 years of employment.\textsuperscript{12}

Perhaps the oddest implications of the spousal benefit come in the case of low-earners with high-earning spouses. For example, if one spouse earns at the 75th percentile and the other is capable of earning at only the 25th percentile, total Social Security benefits are about the same, whether the second spouse works or not. The couple will pay nearly 40% more in payroll taxes if the spouse works, while increasing their benefits just 3%. If a worker’s benefit is lower than the spousal benefit, the worker can opt to receive the latter instead—in which case, the Social Security taxes paid by the lower earner amount to literally nothing.

How to Handle All This?

Some ideas that are already part of the discussion could help make the tax system fairer for all types of families. One option—probably the easiest and most politically palatable—is a “secondary earner” deduction,\textsuperscript{13} which would reduce taxes paid by the second earner of a married couple but leave the rest of the tax system as is. About a decade ago, Melissa S. Kearney and Lesley J. Turner proposed a version of this that would allow couples to deduct 20% of the first $60,000 earned by a secondary worker, with the tax break phasing out starting at a family income of $110,000.\textsuperscript{14} Another option is to boost subsidies for child care. But this leaves out parents who use informal care or juggle schedules to watch their own kids, indirectly subsidizes a private industry rather than letting parents choose how best to spend the money, and fails to address the marriage penalties facing working couples (because these couples use child care whether they marry or not).
Should Stay-at-Home Parenting Be Taxed?

I argue that if two couples have the same total income, one can still be far worse off than the other, if it takes one couple two full-time workers to earn what one couple earns with one. Here, many economists would add that—beyond basic fairness concerns—there is an asymmetry in how the tax system treats work in the marketplace versus work done at home, creating a bias in favor of the latter. This analysis suggests that the “imputed” value of work done at home should, at least in theory, be taxed.

John C. Goodman once wrote: “If a man marries his maid and continues giving her the same financial support that he did before, federal income taxes go down.” (In that case, the maid’s income would be entirely untaxed and the man’s income would face lower rates.) A similar point is often made in the housing context: landlords are taxed and pass this burden on to renters, but homeowners are—unfortunately, in the economists’ view—not taxed on the “imputed rent” that they invisibly pay themselves for the privilege of living in their own houses.

For what it’s worth, this noneconomist disagrees, though on grounds of principle rather than economics. The government may regulate and tax what happens in the marketplace but should not tax and thus discourage basic chores and self-sufficiency within the context of the family and home, from watching children to mowing one’s own lawn.


Here’s a more aggressive idea: return to something like individual taxation but with adjustments to account for family realities (and to prevent, for example, the spouse of a six-figure earner from qualifying for tax benefits intended for the poor). Bluntly, this would mean a tax hike for couples in which only one partner works, paired with a tax cut for dual earners, to even out the unfair treatment under the current tax code.

Such a change might seem politically improbable, but one analysis finds that the share of “winners” under a switch to individual taxation has risen from about 20% to 50% since the 1960s, thanks to the rise of women’s work and wages. Many other countries handle marriage taxation this way.

In the early days of the income-tax system, every worker paid taxes on his own earnings (though married couples could claim two personal exemptions instead of one). In its purest form, individual taxation eliminates the possibility of marriage bonuses and penalties. But, as actually implemented, the system enabled shenanigans, such as one-earner couples claiming that their incomes were shared property, and thus both spouses could report and pay taxes on half. Courts found some versions of this scheme more legally compelling than others. In the end, rather than clarify the law to ban income-splitting, Congress made it the norm.

Ever since, lawmakers have been playing with married couples’ tax brackets to adjust who gets marriage bonuses and penalties, owing to the dynamic noted above. If married tax brackets are less than double the single tax brackets, there are marriage penalties for many dual earners; but if the married brackets are double, single earners get a huge marriage bonus. In 1969, for example, a reform reduced singles’ tax rates to limit the breadwinner bonus to 20%, but this predictably created large marriage penalties for dual earners. Some couples even tried divorcing at the end of each year (when marital status counts for tax purposes) and remarrying early the next.
Despite eliminating bonuses and penalties, pure individual taxation has important drawbacks. It fails to account for the reality that married couples do, in fact, share their income and that nonworking spouses function as part of a larger economic unit; it might give such tax breaks intended for the poor to the part-time working spouse of a Fortune 500 CEO. It also doesn’t say what should happen to the head-of-household status, a key element of the status quo’s treatment of single parents.

There is no perfect solution to this tangle of issues. But one sensible approach would be to expand head-of-household status to include the higher-earning member of each married couple where children or a spouse unable to work are present. In other words, for married couples with kids, tax the higher earner as a single parent and the lower earner as a single individual. This would simultaneously soften the blow of switching to individual taxation for one-earner couples with kids, hold single parents harmless, and address the marriage penalty that occurs from single parents being able to use the status while married parents cannot.

Under individual taxation with a broader head-of-household status, a single person could not reduce his or her tax burden by marrying an able-bodied nonworker, and a single parent would not lose head-of-household status by marrying a worker. Even if two single working parents (of different kids) married, they would lose only one head-of-household status, versus two under the status quo. EITC would become more generous to poorer dual-earner couples, with the higher earner now treated as a single parent, but also would become less generous to single-earner couples.

Returning to the examples above can give us a sense of what this would look like. (For purposes of the tool, my proposal can be simulated by switching the status of a married couple to single and ensuring that the higher-income partner is on the left.) Remember the childless couple with one median earner and one nonworker, who cut their nearly $200,000 lifetime income-tax bill by about 40% by marrying? Assuming that the nonworker is out of the labor force by choice, this marriage bonus would be gone. Recall also the 25th-percentile working couple with two kids, who would receive money on net from the income-tax system but only so long as they didn’t marry. If one of them got head-of-household status regardless of marriage, they’d get the more favorable treatment either way.

Expanded head-of-household status would also address the situation currently faced by a single-earner couple who are considering sending the second partner to work. Under the current system, since married couples share their deductions and brackets, the first worker “uses up” the standard deduction and lower brackets, and the first dollar earned by the secondary earner is taxed at the marginal rate of the primary earner’s last dollar. Simply put, the second worker is taxed far more heavily than the first. For instance, in my simulation, a married worker with median earnings and no kids pays about $125,000 in lifetime income taxes; if the other spouse enters the workforce and also earns the median income, the couple’s earnings double, but their taxes more than triple. Under my proposal, that partner would instead enter the workforce at the bottom of the tax structure, benefiting from his or her own individual standard deduction and lower tax brackets. Individual taxation would enable stay-at-home spouses to keep more of their earnings if they choose to start work. I do not think that prodding parents in this direction is necessarily a legitimate goal for public policy—but neither is prodding them the other way, which is what the status quo does.

As noted, there is no perfect solution to the puzzle of family taxation, and my proposal certainly has downsides. While my simulations focus on full-time workers, for example, the tax system does not take into account the number of hours that it took someone to earn income. Some couples might have to decide whether, say, one person will work 60 hours, or one will work 40 and the other 20. Individual taxation will advantage the second option, as the second worker will have his/her own standard deduction and lower tax brackets. Some on the left would argue that it is good to nudge couples toward more even division of paid work. But in my view, the system should
ideally be neutral to this decision—putting a thumb on the scale for one decision over the other is thus a downside of my proposal, but one that strikes me as small, relative to the status quo's sizable bias in favor of the breadwinner model.

Relatedly, it is unclear what effect this change would have on the nation's low fertility rate. Historically, the rise of women's work has gone along with declining fertility, and individual taxation would increase women's work.20 However, some scholars argue that this pattern is reversing and that the road to higher fertility now lies in making childbearing more compatible with work, which my proposal would do by reducing taxes for working married couples with kids.21

Another potential counterargument is that head-of-household status—like many forms of tax relief in a progressive system—is regressive, most valuable to people who earn more money and pay more taxes to begin with. Some would prefer to kill the status (and replace it with more generous per-child benefits) rather than expand it.22 In the event that Congress made such a change, a switch to individual taxation would no longer raise this issue. But otherwise, since head-of-household brackets converge to the single ones at higher incomes, the benefit to higher earners is capped. The regressivity could also be counteracted by phasing out the child-care credit more aggressively at higher incomes.

Another complication from this proposal is that it "transfers" EITC to a higher earner upon marriage—which reduces marriage penalties but comes far from eliminating them, in some cases. Consider an individual with one child who earns at the 25th percentile but whose partner is at the median. Under the status quo, this couple faces a marriage penalty of about $40,000 over their simulated lives, largely because EITC is fairly generous to a single parent with a low income but nonexistent for a middle-class couple. Under my proposal, however, there is still a marriage penalty of more than $25,000—because the EITC also disappears for middle-class single parents; and if the couple marries, the higher earner will be the one treated identically to a single parent.

Allowing couples to freely choose which parent claims the kids for EITC purposes would address this issue, but that would give large EITC subsidies to many secondary and even part-time workers with high-earning spouses, which is decidedly not a good use of public dollars. It is probably inevitable, and indeed fair and desirable, that low-income workers will lose some public support if they marry spouses with significantly higher incomes.

Two variations of this idea are worth noting, as they could soften political opposition to this change. First, dual earners could be offered the choice of filing as singles, with the higher earner using head-of-household status, without taking the current system away from breadwinner couples. (This would be quite different from the existing "married filing separately" status, which is rarely used outside certain niche tax situations.)23 Alternatively, breadwinner couples could be allowed to use the current system only while they have minor children, which would hold stay-at-home parents harmless without giving a massive marriage bonus to breadwinner couples who do not currently have child-rearing obligations.

Congress might also consider reducing or flattening Social Security's spousal benefit for workers who are currently young. But this, of course, should be part of a much larger discussion about shoring up Social Security and the entitlement system more broadly.

The foregoing is obviously a sketch, not model legislation. Rates would need to adjust to keep such a plan revenue-neutral; careful rules would be needed for couples who own businesses; and in cases where the higher earner could not fully use the Child Tax Credit, the remainder should be available to the spouse. But individual taxation deserves to be looked at closely as a solution for the glaring inequities in the current system.
Appendix: Explanation and Discussion of Tax Laws Included in the Family Taxation Tool

As noted above, the tool takes a *Groundhog Day*–style approach to the problem of calculating tax burdens over the full life cycle. In real life, time marches forward, wages tend to rise, inflation fluctuates, the economy hits the occasional recession, and laws change. (In fact, Congress is currently working to make the Child Tax Credit more favorable to low-income parents, especially those with more than one child or intermittent work histories; at present, it’s not clear whether the deal will become law, though it has passed the House.) But to get a sense of how the tax system has been working in recent years, the tool simulates couples who live their entire lives in the year 2022.

To simplify things even further, I assume that both members of a simulated couple are the same age, that they work through age 65 and die at 80, that they are either married or unmarried the whole time, and that they have all their children at 30—a single birth, twins, or triplets. When all kids are the same age, they’ll all be eligible for benefits like the Child Tax Credit for the exact same period. Also, if the couple is unmarried, the first spouse (left side of the tool) is assumed to have custody of any kids and use any child-related tax breaks.

Using the 2022 American Community Survey (ACS), downloaded via IPUMS, I estimated the 25th, 50th, and 75th percentiles of the past 12 months of wage and salary income for full-time workers of every age between 23 and 65. These provide the earnings trajectories of the simulated individuals. If a couple is married with kids, the second spouse can take up to 15 years off after childbirth. That spouse’s earnings are, of course, zero during this time, but he/she also loses out on the usual raises that workers receive as they gain experience; he/she returns to his/her old earnings and then follows the usual age trajectory.

The ACS wage and salary question requests these figures “before deductions for taxes, bonds, dues, or other items,” which creates difficulties regarding health premiums and retirement contributions, which are not explicitly mentioned. A small study from the 1990s found that respondents answer questions like these in several ways—they might think of their pay stubs or tax forms, or multiply out their hourly wages, or just guess. Depending on which they do, pretax payments may or may not be included.

The National Bureau of Economic Research’s TAXSIM model assumes that the numbers reported in surveys are the numbers that one would include on a 1040 (from Box 1 on a W-2), meaning that any pretax payments are already subtracted. Since my tool allows users to select their retirement contributions, and since the data underlying the percentiles almost certainly include some numbers reflecting total compensation including pretax benefits, my solution is to ignore health premiums (implicitly assuming that they’re already subtracted, as TAXSIM does), but to subtract any 401(k) contributions from the starting income. From conversation with several tax-modeling experts, my sense is that this could be a fruitful area for further thought and research, possibly by leveraging IRS or administrative payroll data to see how many people report numbers consistent with each assumption.

At any rate, in retirement, each employee’s top 35 years of payroll-taxable income are averaged together and fed into the formula to determine his Social Security benefit; in reality, past earnings are adjusted upward to account for wage growth over time, but, of course, time does not pass in *Groundhog 2022*. In general, workers who paid more get back more as well, but this effect tapers off...
as incomes rise, and the very highest earners (though none are covered in the simulation) hit caps that limit both their contributions and their benefits. Second spouses receive the spousal benefit, worth 50% of the first spouse's benefit, if it is higher than what they would receive themselves.29

The tool calculates the tax burden that the couple faces every year. This is programmed by hand to make the tool self-contained, though I have spot-checked the calculations against TAXSIM to ensure that the results are similar.

Payroll taxes are first, at 7.65% of earnings.30 Note that the tool depicts only the employee side of these taxes; in reality, employers match this contribution. I aimed to make the simulation represent the paychecks and tax forms that readers are familiar with, but one could easily argue for adding the employer's contribution both to the employee's pretax compensation and to the total taxes paid because without the tax, this money would likely be paid to the employee. (The same could be said for employers' contributions to health-care plans; the insurance is a form of compensation, and, given that larger families cost more to insure, the tax break for both the employer and employee side of these costs is a significant subsidy to families.)31

Voluntary retirement savings are subject to payroll tax but get special income-tax treatment,32 so they come next. The simulated people in the tool may save amounts equal to 0%, 5%, 10%, or 15% of their total pretax income in a 401(k), and they follow the “4% rule”33 in retirement: the year they retire, they calculate 4% of their total savings, and then they withdraw that amount every year. (Real people following the rule adjust the amount for inflation, but that is not necessary in Groundhog 2022.) Contributions and interest are not subject to income tax, but withdrawals are. Unspent 401(k) balances grow by 3% each year, a fairly conservative estimate of what real retirement savings do in inflation-adjusted terms.34 The 4% rule ensures that savings don't run out even for the long-lived, so these simulated people, who, by assumption, die at 80, always have leftover balances, which the tool reports. These will be inherited tax-free for these middle-class subjects, as the 2022 estate tax has a roughly $12 million exemption for individuals and a $24 million exemption for couples.35

Then we arrive at the income-tax system. Everyone takes the standard deduction, under which the first $12,950 is tax-free for singles, rising to $19,400 for heads of household and $25,900 for married couples; seniors also get bigger deductions. The remaining income is then subject to the 2022 rates, which vary by income, marriage, and sometimes children (with singles eligible for head-of-household status only if they have dependents).36

For broadly middle-class earners like the ones in the simulation, married tax brackets are double those for singles, and head-of-household single parents get special in-between tax brackets for lower income levels. Starting at about $89,000, head-of-household and single tax brackets are the same, but even higher earners in the former category benefit from the higher standard deduction and the lower taxation of their first $89,000 in income. I assume that single parents get head-of-household status for 20 years; in reality, it can be shorter or longer than that, depending especially on how long a child remains a dependent student.

After this initial tax burden is calculated, our imaginary friends use up to four credits. As opposed to deductions, which are subtracted from one's taxable income before taxes are calculated, credits are subtracted directly from actual tax liability.

Two are “nonrefundable,” which means that they can reduce tax liability to $0 but are not sent as a check beyond that: a “saver's credit” for lower-income people who save for retirement; and the Child and Dependent Care Credit, worth up to $2,100 for parents who pay for care so that they can work, but less for higher earners. For the latter, I assume that dual-earner and single parents
use the credit for the first 10 years of parenthood but that married couples in which only one 
spouse works (including those where the spouse is only out of the labor force temporarily) do 
not. In reality, the care credit may be used up to age 12, but many parents do not use it at all.  

EITC supplements earnings for those with lower incomes, especially those with kids, and is fully 
refundable; as with the head-of-household status, parents are assumed to use it for 20 years. No 
one in the simulation earns little enough for the phase-in to be a concern (given that no-income 
spouses aren’t eligible at all), but benefits phase out with higher earnings.  
Last but not least, the Child Tax Credit is worth $2,000 per child; the CTC is technically nonrefundable, but through the Additional Child Tax Credit, parents can receive up to $1,500 of it as a check. This credit is 
structured to approximately refund payroll taxes, including the employer side, and is worth 15% 
of earnings above $2,500. CTC also phases out for the highest earners, but this does not affect the 
taxpayers represented in the simulation.  

The tool’s output depicts the following: pretax income, except that 401(k) savings are subtracted, 
appearing later as income in retirement and a leftover balance; total taxes paid, which can be 
negative when refundable income-tax credits outweigh any payroll taxes; Social Security benefits; 
and the sum totals of income taxes, payroll taxes, EITC, Social Security, and child-care subsidies. 

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**Appendix 2: Should Child Care 
be Taxed?**

The child-care credit—and child-care subsidies in general—has been a matter of debate among tax 
experts and family-policy pundits for a long time, with some seeing such policies as a government 
finger on the scale in favor of the dual-earner model and formal, professional child care; and 
others seeing them as a laudable attempt to “enable women to work” or even a simple application 
of neutral tax principles to a “work-related” expense. The dispute arises partly because different 
persons have different opinions about day care—and partly because child care lies in a gray area 
that might be called “quasi-work-related.”

Generally, expenses incurred purely for business purposes are paid by the employer and not taxed, 
while personal expenses are the individual’s own responsibility, paid for with posttax dollars. 
However, some expenses—commuting, child care, even midday dog walking—stem from the 
intersection of the two categories: personal situations and lifestyle choices that increase the cost 
of getting to work. In other words, a person might not incur these expenses if he didn’t work, 
but he also wouldn’t incur them if he lived within walking distance of his office, had a spouse 
or other family member to watch the kids (or didn’t have kids at all), opted for a cat instead of 
a dog, and so on.

Exempting these costs from taxation helps people get to work, but it also subsidizes the underlying 
personal decisions. No general principle decrees that such expenses must be tax-free, and I am aware of no 
advocates for a dog-walking deduction, but Congress does subsidize some of these expenses on a case-by-

case basis. The treatment of commuting expenses—i.e., the cost of the very act of going to work, but starting 
from the place where the worker chose to live and using the worker’s choice of transportation as well—is 
instructive here.

Workers cannot deduct commuting expenses at tax time, and there is no way for them to pay 
for gas mileage—almost certainly the most common commuting expense—with pretax dollars. 
Yet employers have long been allowed to provide parking near the workplace as a tax-free fringe 
benefit, which is quite valuable in urban areas where parking is pricey. When the IRS moved to tax
this perk in the 1970s (pursuant to recent court rulings and a broader trend of employers shifting compensation into untaxed benefits), workers protested, and Congress delayed and ultimately overrode the change. Offsetting this tax break for car commuters, public-transportation benefits can also be provided tax-free.\footnote{40

This system is obviously not a straightforward, consistent application of neutral tax principles, but rather, a hodgepodge of subjective judgments about driving, parking, mass transit, pollution, and the treatment of employer-provided fringe benefits.

Thus the concept of “work-related expenses” hardly settles the question of how the tax code should treat child care. This expense similarly results from the interaction of personal situations and work. Americans’ subjective judgments about day care (and even about children!) vary at least as much.
Endnotes


5. Author’s calculations based on 2022 American Community Survey.


9. Author’s calculations based on 2022 Earned Income Tax Credit (EITC) parameters.


11. For the nuances in this benefit, see Social Security Administration (SSA), “Benefits for Spouses.”

12. SSA, “Eligibility for Social Security in Retirement.”


This status is most helpful to those who have large medical bills, or who do not want to be legally liable for what their spouse reported on a tax return. It reduces or eliminates numerous tax breaks and does not allow a married parent to file as a single head of household unless other requirements are met, including not living together. See, e.g., Empower, “How Married Filing Separately Works & When to Do It”; IRS, “Filing Status: Frequently Asked Questions.”


Steven Ruggles et al., IPUMS USA: Version 14.0 [dataset] (Minneapolis: IPUMS, 2023).

Question text is available on the IPUMS website, in the description of the ACS variable INCWAGE.


Personal correspondence with Daniel Feenberg of the National Bureau of Economic Research, Feb. 8, 2024.


IRS, “Retirement Plan FAQs Regarding Contributions—Are Retirement Plan Contributions Subject to Withholding for FICA, Medicare or Federal Income Tax?”


For more information, see IRS, “About Form 2441, Child and Dependent Care Expenses.”

The parameters are available at York, “2022 Tax Brackets.”


For a summary of this history, see TransitCenter, “Subsidizing Congestion,” 2014, appendix B.