Watch out for Marriage Tax "Reform"

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"The hottest tax cut in 1998" is the way some Congressmen are describing their infatuation with the notion of eliminating the so-called "marriage tax." But taxpayers should beware of the current political passion for targeted tax cuts rather than cutting taxes for all taxpayers.

What seems to have given otherwise timid Republicans in Congress the courage to advocate any tax cut at all is that Bill Clinton endorsed this idea. That should be a signal that there is something wrong with it.

There is a wrong way and a right way to address the so-called marriage tax problem. The bill introduced by Rep. David McIntosh (R-IN) and Rep. Jerry Weller (R-IL) takes the wrong road because it would create a new discrimination; the bill introduced by Rep. Bob Riley (R-AL) and Sen. Lauch Faircloth (R-NC) takes the right road because it is based on fairness to all married couples.

Under the McIntosh-Weller bill, two married couples with the same family income would pay a different federal income tax. The couple in which the wife is a fulltime homemaker would pay a higher tax than the couple in which the wife has paid employment.

The McIntosh-Weller bill would reduce the tax burden on two-earner couples (especially those earning more than $50,000), while leaving everybody else's tax bill the same. That would not only diminish the ability of others to get their taxes reduced, but it would severely penalize mothers who work at home.

The Riley-Faircloth bill, on the other hand, treats all married couples equally. It is based on the principle of income splitting, which means that the taxes on a married couple would be figured by adding up the income of both spouses and dividing by two, so that each spouse would be taxed on half the income.

This means that couples with the same income would be taxed the same no matter whether earned by the husband or the wife or both. The Riley bill completely avoids the homemaker penalty that is built into the

McIntosh-Weller bill.

Congressman McIntosh defends his bill by comparing the tax paid by two singles (each earning $30,000 a year) with the higher tax they pay if they marry and file a joint return. But there's a more important way to look at this matter.

Let's take the case of a married couple that needs more family income. If the wife takes a paid job, the couple gets the benefit of the McIntosh-Weller "tax break." But if the husband works harder to increase his own earnings (by overtime or a promotion), or takes a second job (moonlights), the couple gets no benefit at all.

This would compound the discrimination that already exists in the income tax code against the single-income family. The two-earner couple already gets a significant tax break in being able to claim the Child and Dependent Care Tax Credit -- a credit that is available only to the couple that hires paid child care, and is not available to the couple that uses mother care.

The McIntosh-Weller bill is designed to provide the maximum benefit to two-earner couples where the husband and wife have approximately equal earnings. But there are so many real-life situations that the McIntosh-Weller bill would discriminate against, such as when the wife quits her job to care for a new baby or goes part-time after her husband gets a promotion.

Senator John Chafee (R-RI) has just announced another insult to homemakers: a proposal to expand the child care credit and to appropriate expensive new subsidies for hired daycare. Homemakers are completely fed up with the tax benefits and preferences that the present system gives to wives who are employed outside the home, but not to families that give their children mother and father care.

The McIntosh-Weller bill is based on static, rather than dynamic analysis. That is, the tax consequences it predicts are based on the assumption that human behavior is static and will not be influenced by changes in the tax code.

It is surprising that any conservative would fall for this myth in the post-Reagan era. The original 1981 Reagan tax cut was based on dynamic analysis, i.e., that human behavior will change as a result of tax incentives. Reagan's successful 1981 tax reduction proved that, when we cut tax rates, the government collects more tax revenues, not less, because the cut provided incentives for taxpayers to work harder and make more money.

The incentives built into the McIntosh-Weller bill operate counter to the best interests of society. It has a built-in incentive to induce the mother to take paid employment and use hired daycare, an incentive that is morally, socially, fiscally, and politically unacceptable.

The principal argument against the Riley-Faircloth bill is that it would cost too much, i.e., reduce the politicians' ability to spend as much of our money as they want. Phrased another way, the Riley bill would allow taxpayers to keep more of their own money, and it recognizes the simple fact that marriage involves two people.

If Congress wants to lighten the tax burden on families, the way to go is very simple. Just cut tax rates for everyone! That would be fair to all: one-earner couples, two-earner couples, and singles.