

# Eliminate the North Dakota Marriage Penalty Tax



## STATE POLICYMAKERS SHOULD:

- Eliminate the “marriage penalty” in the individual income tax

## North Dakota’s individual income taxes

The Tax Foundation’s 2023 State Business Tax Climate Index ranks North Dakota 17th in the United States overall. While it scores well on the Corporate Tax (ranked 9th), Unemployment Insurance Tax (7th),

and Property Tax (9th) components, its ranking on the Individual Income Tax — 27th — pulls that overall ranking down. One reason for that ranking is North Dakota’s marriage tax penalty.

## Eliminate the “marriage penalty” in the individual income tax

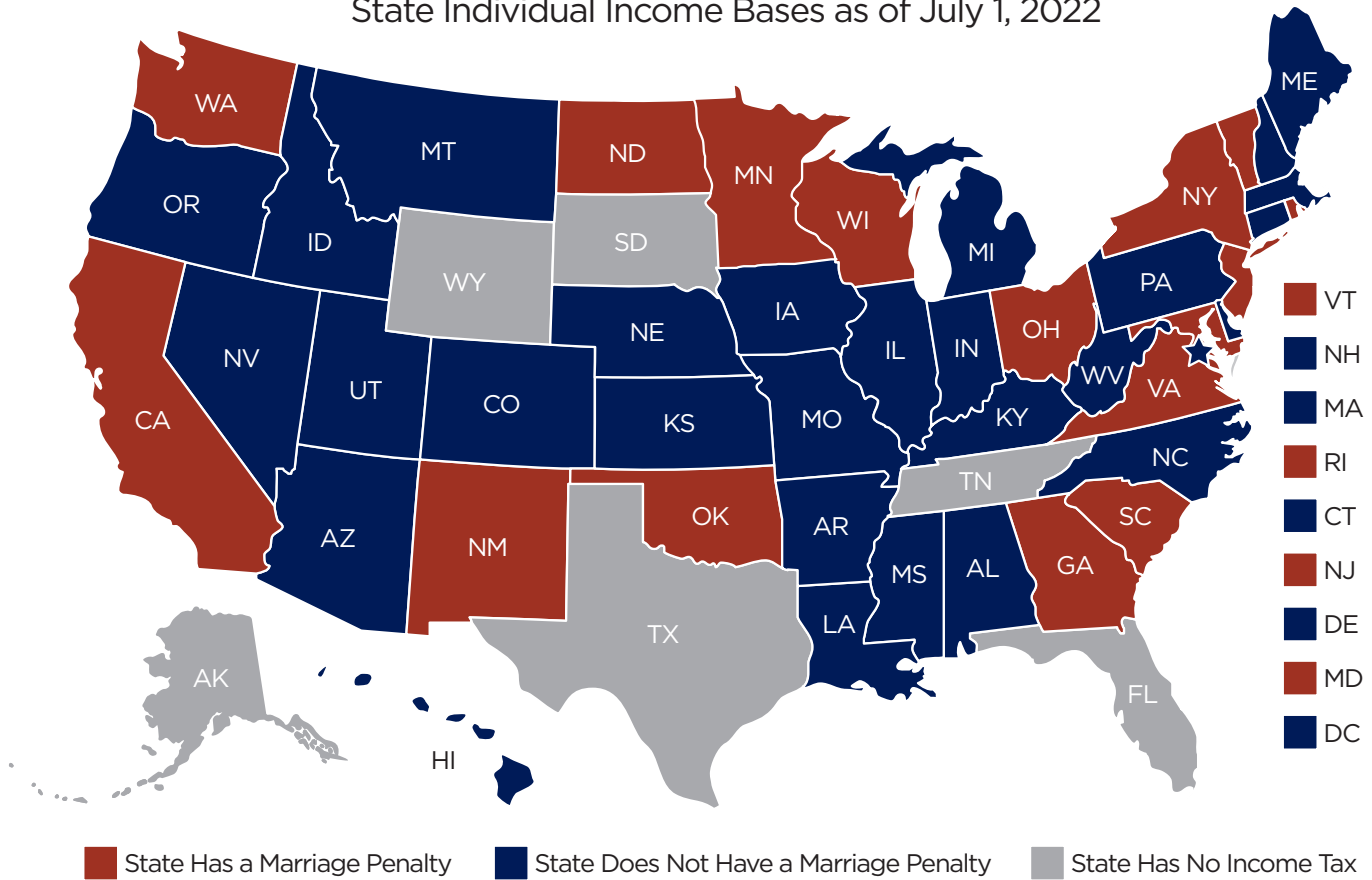
Under a graduated-rate income tax system such as North Dakota’s, a taxpayer’s marginal income is subject to progressively higher tax rates. When a state’s standard deduction and tax brackets for married taxpayers filing jointly are less than double those for single filers, a “marriage tax penalty” is said to exist. In other words, married couples who file jointly under this scenario have a higher effective tax rate than they would if they filed as two single individuals with the

same amount of combined income. North Dakota is one of sixteen states to have a marriage penalty built into its bracket structure.

A marriage tax penalty is not only discriminatory by penalizing marriage in the tax code, it also has negative economic consequences. Owners of pass-through businesses pay taxes on their business income under the individual income tax system. With a marriage tax penalty in place, married business

# Does Your State Have a Marriage Penalty?

State Individual Income Bases as of July 1, 2022



Source: Tax Foundation; Bloomberg BNA; state statutes

owners are subject to higher effective tax rates on their business income than they would be otherwise. This is a real problem given that married couples dominate the top-earning 20 percent of taxpayers — they account for 85 percent of that category — and

that same top-earning 20 percent also has the highest concentration of business owners of all income groups. Because of these concentrations, marriage penalties have the potential to affect a significant share of pass-through businesses.

## Conclusion

Eliminating the marriage tax penalty would bump North Dakota up from 27th to 20th on the Tax Foundation’s Individual Income Tax rank and help the Overall ranking up from 17th to 15th. It is an obvious measure to stop penalizing marriage and create a more business

friendly tax climate in the state.

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