

February 10, 2025

Dear Members of the House Finance and Taxation Committee:

My name is John Phelan, and I am an Economist at American Experiment North Dakota. Thank you for the opportunity to provide comments on House Bill No. 1388. This bill would eliminate the penalty for marriage in North Dakota's tax code. I wish to testify in support of this proposal.

The Tax Foundation's 2024 State Business Tax Climate Indexⁱ ranks North Dakota 17th in the United States overall. While it scores well on the Property Tax (ranked 7th), Corporate Tax (10th), and Unemployment Insurance Tax (14th), its ranking on the Individual Income Tax — 21st — pulls that overall ranking down. One reason for that ranking is North Dakota's marriage tax penalty.

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 fifteen 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 passthrough businesses pay taxes on their business income under the individual income tax system. With a marriage tax penalty in place, married business 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.

In 2022, the Tax Foundation estimated that eliminating the marriage tax penalty would bump North Dakota up seven places on its Individual Income Tax rank and help the Overall ranking up two spots. It is an obvious measure to stop penalizing marriage and create a more business-friendly tax climate in the state.ⁱⁱ

Sincerely,

John Phelan,

Economist

American Experiment North Dakota

ⁱ <https://taxfoundation.org/wp-content/uploads/2023/10/2024-State-Business-Tax-Climate-Index-1.pdf>

ⁱⁱ <https://files.americanexperimentnd.org/wp-content/uploads/2022/12/ND-Marriage-Tax.pdf?v=1671114914>