



**Testimony by Dr. M. V. Lee Badgett to the  
California State Senate Revenue and Taxation Committee  
April 26, 2006**

Good afternoon. My name is Lee Badgett. I am a visiting professor at the Williams Institute on Sexual Orientation Law and Public Policy at the UCLA School of Law. I am also an associate professor of economics at the University of Massachusetts Amherst. Over the last fifteen years I have conducted extensive research on economic and policy issues related to sexual orientation, including several studies of the fiscal impact of granting marriage or domestic partnership rights to same-sex couples. Today I would like to present my analysis of the impact of SB1827 on California's income tax revenue.

SB 1827 would allow registered domestic partners in California to use the same income tax filing statuses as married couples use. My analysis uses Census data on same-sex couples to simulate the tax impact of the bill. These estimates suggest that equalizing tax statuses would result in a very small reduction of income tax revenue of approximately \$8 million per year, or less than 0.0001 of the state's roughly \$90 billion budget. The net reduction in tax revenues results because some couples' taxes will fall—mostly for couples with very different incomes—while a smaller number of couples' taxes will rise. Those couples whose taxes will rise are mostly those with dependent children, since one parent will no longer be allowed to use the “head of household” filing status.

I would make two additional points related to these estimates. First, in earlier studies (and testimony), we estimated that the state would gain from enhancing the rights and responsibilities of domestic partners. In particular, the state's expenditures on public benefits would fall by tens of millions of dollars, and tourism spending would increase. We estimated the net impact of AB205 to be a net gain of \$8 million to \$11 million, even taking into account the loss of tax revenues from the change in filing status—a change that was ultimately removed from AB205. So the tax revenue impact of SB1827 should be considered in the context of the likely savings to the state from other aspects of the domestic partnership status.

Second, I note that our estimate of the income tax revenue reduction is very similar to that of the Franchise Tax Board. Their draft analysis predicts that more couples will see a drop in their taxes if filing as married than we do, and their estimated average reduction and average increase is somewhat smaller than our estimates. They predict a 7% increase in the number of partners over the next year, and 5% increases after that, which boost their estimates in later years. Nevertheless, our revenue impact estimates for the first year are identical.

Details of the calculations:



To estimate the net tax impact of allowing same-sex couples to file jointly, we use the income and household characteristics of same-sex “unmarried partner” couples living in California gathered by the Census Bureau’s 1% Public Use Micro Sample.[i] We use the Census data on total income and on the number of children in a household to estimate each couple’s taxes twice. First we estimate what couples pay now. Then we estimate their likely tax payments as if filing jointly, and finally we calculate the difference between their pre- and post-joint filing taxes. Using the average increases and decreases, we then calculate how much taxes will change for California’s 38,155 domestic partner couples.[ii]

In this analysis, we assume that the tax consequences will have no impact on who enters or remains in a domestic partnership. We make this assumption for several reasons. First, social scientists have done extensive research on the federal “marriage penalty,” the situation in which some married couples pay more in taxes when they marry than if they were to remain single. Overall, the research suggests that the marriage penalty has at most a very small impact on the likelihood that a couple will marry.[iii] Therefore, it seems reasonable to assume that the change in filing status will also have little effect on the number of people entering domestic partnerships. Second, as noted earlier, domestic partnerships might come with other financial advantages that outweigh a negative tax impact, such as gaining spousal benefits from employers. Finally, research by anthropologists and other social scientists suggests that the decision to marry or enter into another form of commitment with a partner has a deep symbolic and cultural value apart from economic considerations.[iv]

We must make several assumptions in order to estimate taxes for couples. First, we assume that the individual listed as the “householder” of a same-sex couple will file as “head of household” if his or her own children under 18 years old are living in the household, and that this person’s unmarried partner will file as single.[v] The “head of household” status involves lower tax rates and higher deductions compared to single filers. We also assume that if SB1827 were implemented, the former “head of household” will not qualify as such and the couple would then file as “domestic partners filing jointly.” Second, when the householder has no children living with him or her, we assume that both partners currently file as single and will file as domestic partners filing jointly post-SB1827.

We then calculate taxes twice, with and without the joint filing status. The tax simulations were necessarily simple. To calculate adjusted gross income, we assumed each partner used the standard deduction and had one exemption to claim apiece if single, and one dependent exemption per own child. We then applied the 2005 California state



tax schedule to calculate the taxes owed by each individual and couple, first when each partner files as single or as head of household (if children are present), and second when the couple files jointly. Our estimates of the state taxes paid show that 54% of same-sex couples in California would see their taxes fall if they could file jointly as married couples do. The average decrease in taxes for these couples would be \$579. For 35% of same-sex couples, filing jointly would have no impact on their state income taxes. For approximately 11% of same-sex couples, their state income taxes would increase if they could file jointly. The average increase in taxes for these couples would be \$933. These couples are generally those couples where one partner previously filed as head of household.

As shown in Table 1, we multiply the proportion of current domestic partnerships by the proportion of couples whose taxes will increase or decrease, and then multiply that number by the average change. Overall, we predict a reduction in income tax revenue of approximately \$8 million.

**Table 1: Summary of Tax Income Tax Revenue Calculations**

Type of couple	Number of couples	Percentage of all couples	Average change in taxes per couple	Total change	
Taxes Increase	4,208	11%	\$933	\$3,924,644	
Taxes Same	13,236	35%	0	\$0	
Taxes Decrease	20,712	54%	-\$579	\$11,992,521	
<b>TOTAL</b>				<b>-\$8,067,877</b>	<b>Net change in income tax revenue</b>

[i] We thank Dr. Gary Gates of the Williams Institute for supplying us with an extract of the 1% Public Use Microsample data from Census 2000. The 1% PUMS provides data on 935 same-sex couples in California. The PUMS gives each individual’s total income from all sources in 1999. We used the CPI-U to inflate the 1999 dollars to 2006 dollars.

[ii] We use the 38,155 figure from the Secretary of State’s office provided to the Franchise Tax Board, Draft of SB1827 Analysis.



[iii] For an example, see James Alm and Leslie A. Whittington, “For Love or Money? The Impact of Incomes Taxes on Marriage.” *Economica*, Vol. 66, August 1999, pp. 297-316. They find a very small effect of the marriage penalty on the probability of marriage.

[iv] See Ellen Lewin, *Recognizing Ourselves: Ceremonies of Lesbian and Gay Commitment*, Columbia University Press, New York, 1998; Suzanne Sherman, ed., *Lesbian and Gay Marriage: Private Commitments, Public Ceremonies*, Temple University Press, Philadelphia, 1992.

[v] Determination of head of household status is complex, but an unmarried person with a dependent child is likely to be qualified. See Franchise Tax Board, *Forms & Instructions, California 540 and 540A, 2002 Personal Income Tax Booklet*, pp 24-28.