



Vienna School
of Mathematics

PhD Colloquium

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Cohabiting Couples, and Their Role in Tax Policy

Abstract: Around 10 percent of working-age individuals in the U.S. are cohabiting - living with their partner without being married. These couples are treated as two individual singles regarding income taxation while married couples file their taxes jointly and face a different tax schedule.

In this paper, I study how the differential tax treatment of cohabiting and married couples affects the economy. I explore the implications of treating them more equally and of changing the access to joint taxation for household formation and macroeconomic aggregates like labor supply. I develop a general equilibrium life-cycle model with endogenous household formation and four types of households - cohabiting couples, married couples, single females, and single males. All individuals face labor market risks; couples also face the risk of household dissolution.

I calibrate the model to U.S. data and use it to quantify how labor and income taxation influences labor supply, marriage and cohabitation rates and other macroeconomic aggregates. I find that abolishing joint taxation of married couples leads to a significant increase in female labor supply and a decrease in cohabitation. Letting married couples choose how to file their taxes increases cohabitation, but has little aggregate employment effects. In contrast, giving all couples the choice whether to file their taxes jointly or separately slightly decreases employment rates.

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