For the love of taxes

How marriage impacts your return

By Donna H. Laubscher, CPA

First comes love, then comes marriage, then comes taxes. Your relationship with the IRS is much like your relationship with your spouse – there's giving and taking. There are definitely specific tax considerations for married couples and some of you might find yourselves paying a slightly bigger tax bill because you're hitched, but marriage also offers many tax advantages. Here are the issues you and your spouse should vow to tackle together.

What's your status?

Single or married? There's a myth out there that in the year you get married you can "pick" your filing status. I'm not really sure where this urban legend started but you cannot select your filing status to be single – what you were at the beginning of the year – versus one of the filing options for getting married. Your filing status is based on how you are on December 31. So if you're married before midnight on New Year's Eve, you are considered married for tax purposes.

What are your options? There are two main options for filing your tax returns when you're married. You can either file as married filing jointly or as married filing separately. (As a caveat, there is the possibility of filing as head of household but the filing requirements for that are very strict and won't be discussed here.)

Married filing jointly. Ninety-five percent of married couples file as married filing jointly. The reason is because doing so generally results in the lowest total income tax liability for the year. However, there are certain scenarios where it might make sense to consider filing separately. If one spouse has much higher income than the other spouse and the spouse with the lesser amount of income has high medical expenses, there may be some benefit to filing separately to claim those medical expenses.

One of the issues with married filing jointly is that you've probably heard of something called the marriage tax penalty. This tends to come into play when the husband and wife both make close to the same amount of money. The tax amount they pay as married filing jointly is much higher than they would pay as single taxpayers. There are several reasons for this, the biggest being that the tax bracket is not doubled for married filing jointly. For example, the 25% tax bracket ends for single taxpayers at $91,150, but ends for married filing jointly taxpayers at $151,900 – not $182,300, which is twice the single bracket. And it is worse for the higher tax brackets. Both single and married filing jointly taxpayers leave the 33% tax bracket and enter the 35% tax bracket at $413,350. Yes, that is correct – the exact same dollar amount!

Another major downfall for married filing jointly is that you are both 100% liable for any income and deductions that are reported on your tax return and those that may have been left off the tax return. That's right. You're both 100% liable, not 50% liable each. Just another one of those instances where tax math doesn't equal regular arithmetic.

Should you take the plunge? So maybe you want to consider not getting married. I have some older clients both of whom are receiving Social Security benefits. The cut off for the taxability on Social Security benefits for single taxpayers begins with combined income of $25,000 while it begins at $32,000 for married taxpayers. I don't care how you do arithmetic – $32,000 is not double $25,000! The other issue may be if you're widowed, you may be receiving pension benefits from a deceased spouse that may cease upon marriage, cutting into the combined cash flow.

I already filed. Now what? So what do you do if you're reading this and you've already filed your tax return as married filing jointly? Can you amend and file as married filing separately? The answer is no. However, if you filed married filing separately, you can go back and amend to add your spouse to do married filing jointly.

Married filing separately. Generally, when using this status, certain tax benefits can be lost such as the ability to deduct student loan interest, deductions for passive losses and qualifying or not qualifying for the Earned Income Credit.

How much should you withhold?

Valentine's Day is coming and let's say you've decided you're going to get married that day. As a newlywed, you may want to talk to your tax advisor about determining if your withholding should be adjusted for the year. Again, because of the marriage tax penalty, your withholding, while it may have been sufficient for you to break even as a single taxpayer, has the potential to be insufficient as a married taxpayer.

As newlyweds you probably should have already started discussing your philosophy on many financial matters as well. Some people use withholding as a forced savings to get a bigger tax refund while others would rather have more income throughout the year and either receive a smaller refund or pay some when tax is due in April. You just need to make sure you're comfortable with how you're filing as a married couple.

Anything else?

As a final reminder, your filing status is determined on December 31 of each year. If your spouse dies during the year and you were married filing jointly and you did not remarry, then you can still file jointly with the decedent. If you did remarry prior to the end of the year, you can file jointly with your new spouse, but your deceased spouse will need to file as married filing separately.

There is not really much leeway on filing status – it is what it is. However, we are able to help you determine the difference between married filing jointly and married filing separately – as far as the tax goes. And there are some other reasons, not having to do with taxes, on filing one way over the other. We can talk you through those discussions as well!

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