How Uncle Sam Factors into Your Wedding Plans

Usually, taxes are the furthest thing from a couple's mind when deciding to get married. But eventually, couples will have to factor in how their taxes will be affected after they change their status from single to married on their tax forms.

Many newly married couples, especially high-earning ones with similar incomes, encounter the so-called marriage tax penalty. This occurs when two incomes are combined in a married household and the couple moves into a higher tax bracket. The marriage penalty is the difference between what taxes they would pay under "single" status versus the higher amount they are paying as a married couple ("joint" status).

In lower tax brackets, the threshold amounts for married filers are double what they are for single filers. In higher tax brackets, however, the threshold levels for married couples are less than double what they are for single filers. This is where the so-called marriage penalty kicks in (which is not a penalty per se, but rather the effect of the tax rates being calculated at different levels, resulting in a higher tax).

Not only will high income couples find themselves in a higher tax bracket, they will also find that some of the threshold levels for certain deductions, credits and exemptions may also change, causing more taxable income that is disproportional to when they were single filers. This too, may lead to higher tax bills for high earning married couples.

There are benefits to filing income taxes as a married couple. For example, when selling a principal residence, married couples may be eligible for up to a $500,000 exclusion from income reported on the gain, whereas a single filer has an exclusion of only $250,000. Also, while one spouse may have had unused carryovers such as capital losses, charitable deductions which were limited to Adjusted Gross Income and passive losses, filing a joint return might free up some, if not all of those carryovers.

While income tax has its detriments for married couples, the gift and estate tax has its benefits. Generally, married couples enjoy an unlimited marital deduction, which means that for gift tax purposes or in the event of death, a spouse can transfer an unlimited amount of assets to their surviving spouse tax-free.

And, while the thresholds for income tax brackets do not double for married couples, the gift tax exclusion does double. This means that instead of being able to gift $14,000 without creating a potential gift tax, a married couple is able to gift $28,000.

So, while there may be some tax consequences to getting married, there may also be benefits. In some cases it may make sense to file as married filing separately, because there are cases where you may save taxes, though that is unlikely to bring tax burdens down to single levels. There are also nontax reasons why you might want to consider filing separately. As always, it is best to check with a tax professional for the appropriate filing status.

For more information or to discuss planning with regards to your specific circumstances, contact your Anchin relationship partner or email us at info@anchin.com.

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