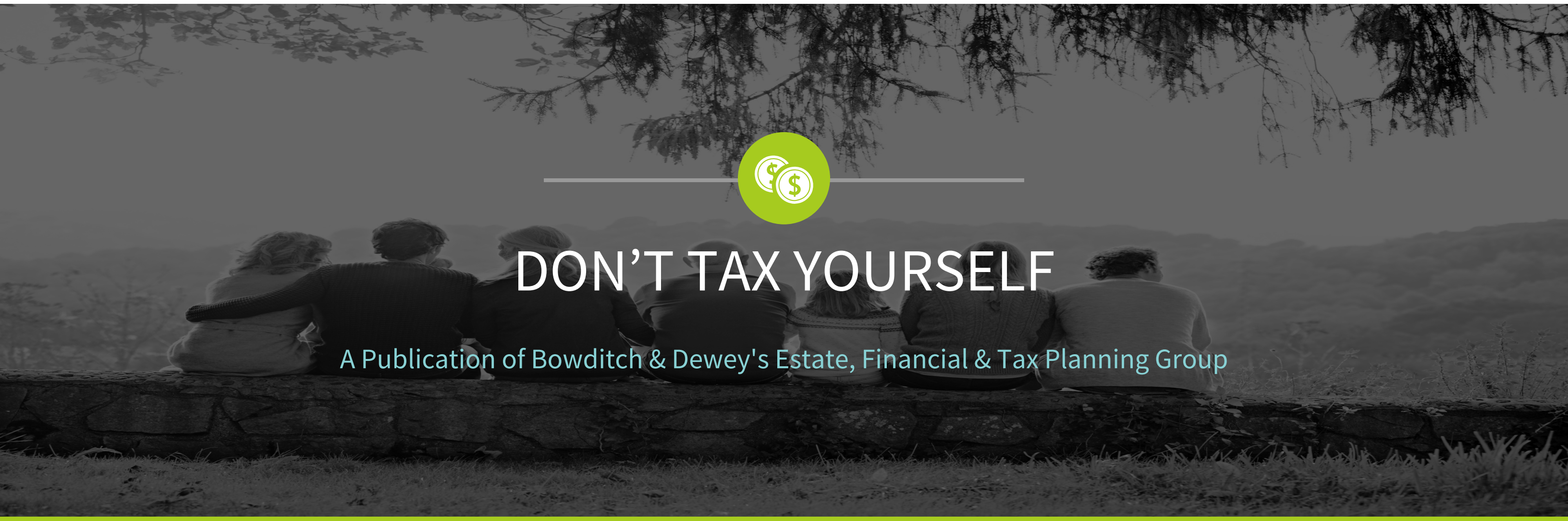

Recently Married – Should We File a Joint Tax Return?

BY SCOTT C. CASHMAN • JANUARY 22, 2024

After the excitement of the wedding and honeymoon is over, newlyweds should start thinking about joint finances and their income taxes. A common question for those recently married is whether or not to file a joint tax return.

Historically, the answer has been yes. Filing a joint return would save the couple taxes. However, it should no longer be an automatic assumption. Couples now need to give this careful consideration to determine whether a joint return is in fact beneficial.

A married couple has a choice to either file a joint tax return or to file as married filing separately. Filing as a single taxpayer is no longer available to married taxpayers. Here is an online tool from the Internal Revenue Service to help taxpayers decide their filing status.

Historically, the tax rates for married couples filing separately were compressed so taxable income would be taxed at a higher rate than it would for those filing jointly. For that reason filing jointly has, in the past, saved the couple taxes.

However, with two-earner households now being the norm, it makes sense for married couples or their advisor to run the calculations when deciding on filing status. If each spouse makes similar incomes, often there is no tax savings to filing jointly as the following examples illustrates:

Assumptions: Married couple. $225,000 combined gross income. **Case 1:** One spouse makes $150,000 and the other spouse makes $75,000. **Case 2:** Each spouse makes $112,500. **Case 3:** Single-earner household makes $225,000 from one spouse.

Case #1. Joint tax liability is $34,152, whereas filing separately would result in a federal tax of $34,837 so filing jointly saves the couple $685 in federal income tax.

Case #2. Joint tax liability is $34,152, and filing separately would result in the same federal tax liability, so there would be no federal tax savings to filing jointly.

Case #3. Joint tax liability is $34,152, whereas filing separately would result in a tax liability of $47,300, therefore, filing jointly would save $13,148.

As the examples above illustrate, the tax benefits to filing jointly can vary substantially. Couples with similar incomes may see little or no tax savings. When there is a large disparity in incomes between spouses, they may see substantial tax savings by filing jointly. In addition, certain credits and other tax benefits may be limited for married taxpayers filing jointly. IRS Publication 501 provides a good explanation of the benefits of each filing status.

However, non-tax reasons may lead a couple to file separately even if filing jointly would save taxes. Couples with a student loan on an income-driven repayment plan may want to file separately if filing jointly would substantially increase their student loan payments. Federal Student Aid has an explanation of how filing status affects income-driven student loan payments.

Newly married couples should consult with their tax advisor to determine what filing status is best for them.