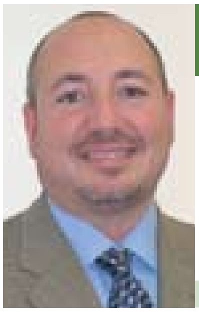

Does getting married pay?

By Mike Slotopolsky

GETTING MARRIED IS THE BEST DAY for half of all couples; the other half, the divorced half, not so much. Maybe it has something to do with the marriage penalty. In a heated political climate where politicians espouse the sanctity of the family, it's ironic that the tax code penalizes people for getting married. Deductions and credits are given in areas that politicians want to promote, and removed in areas considered less positive. Home ownership is seen as a good thing, so mortgage interest is deductible. Cigarettes are bad, so they're taxed. Why then do married couples suffer sp unfairly under the tax code?

Reports show that married couples pay about $1,500 in additional taxes, the so-called marriage penalty. The marriage penalty originated in 1969 when Congress tried to equalize what was then an advantage for couples, as compared to single taxpayers. The penalty occurs because married couples pool their earnings when they report taxes and this moves them into a higher tax bracket thereby ensuring a higher tax rate. The marriage penalty has been a hot-button issue for years, yet politicians have failed to fix it. The most they've done is doubled the standard deduction for married couples, but this doesn't have much impact since most couples itemize their deductions.

Income averaging – married filing jointly – is advantageous to married couples with disparate incomes. If one spouse makes $80,000 and the other $20,000, they pay a lower combined tax than if both had an income of $50,000 and filed as two single people. To compensate, politicians provided a higher tax bracket for averaging incomes. While income averaging benefits a married couple with a stay-at-home spouse, such averaging causes married couples with roughly equal personal incomes to pay more total tax than they would as two single persons.

Married couples in the U.S. are now in the minority, outnumbered by singles and unmarried couples. Wonder if that has to do with the marriage penalty which unfairly makes it more expensive more often than not to tie the knot.

While financials are usually not high on the list of wedding planning activities, there are some simple steps that can help keep tax issues from interrupting newly wedded bliss. There should be a financial to-do list as important as any honeymoon or ceremony planning. First, take care of any change of name or address. Next, consider whether you'll itemize deductions, which tax return form is right, and what filing status you'll use. The filing status depends entirely on your specific situation; a tax professional can help make that determination. Your marital status on December 31 determines whether you're married for that year. Married people can file jointly or separately any given year. Choosing the right filing status can save money. A joint return uses the combined income and combines deductions and expenses on a single tax return. Both spouses are responsible for the contents. With separate returns, each spouse files and is responsible for his own return. Each is taxed on his own income and can take only his individual deductions and credits. If one spouse itemizes deductions, the other must also.

There are plenty of financial benefits to marriage, regardless of a couple's income tax situation. There's workplace health and pension benefits coverage. Though some companies offer health coverage to domestic partners, this benefit is typically taxable as income. When spouses are covered, the benefit is tax-free. Social Security retirement and survivor benefits entitles a spouse to one-half of a spouse's Social Security benefits and to additional benefits in the event of death. Married people usually get a discount on auto insurance and may pay less for other types of insurance. If a spouse dies without a will, the surviving spouse is entitled to all his possessions. There's preferential estate-tax treatment. The richer you are, the better the deal this is. Essentially, estates worth more than a certain amount are subject to estate taxes. But this exemption amount doesn't apply to married people. You can leave an unlimited amount to a spouse without generating a penny of estate tax. In certain states, this benefit is multiplied by special capital gains tax treatment for homes and other assets held by married couples as community property. In all marriages, there are pros and cons and that extends to financials as well. ❑

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