The Tax Consequences of Marriage

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Married couple making financial decisions.
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You may be shocked to learn that the federal government has a subtle hand in encouraging marriage through income tax break. Admittedly, much of the population wouldn't consider taxes when deciding with whom to spend the rest of their lives. As these tax laws make a big impact on people's lives, it falls to lawyers to discuss the tax consequences to life's biggest moments, including marriage. In the age of the Tax Cuts and Jobs Act of 2017, let's examine how marriage will affect your tax bottom line in 2019.

You'll be off to a good start toward enjoying your all-inclusive honeymoon and won't have any nasty surprises come tax season.

The first question you may have is: When do I begin filing my tax return "married filing jointly" with my new spouse? The answer to that one is simple. Under the Internal Revenue Code, you may file as a married couple so long as you are married on the last day of that year. This means that it does not make a difference if you had a January wedding, a December wedding, or anywhere in-between.

The natural follow-up question is: Should we file jointly? This depends on several factors, including how much income you each earn. Generally, it is beneficial to file jointly. For traditional couples where one spouse makes all or substantially all the marital income, filing jointly will provide a gentler graduated rate when applying the income tax brackets. This is because, before the 35 percent tax bracket, the marital bracket ranges are logically double the individual bracket ranges. For example, for tax year 2019, the 12 percent bracket for individuals applies to taxable income between $9,700 and $39,475, while the married filing jointly 12 percent bracket applies from taxable income between $19,400 and $78,950 (double the individual bracket range). For a traditional couple, marriage will result in significantly lower tax rates for the couple. Filing jointly provides the tax return with a standard deduction of $24,400 for 2019, which is double the single standard deduction of $12,200.

TAX BRACKETS AND RATES, 2019		
RATE	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over
10%	$0	$0
12%	$9,700	$19,400
22%	$39,475	$78,950
24%	$84,200	$168,400
32%	$160,725	$321,450
35%	$204,100	$408,200
37%	$510,300	$612,350

Tax brackets and rates chart.

If, however, you and your spouse both make significant taxable income, the story is different. For tax year 2019, the single bracket for the 35 percent tax rate extends from taxable income between $204,100 and $510,300. In contrast to the logical doubling pattern seen at lower brackets, the 35 percent bracket for married filing jointly extends only from taxable income between $408,200 and $612,350. This break from the pattern (one would expect the range for married filing jointly to terminate at $1,020,600) means that very successful dual-income couples will find themselves in a worse tax situation after marriage because additional income over the ending threshold for the 35 percent bracket will be subject to the marginal tax rate of 37 percent. Electing to file married filing separately will not fix this issue. The 35 percent bracket for married filing separately individuals extends from $204,100 to $306,175, which is half of the corresponding married filing jointly bracket.

Many professionals will also need to consider how their marriage will affect their student loans. Student loan debt, unfortunately, has grown to an all-time high of $1.56 trillion in 2019, and the largest of these loans are held by professionals, such as doctors and lawyers. Professionals often opt for an incomedriven plan to lower student loan repayment costs in the early years after school when salaries are not as high as they may be later in their career. Filing married filing jointly for the first time, however, may have the unexpected consequence of throwing you off an income-based plan (or dramatically increasing your required payments) because of the addition of your spouse's income. One way to fix this is for you and your spouse to file "married filing separately." Another strategy is to adjust your loan repayment plan to an income-contingent repayment plan, which may provide a better monthly payment for your family. Additionally, some have gotten creative with funding education using Income-Share Agreements (ISAs). ISAs are contracts between students and colleges to pay a percentage of their future earnings for a fixed period after graduation in exchange for the monies needed to pay for their education. If you have an ISA or are considering one, pay attention to how marriage will affect the amount your ISA requires you to pay. The correct path will be different for each couple, so it is important to weigh the options together.

Finally, it is worth mentioning that the Tax and Jobs Act also limited the state and local tax deductions to a flat $10,000 for those taxpayers who choose to itemize, regardless if that taxpayer is filing as "single" or "married filing jointly." This again breaks from the pattern of simply doubling the treatment for a single taxpayer for joint returns. State and local tax deductions include state income taxes, local income taxes, and property taxes. For taxpayers in high tax areas, the $10,000 mark will quickly be met. Consequently, taking the standard deduction ($24,400 for married filing jointly in 2019) will be the best option for most married taxpayers, unless their other itemized deductions combine to be more than $24,400. Another strategy that has been championed for charitably minded taxpayers is to bunch charitable contributions every other year so that they will combine with the $10,000 of state and local tax deductions and their mortgage interest deduction to equal more than the standard deduction. This enables married taxpayers to give to charity and still obtain the maximum tax benefit.

Now that you have some ideas to get you started on your first married filing jointly tax season, step away from the computer and go enjoy being married.

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