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Does It Pay, Taxwise, to Get Married?

The new tax code changed the

By Cheryl Winokur Munk

Among many things, the Tax Cuts and Jobs Act of 2017 affected the so-called marriage penalty, which occurs when a couple's total tax bill rises as a result of getting married and filing their taxes jointly.

Under the old tax code, the marriage penalty hit medium- to high-income earners particularly hard. That had to do with differences in the income-tax brackets for married couples vs. individuals. Now, however, those brackets have been adjusted to eliminate those discrepancies—except for taxpayers who are subject to the top 37% marginal rate.

The 37% marginal tax rate kicks in at taxable income above $500,000 for single individuals, or over $600,000 for married couples filing jointly—so two people with income well below $500,000 each can be pushed into the highest bracket if they're married and filing together.

Meanwhile, a marriage penalty remains in place for some other federal taxes, and a new one has been created by new limitations on deductions.

What impact will the tax-law changes have on married couples, and what do couples planning to tie the knot need to know about how their planned nuptials could affect their taxes?

The Wall Street Journal invited three experts to discuss these issues: Mitchell Drossman, national director of wealth-planning strategies at U.S. Trust; Mela Garber, a tax principal at accounting firm Anchin, Block & Anchin; and Robert Westley, a vice president and wealth adviser at Northern Trust and member of the American Institute of Certified Public Accountants' Personal Financial Specialist Credential Committee.

Here are edited excerpts of the discussion.

Mitchell Drossman

Mela Garber

Robert Westley

Savings and penalties

WSJ: *Can you provide an example or two of how the marriage penalty might affect couples under the new law?*

MS. GARBER: Under the old law, two single taxpayers who earned $95,000 and $125,000 would have had a combined tax bill of $55,385 after the standard deduction, whereas filing jointly as a married couple they would have had to pay $58,044—a marriage penalty of $2,659. Under the new rules, however, the couple would pay a total of $47,040 in taxes whether they filed as single individuals or as a married couple filing jointly.

MR. DROSSMAN: Even for taxpayers who are high wage earners, the marriage penalty generally isn't as significant as it once was. If two single people are each earning $350,000, their individual tax liability would be $94,000 each—$188,000 in total. However, by getting married and filing a joint return, their tax liability becomes $189,500. Under those circumstances, the marriage penalty is $1,500, whereas under the previous tax laws the marriage penalty would have been in the neighborhood of $24,000—a significant difference.

WSJ: *So the new tax law reduces the marriage penalty in those cases. Where does it increase the marriage penalty?*

MR. WESTLEY: A marriage penalty can also occur on the deduction side. For example, the new tax act limits the deduction for state and local taxes to $10,000. That means two single taxpayers can each deduct their own state and local taxes up to $10,000. However, as a married couple, they are limited to the same $10,000 deduction cap, since it's not doubled for married couples filing joint tax returns. Filing separately does not avoid the disparate treatment, since married taxpayers filing separately are limited to a $5,000 deduction.

MS. GARBER: The $10,000 state income- and property-tax deduction cap will hit especially hard for taxpayers who live in states that have high income and property taxes, such as New York, New Jersey, Connecticut and California.

MR. DROSSMAN: In addition, under the new law couples still have to contend with the Medicare surtax and the surtax on net investment income. Both surtaxes apply to individuals with earnings above $200,000 or married couples with income over $250,000.

Easing the pain

WSJ: *What can couples do to mitigate the effects of a marriage penalty?*

MR. WESTLEY: For high-wage-earning couples, it might make sense for one person to scale back on work so as not to reach the income threshold where the penalty kicks in. Given added hassles and expenses that can come with working, it's a conversation that's at least worth having.

MR. DROSSMAN: Even with the new tax rules, high-earning couples thinking about a late-year wedding may be better off deferring it until the following year if they can save some taxes.

WSJ: *Are there publicly available tools to help couples decide whether it pays to file as individuals or jointly?*

MR. WESTLEY: Yes, the Tax Policy Center has a great calculator that can help taxpayers understand how their tax liability will change as a result of getting married. Another excellent resource for taxpayers is the Marginal Tax Rate Calculator from the AICPA's 360 Degrees of Financial Literacy website. This calculator allows you to estimate your income-tax liability and choose between different filing statuses to see how the results differ. Still, there are many possible tax situations and nuances, so I think most taxpayers would

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benefit from working closely with a trusted professional.

Marriage prep

WSJ: *What tax-related advice do you have for couples getting married?*

MR. WESTLEY: I think many couples assume that filing separately when they are married is the same as filing as a single taxpayer. But once you're married, you no longer have the option to file as a single taxpayer. While you can file separately as a married couple, in most cases filing separately is likely to raise their overall household tax bill.

There can be, however, a few situations where it may make economic sense to file separately. If, for example, one spouse has significant unreimbursed medical expenses and both spouses are income earners, filing separately will lower their adjusted gross income and allow the spouse with high unreimbursed medical expenses to achieve a greater deduction amount.

However, couples need to remember that when filing separately both spouses must either itemize or use the standard deduction. Therefore, if only one spouse has enough itemized deductions to exceed the current standard deduction, filing separately may not save tax for the household in the aggregate.

The creation of the 20% qualified business income deduction under the new act is a new area that may induce some couples to file separately. When one spouse qualifies for the 20% QBI deduction but the other spouse's income pushes the couple over the phaseout threshold, filing separately may be advantageous.

Again, there are many quirks with the married-filing-separately tax status, so it's imperative to go through the actual calculations with a qualified professional. Married-filing-separately is generally unfavorable, since it limits or disqualifies the use of many tax breaks that couples filing jointly can otherwise take.

MS. GARBER: It may benefit a couple getting married to do tax planning and prepare a projected tax return. This exercise may save them money when the time comes to file their first joint tax return. For example, if they are charitable and intend to give donations, given that the standard deduction increased substantially under the new tax law, they may want to consider bunching and combining two or more years' worth of donations into one year to get the benefit of their deduction. Otherwise, the risk is that neither year's contributions will be eligible for the deduction.

The projected return should also show whether the couple's investments are aligned with their income-tax bracket. For instance, if two individuals have investments in taxable bonds, which worked well when they were filing as singles, it may no longer be beneficial to hold these types of bonds. Perhaps they should switch to municipal bonds, because combining their income together will push them up into higher tax brackets. Preparation of their projected tax return will show which investments will generate higher net-of-tax returns.

Ms. Winokur Munk is a writer in West Orange, N.J.