Upcoming Wedding? Think About Taxes Before You Tie the Knot

For many couples, fall is the perfect time to tie the knot. The weather has cooled down, the autumn foliage is colorful and nature offers plentiful backdrops for photos. But there's more than the ceremony to consider when a couple merges their lives, including taxes and other financial issues.

Though finances aren't necessarily a romantic topic, some issues are important to address before you say, "I do!" Let's start with how marriage changes your tax situation.

To File Jointly or Separately?

Your marital status at year end determines your tax filing options for the entire year. If you're married on or by December 31, you'll have two federal income tax filing choices for 2019:

- File jointly with your spouse, or
- Opt for "married filing separately" status and then file separate returns based on your income and your deductions and credits.

There are two reasons most married couples file jointly.

1. It's simpler. You only have to file one Form 1040, and you don't have to worry about figuring out which income, deduction and tax credit items belong to each spouse.

2. It's often cheaper. The married filing separately status makes you ineligible for some potentially valuable federal income tax breaks, such as certain higher education credits and, generally, the child and dependent care credit. Therefore, filing two separate returns may result in a bigger combined tax bill than filing one joint return.

Risks of Filing Jointly

Filing jointly isn't a sure win for one big reason: For years that you file joint federal income tax returns, you're generally "jointly and severally liable" for any tax underpayments, interest and penalties caused by your spouse's deliberate misdeeds or unintentional errors and omissions.

Joint-and-several liability means the IRS can come after you for the entire bill if collecting from your spouse proves to be difficult or impossible. The IRS can even come after you after you've divorced.

However, you may be able to claim an exemption from the joint-and-several-liability rule under the so-called "innocent spouse" provisions. To successfully qualify as an innocent spouse, you must prove that you:

- Didn't know about your spouse's tax failings,
- Had no reason to know, and
- Didn't personally benefit.

If you file separately, you won't have liability for your spouse's tax misdeeds or errors. So, if you have doubts about a new spouse's financial ethics, the best policy may be to file separately.

Penalty vs. Bonus

You've probably heard about the federal income tax "penalty" that happens when a married joint-filing couple owes more federal income tax than if they had remained single. The reason? At higher income levels, the tax rate brackets for joint filers aren't twice as wide as the rate brackets for singles. This is still true under the Tax Cuts and Jobs Act (TCJA) for some high-income individuals in 2019. The marriage penalty is usually a relatively modest amount, so it's probably not a deal-breaker.

On the other hand, many married couples collect a federal income tax "bonus" from being married. If one spouse earns all or most of the income, it's likely that filing jointly will reduce your combined tax bill. For a high-income couple, the marriage bonus can amount to several thousand dollars a year.

Important note: The preceding explanation of the marriage penalty and bonus is based on current tax law. Under prior law, the marriage penalty adversely affected more dual-income households. The revised tax rates and brackets under the TCJA are scheduled to expire in 2026, unless Congress passes legislation to extend them. So, even if you're not affected by the marriage penalty under current law, it may affect you when the individual tax rates and brackets revert to their pre-TCJA levels.

Home Sales

When people get married, they often need to combine two separate households before or after the big day. If you and your fiancé both own homes that have appreciated substantially in value, you may owe capital gains tax.

However, there's a $250,000 gain exclusion for single taxpayers who sell real property that was their principal residence for at least two years during the five-year period ending on the sale date. The gain exclusion increases to $500,000 for married taxpayers who file jointly.

Suppose you and your fiancé both own homes. You could both sell your respective homes before or after you get married. Assuming you've both lived in your respective homes for two of the last five years, you could both potentially claim the $250,000 gain exclusion. That's a combined federal-income-tax-free profit of up to $500,000.

Conversely, let's say you sell your home and move into your spouse's home. After you've both used that home as your principal residence for at least two years, you could sell it and claim the larger $500,000 joint-filer gain exclusion.

In other words, you could potentially exclude up to $250,000 of gain on the sale of your home. Then you could later claim a gain exclusion of up to $500,000 on the sale of the house that your spouse originally owned. With a little patience and some smart tax planning, you could potentially exclude a combined total gain of $750,000 on your home sales.

Check Withholding and Estimated Payments

Employees should check the amount of taxes that are being withheld from their paychecks anytime there's a change in personal circumstances. Marriage is one such situation.

Getting married not only can change your income level and tax bracket, but it also may affect whether you decide to itemize deductions or take the standard deduction for 2019. Blending your families also might qualify you for child-related deductions and credits that you weren't eligible for as a single taxpayer. So, it's important to perform a comprehensive review of your combined tax situation before year end.

If you withhold too much, you're effectively giving the IRS an interest-free loan to use your money until it's refunded after you file your 2019 return sometime next year. Conversely, if you withhold too little, you'll face a stiffer tax bill (and possibly even owe penalties and interest) when you file the return.

To adjust your withholding, request a new W-4 form from your employer, fill it out and then submit it. Any withholding change will show up in the next payroll calculation.

On the other hand, if you're self-employed or you report investment income or retirement account withdrawals, you should check whether your quarterly estimated payments will be enough to cover your tax liability for 2019.

The due dates for the quarterly estimated payments for a tax year are:

- April 15,
- June 15,
- September 15, and
- January 15 of the following year.

These dates are adjusted for weekends and holidays. So, the next quarterly installment for income earned in 2019 is due Monday, September 16, 2019. If your year-to-date withholding hasn't been sufficient, consider paying more for the third and fourth quarters to cover the shortfall.

The IRS offers worksheets for calculating the "right" amount of withholding and estimated payments. But these worksheets are no substitute for having a face-to-face meeting with an experienced tax professional, especially for people with complicated tax situations.

For More Information

Getting hitched may open up new tax risks and planning opportunities for the 2019 tax year and beyond. It pays to be well informed.

Beyond Taxes

Taxes are an important consideration when you get married. But there are other financial issues and administrative tasks to consider. Here's a checklist:

Contact the Social Security Administration (SSA). If getting married involves a name change for either spouse, the SSA needs to know. Updating your name with the SSA helps ensure that credit ratings and Social Security benefits follow you into your marriage.

Notify your employer (and others). If you change your name, alert your company's human resources office. They'll put your new name on your payroll check and benefits files. You may also need to supply a new bank account number if your check is direct deposited.

Other records to update include:

- Driver's license at your state department of motor vehicles (DMV),
- Vehicle registration at the DMV,
- Passport at www.travel.state.gov,
- State and local tax records,
- Voter registration at your state or local election office (or DMV),
- Property titles for homes and vehicles with your lender or, if paid off, at your county clerk or DMV,
- Utility bills with the phone, cell phone, electricity, gas, water and garbage companies, and
- Medical, dental and pharmacy records.

Coordinate workplace benefits. Consider updating your beneficiaries for employer-provided life insurance, disability insurance and retirement plan accounts. Are both spouses covered by health insurance? Getting married counts as a qualifying event that allows you to make changes to your employee benefits even if it's not open-enrollment season. If you both work and one spouse has better health insurance options than the other, you may want to add the spouse as a dependent on the more generous plan. Likewise, if one spouse doesn't have coverage, consider adding him or her to the other spouse's plan.

Review bank and financial accounts. Discuss whether you'll continue to have separate checking accounts and credit cards — or whether joint accounts make more sense. If you open a new account, you'll need to update any automatic bill payments and direct deposits for the account number.

Consider changing titles on key assets. If one spouse already owns a home, for example, you might want to refinance it or change the title to include both spouses. But before you do, talk it over with your professional advisors. There are legal implications for who owns assets, including private business interests, real estate and vehicles.

Update insurance accounts. You may decide to change your life insurance beneficiaries after marriage. Also ask your insurance agent about possible discounts for married couples who combine auto and renter's insurance policies, as well as scheduled property riders that can be added to your renter's or homeowner's insurance policy for engagement and wedding rings.

Review deeds, wills and power of attorney documents. We can discuss the full array of estate planning tools, such as various trusts, that might be relevant now that you're married.

This list of to-dos may look lengthy, but don't worry: These tasks are much less work than planning a wedding! Plus, the time spent taking care of these issues now may eliminate mix-ups and extra work later on.

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