Reasons why married couples might want to file separate tax returns

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Married couples often wonder whether they should file joint or separate tax returns. The answer depends on your individual tax situation.

It generally depends on which filing status results in the lowest tax. However, if you and your spouse file a joint return, each of you is "jointly and severally" liable for the tax on your combined income. And you're both equally liable for any additional tax the IRS assesses, plus interest and most penalties. This means that the IRS can come after either of you to collect the full amount.

Although there are provisions in the law that offer relief, they have limitations. Accordingly, even if a joint return results in less tax, you may want to file separately if you want to only be responsible for your own tax.

In most cases, filing jointly offers the most tax savings, especially when the spouses have different income levels. Combining two incomes can bring some of it out of a higher tax bracket. For example, if one spouse has $75,000 of taxable income and the other has just $15,000, filing jointly instead of separately can save $2,512.50 for 2020.

Filing separately doesn't mean you go back to using the "single" rates that applied before you were married. Instead, each spouse must use "married filing separately" rates. They're less favorable than the single rates.

However, there are cases when people save tax by filing separately. For example:

One spouse has significant medical expenses. For 2019 and 2020, medical expenses are deductible only to the extent they exceed 7.5% of adjusted gross income ("AGI"). If a medical expense deduction is claimed on a spouse's separate return, that spouse's lower separate AGI, as compared to the higher joint AGI, can result in larger total deductions.

Some tax breaks are only available on a joint return. The child and dependent care credit, adoption expense credit, American Opportunity tax credit and Lifetime Learning credit are only available to married couples on joint returns. In addition, you can't take the credit for the elderly or the disabled if you file separately unless you and your spouse lived apart for the entire year. Furthermore, you may not be able to deduct IRA contributions if you or your spouse were covered by an employer retirement plan and you file separate returns. Moreover, you can't exclude adoption assistance payments or interest income from series EE or Series I savings bonds used for higher education expenses.

Social Security benefits may be taxed more. Benefits are tax-free if your "provisional income" (AGI with certain modifications plus half of your Social Security benefits) doesn't exceed a "base amount." The base amount is $32,000 on a joint return, but zero on separate return (or $25,000 if the spouses didn't live together for the whole year).

No hard and fast rules

The decision you make on your federal tax return may affect your state or local income tax bill, so the total tax impact should be compared. There's often no simple answer to whether a couple should file separate returns. A number of factors must be examined. Please contact us if you have any questions.

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