Tax and financial planning tips: Marriage and divorce

A wedding is an exciting milestone, but it's also a big financial turning point for couples. Whether it's a first marriage or two families blending, these unions have major tax consequences. Ending a marriage by divorce is also significant for your tax situation. To start off right, here are some tax tips to keep in mind.

Tax returns and withholdings

Getting married could influence which tax bracket a couple falls into, so the first step is determining the most advantageous filing status. A couple must determine if it's in their best interest to file jointly or separately. Then, they should review how this choice affects each spouse's tax burdens and adjust tax withholdings accordingly.

Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
10%	Up to $9,700	Up to $19,400	Up to $13,850	Up to $9,700
12%	$9,701–$39,475	$19,401–$78,950	$13,851–$52,850	$9,701–$39,475
22%	$39,476–$84,200	$78,951–$168,400	$52,851–$84,200	$39,476–$84,200
24%	$84,201–$160,725	$168,401–$321,450	$84,201–$160,700	$84,201–$160,725
32%	$160,726–$204,100	$321,451–$408,200	$160,701–$204,100	$160,726–$204,100
35%	$204,101–$510,300	$408,201–$612,350	$204,101–$510,300	$204,101–$306,175
37%	$510,301+	$612,351+	Over $510,301+	Over $306,176+

*Effective for tax year 2019

Effects of marriage on taxes — If spouses have disparate incomes, they may see a marriage bonus. If one spouse's income falls into a higher tax bracket than the other before marriage, their combined incomes may drop the couple down into a lower tax bracket if they file jointly.

Marriage penalty — When two people with similar incomes marry, they may be at risk of a marriage penalty as their combined incomes may bump the couple into a higher tax bracket.

Medical expenses — Some couples may choose to file separately for various reasons, for instance, if one spouse has significant unreimbursed medical expenses. This could provide an overall tax savings since the hurdle to get over the 10% adjusted gross income threshold will be based on the income of that spouse.

Deductions — If a married couple chooses to file separately, both spouses must either itemize or use the standard deduction.

Qualified Business Income

Filing separately may also be beneficial if one spouse has income that qualifies for the 20% qualified business income deduction. The phaseout limitations are the same as for single taxpayers and this could allow a higher deduction in certain situations.

Blended families

Couples with children have unique tax implications to consider. This is especially true for blended families.

Fast facts: Child tax credit

Worth up to $2,000 per qualifying child, with a refundable portion of up to $1,400

Capped at 15% of earned income in excess of $4,500

This credit begins to phaseout at a modified adjusted gross income (MAGI) of $240,000 for married filing separately and $400,000 for joint filers.

Note: To qualify for the child tax credit, a child must be under the age of 17 and claimed as a dependent.

Child and dependent care tax credit — This credit allows married couples filing jointly to claim up to $3,000 in child care expenses per qualifying individual (up to $6,000 total). The qualifying individual must be under the age of 13 and claimed on the tax return as a dependent. Married couples claiming the credit must both be working and file jointly. How much a couple can claim depends on their income.

Note: A parent must have custody of the child for more than 50% of the year to qualify for this credit.

Did you know that retirement accounts and life insurance policies pass in accordance with their beneficiary designation form and not per your will? After significant life events, such as marriages, divorces and births, make sure to review all beneficiary designation forms and ensure the correct people are listed.

Divorce

No matter the cause, divorce is a sensitive and challenging issue that raises many tax concerns.

Filing status — Those couples who finalize their divorce after Dec. 31, 2018, may choose to file jointly or as married filing separately on their 2019 returns. Divorced individuals should consider filing as head of household if they claim a qualified child or relative as a dependent.

Alimony — If a divorce was finalized after Dec. 31, 2019, anyone making alimony payments will lose the alimony deduction, and the receiving spouse won't pay taxes on these payments. If the couple finalized their divorce before that date, the payor may still deduct these payments. The payments are considered taxable income to the recipient.

Child support payments — Child support payments are neither deductible by the payee, nor are they taxable income to the recipient. The noncustodial parent may claim the child as a dependent in some cases.

Child medical costs and care — Parents who continue to pay medical expenses for a child after a divorce may include these costs in their medical expense deduction even if they don't have custody of the child and even if the ex-spouse claims the child as a dependent.

Capital gains — If a couple chooses to sell a home both spouses own, that sale may be subject to capital gains tax. In the year of the sale, couples filing jointly can avoid tax on the sale of their primary residence — up to $500,000 — if they've used the home as their personal residence for more than two years of the preceding five years. The limit is reduced for divorced couples and is set at $250,000 per individual.

Medical insurance — Individuals may be able to remain on their former spouse's health care plan for up to 36 months if that plan is subject to COBRA. This option is available even if that individual's coverage was terminated before the divorce was finalized. The cost of coverage is the responsibility of the beneficiary unless the couple reaches another agreement as part of the divorce proceeding.

Copies of records — Individuals should obtain copies of documents that may affect their tax situation in future years, including copies of prior year returns they filed with a former spouse along with the appropriate supporting information. Divorced individuals should retain records relating to any property transferred as part of the divorce to establish the required cost basis when selling the property.

Note: Individuals should always retain documents relating to a separation or divorce.

Miscellaneous tips

Some married couples have special considerations complicating their tax situation.

Investments and property — Couples with investments, property, back child support payments, back taxes or who stand to claim a significant inheritance should consider the unique tax implications of their union.

Same-sex marriage — Same-sex marriage is treated the same as traditional marriage for federal tax purposes. Civil unions and domestic partnerships are not, but state laws may require these couples to file jointly. Be sure to review state guidance.

Passive losses — Taxpayers who may have qualified for a passive loss deduction may no longer qualify after marriage. Taxpayers can take up to a $25,000 passive loss from rental real estate if they actively participate in the activity. Phaseout starts at $100,000 of adjusted gross income (AGI) and is completely lost at $150,000 for both single and married filers. Married taxpayers filing separately have phaseout thresholds of $50,000 and $75,000 respectively. Also, married couples filing separately may claim $12,500 each if they live apart the entire year. If this condition isn't met, the deduction is $0.

Back child support payments — If one person owes back child support payments and files a joint tax return with their new spouse, any refunds generated from this joint filing may be used to satisfy this outstanding debt.

Pre-existing debts —If one spouse owes past-due federal tax, state income tax, state unemployment compensation debts, child or spousal support or a past-due non-tax debt, such as a federal student loan, the other spouse's income could be vulnerable, particularly if the couple resides in a community property state. The other ("injured") spouse may file Form 8379 with the return to request their portion of the joint refund. Form 8857 should be filed to relieve a spouse of a tax burden if they believe their current or former spouse should be responsible for all or part of the tax.

Note: Both spouses' financial contributions to the household are taken into consideration when the IRS determines available income for payment plan negotiations.

Name and address changes

Individuals changing their name after marriage must report their name change to the Social Security Administration (SSA) before filing their next tax return. If a child's name changes due to marriage, they should notify the SSA. Report changes of address to the IRS via Form 8822.