Marriage and Taxes: How to Say "I Do" to Understanding Taxes

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As you plan the details of your wedding day, you'll likely spend hours considering the flowers, the music and the food. Making the big day memorable and unique is important, but it is also crucial not to overlook planning for your financial future together as husband and wife. Long-term decisions like saving for a house and retirement planning seem obvious, but more imminent a decision that you will face within your first year of marriage is whether to file your taxes jointly or separately.

In the eyes of the Internal Revenue Service (IRS), you are considered married for the entire year in which you got married, even if your wedding date was December 31. But just because you checked the married box in the status section of your tax form, it doesn't mean you have to file your taxes with your spouse. There are many things to consider when choosing how to file which could alter your return or payment considerably.

If you decide to file jointly, there are many benefits depending on your personal situation, including:

The tax rates can be lower: The filing of a joint return will result in a tax savings in those instances where differences in the tax rate brackets for joint and separate returns result in higher tax rates for married individuals filing separately. It may also be beneficial to file jointly to file jointly if the couple is subject to the alternative minimum tax as the greater exemption amount and higher phaseout amount may allow couples filing jointly to shelter a greater amount of preference income from the tax.

Filing is simpler: You only have to fill out one tax return.

It's easier to save for the future: You can contribute to an individual retirement account (IRA) on behalf of a non-working spouse when you file jointly. IRAs for non-working spouses provide a retirement fund for spouses that do not have the option of a company savings plan. In addition to filing jointly, there are a few other requirements that must be met in order to take advantage of this benefit.

- For traditional IRAs, The non-working spouse must be under age 70½ .
- For Roth IRAs, the working spouse's compensation must be under $160,000.
- In addition, for the 2005 tax season, $4,000 is the maximum individual contribution limit, and $8,000 is the maximum contribution limit for combined individual and spousal IRA contributions.

There are tax-saving education benefits: When you file jointly you may qualify for a number of education deductions or credits that you wouldn't qualify for if you filed separately. For example, you must file jointly in order to take the $2,500 deduction for interest paid on student loans. You also must file jointly in order to benefit from education credits (Hope credit, lifetime learning credit).

In addition, you must file jointly in order to claim the earned income credit, a credit for adoption expenses and the credit for dependent care expenses.

However, in some cases you can lower your combined tax bill by filing separately. Consider filing separately if:

You have large deductions: If you or your spouse has a large amount of deductions that must meet a minimum percentage of adjusted gross income (AGI) to qualify for a deduction, filing separately might be the best option for you. By filing separately, the deduction is based on one spouse's income, making it easier to meet the minimum percentage of AGI. Deductions that fall into this category include medical, personal-casualty losses and other miscellaneous items.

Your spouse owes the government money: If your spouse owes the government money for child support or student loans, file separately to keep your refund from being withheld by the IRS to repay your spouse's debts.

You do not want to be responsible for your spouse's tax liability: If you file separately, you are only responsible for the return you file.

In deciding whether to file jointly or separately, if there is any doubt as to which method would produce the most favorable results, you should calculate your tax liability using both methods and compare the results.

Final tips…
There are a few additional things that you should be aware of as you prepare your taxes for the first time as a married couple.

- If you changed your name, make sure to contact the Social Security Administration to have your identification number reflect your new name. If you neglect to do that and submit a joint return with a new name, the IRS computers won' t be able to match the name with the Social Security number. A name-number mismatch could pose all sorts of tax problems, from delayed returns to disallowed deductions.

- If you bought your first home together, be sure to claim the interest from your mortgage, as well as any points you paid at closing. The downside is you must itemize in order to take advantage of this benefit, so you need to make sure your total deductions (state taxes, mortgage interest, home equity loan interest, property taxes and charitable contributions) will exceed the standard deduction.

- If you moved to a new city because your spouse took a new job and you and paid for the move yourself, you might be able to deduct your moving expenses.

Deciding how to file your taxes is just one of many financial decisions that you and your spouse will make throughout the course of your marriage. In fact, planning ahead for tax season is a great way to begin communicating about your individual financial goals and marrying them into a successful future.

As you get caught up in the planning and excitement leading up to the big day, don't shy away from dealing with financial issues. If you start with a sound financial plan at the outset of your partnership, you will add greatly to your chances for both marital and financial success. Choose a financial advisor that you both trust who can help you lay the groundwork for your financial future together so you will be able to achieve your long-term goals.

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