Tips on Deciding Which Tax-Filing Status Is Best for You

Do you file jointly or separately? There may be some powerful reasons to do the latter.

<image001.jpg>

A married couple may want to file separately to enable one spouse to claim certain deductions or other breaks that would be reduced, or even lost, on a joint return. PHOTO: GETTY IMAGES/ISTOCKPHOTO

4 COMMENTS

By

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"Who are you? Who, who, who, who?"

—The Who

For most taxpayers, the answer probably seems obvious. But for some, it can be surprisingly tricky to determine which tax-filing status will hold the most advantages.

The choices may involve more thought and number-crunching than might be apparent at first glance. A few issues may be important for some taxpayers to consider before New Year's Day because of tax-law changes enacted late last year and other factors.

Here are a few suggestions from tax pros on avoiding an identity crisis, and making sure you don't wind up paying more in taxes than you need to pay.

Joint or separate

For starters, married couples can file either jointly or separately. The choice is important since your filing status is used to determine such things as the standard-deduction amount, eligibility for certain tax credits and other breaks, and, ultimately, how much tax you will owe.

ASK A QUESTION

Send your tax-related questions to Tom Herman at taxquestions@wsj.com

Most married couples file joint returns. About 54.1 million returns received by the Internal Revenue Service for 2016 were joint returns (or returns of "surviving spouses"), according to the latest IRS data. Only 3.1 million returns came from married couples filing separately. The reason is simple: Generally, married couples would pay more combined tax if they file separately than if they file jointly.

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But not always, says Mark T. Nash, a tax partner at PricewaterhouseCoopers. When in doubt, run the numbers both ways.

Here are some powerful reasons to consider filing separately:

Untrustworthy spouse: Beware of filing a joint return if you suspect your spouse is hiding taxable income or isn't telling the truth about deductions, credits or other issues, says Bryan Skarlatos, a lawyer at Kostelanetz & Fink in New York. If you file jointly, you are responsible for what's on that joint return—unless you can qualify for special relief. But winning "innocent-spouse" relief can be "very complicated and difficult to accomplish," Mr. Skarlatos says.

Thus, filing separately can be a smart move in cases where you want to be responsible only for what is on your own return, says Eric L. Green, a lawyer at Green & Sklarz in New Haven, Conn.

Special Factors: In some cases, it might be better for a married couple to consider filing separately to enable one spouse to claim certain deductions or other breaks that would be reduced, or even lost, on a joint return.

One example is a lower-earning spouse who has large amounts of medical expenses or might be eligible for a large casualty-loss deduction, says Mark A. Luscombe, principal analyst at Wolters Kluwer Tax & Accounting. Filing separately might enable that spouse to deduct more of those items than he or she would on a joint return because the expenses are deductible only to the extent they exceed certain thresholds.

Also check if there are any state-tax issues that might affect the calculations, says Sidney Kess, senior consultant at Citrin Cooperman and of counsel to Kostelanetz & Fink.

What's Your Bracket?

Federal income-tax rates and income brackets for 2018 tax year`

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Note: The numbers for people who are married but file separately are the same as those for most singles, except for the two highest brackets. For separate filers, the 35% rate applies to income of over $200,000 to $300,000, while the 37% rate applies to income over $300,000.

Source: IRS and Wolters Kluwer Tax & Accounting

Marriage bonus or penalty: Getting married this month, or postponing the official ceremony until next year, might have a surprising impact on your taxes in certain cases. For example, some two-income couples who get married this year and are in the top brackets may wind up owing more in combined federal income tax than they would if they had each remained single—commonly known as the marriage penalty tax. But in other cases, a married couple winds up paying less total tax than if each spouse had remained single. Lawmakers have taken steps to reduce or eliminate the marriage penalty in certain cases and to increase the amount of the bonus in many others. But these issues haven't disappeared entirely.

Pass-through businesses: The new law includes a 20% deduction for owners of various types of "pass-through businesses." Such businesses, which include partnerships, sole proprietorships and S corporations, pass along profits to their owners, who report them on their personal returns. The deduction has limits that begin above certain amounts of taxable income. Because of these limits, an owner who files separately might be eligible to make greater use of this deduction than by filing jointly with a spouse who has significant amounts of income.

It's complex and details can vary widely depending on individual circumstances, so it's best to consult a tax expert.

Implications for divorce

Part of the new law generally says you won't be allowed to deduct alimony payments you make under a divorce or separation agreement executed after 2018. This new restriction won't apply to agreements finalized this year or in prior years, says Elena Karabatos, a matrimonial lawyer at Schlissel Ostrow and Karabatos PLLC. Alimony payments will continue to be tax-deductible under agreements signed this year or in prior years, she says.

Another change: Recipients of alimony payments under agreements executed after this year won't be taxed on those payments. The new law doesn't change the tax treatment of child-support payments, says Mr. Green of Green & Sklarz.

Head of household

This category can be a source of significant confusion and taxpayer errors, both honest and otherwise. "Generally, you may claim head of household filing status on your tax return only if you are unmarried and pay more than 50% of the costs of keeping up a home for yourself and your dependent(s) or other qualifying individuals," the IRS says on its website.

For exceptions to this general rule and other key points, search the IRS website for "head of household."

When a spouse dies

Suppose your spouse died this year and you haven't remarried. It might seem logical to assume you are single. However, you're eligible to file a joint return with your deceased spouse for this year. Also, for the next two years, you may be eligible for special benefits as a "qualifying widow(er)." See IRS Publication 501 for more details.

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For those who want more information about what status they should use, the IRS offers an online interview, "What Is My Filing Status," a tool that asks individuals questions and offers answers that can help them decide. Tax-preparation software can also be helpful in wading through these issues.

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