

Abstract: For most married couples, filing joint returns results in the lowest tax bill, especially if one spouse earns much more than the other. However, in some situations it may be advantageous to file separately. Keep in mind that there are various factors to consider, such as the fact that each spouse reports only his or her own income, exemptions, credits and deductions, and some credits aren't available when married filing separately.

Married filing separately: When it makes financial sense

Filing joint tax returns generally results in the lowest tax bill for married couples. However, there are some circumstances where married couples will pay less taxes if they file separately. And, in a situation where both spouses have similar taxable W-2 income, their tax liability may change very little, regardless of filing status — barring other circumstances.

Be mindful of the fact that there can be various competing factors. Certain tax credits, for instance, are generally unavailable to married couples filing separately; specifically, the credit for child and dependent care expenses and education credits. Note also that capital loss deductions are limited to \$1,500 (as opposed to \$3,000 for married couples filing jointly). Even without those tax benefits, however, there are times when filing separately can be advantageous. An example might be when one spouse has excessive medical expenses. Medical expenses are deductible only to the extent that they exceed 7.5% of adjusted gross income (AGI), so a lower AGI may increase the deduction.

Further, there may be reasons that filing separately is preferred, even if the tax cost is higher. Consider, for instance, a situation where one spouse has an income-sensitive repayment plan for student loans.

The bottom line is that this is not a one-size-fits-all proposition. Depending on the combination of spousal income, deductions and credits, filing separate returns may save taxes — or there may be non-tax reasons where it may be preferred even if it means a higher tax bill. Ask your tax advisor to weigh all the factors and determine the most advantageous strategy for your situation.