

7 tax reasons not to get married

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If shacking up goes against your morals, you can blame Uncle Sam for tempting you to sin. Unmarried couples who live together often benefit under the tax code.

Bracket Breakdown

Say two single individuals live together, each with a taxable income of \$83,600. They each pay federal income tax of \$17,025, for a total of \$34,050. If they got married, their total taxable income would be \$167,200, with a tax of \$34,886, an increase of \$836.

This "marriage penalty" is the result of our progressive tax system. As your income increases, additional dollars are taxed at increasingly higher rates. When two people get married and file jointly, the income of the second spouse is taxed at the highest rate of the first spouse. In the example above, the first dollar earned by the second spouse would be taxed at a marginal rate of 25%. The second spouse has no income taxed at the lower 10% and 15% rates.

The hit gets more painful as your income increases. Two single individuals, each with a taxable income of \$379,150, pay tax of \$110,016.50 apiece, for a total of \$220,033. If they marry, the tax cost becomes \$235,277, a marriage penalty slam of \$15,244 -- each year!

Medical Meltdown

Your medical expense deduction must be reduced by 7.5% of your income (adjusted gross). If your potential spouse earns \$100,000, filing jointly would cut your medical expense deduction by \$7,500. In the 28% bracket, that would suck an additional \$2,800 out of your pockets each year.

That's why it may be better in certain circumstances for even a married couple with large out-of-pocket medical bills to file as married individuals filing separate returns.

Miscellaneous Madness

Your miscellaneous itemized deductions, such as employee business expenses, job search costs, investment expenses, and tax planning and preparation fees are also subject to a floor before they can be allowed. The total of your miscellaneous itemized deductions has to be reduced by 2% of your income (adjusted gross). If your potential spouse has \$100,000 in income, that will slice \$2,000 from your total deduction a year.

Social Security Slam

As your income increases, more of your Social Security payments becomes subject to tax. Add a second income to the pot and as much as 85% of your Social Security receipts are potentially taxable. If you're getting \$2,000 a month -- or \$24,000 a year -- that's an additional \$20,400 in taxable income. In a 28% marginal bracket, that's an additional tax of \$5,712 gone missing from your bank account.

AMT Terror

The Alternative Minimum Tax is the result of an alternative procedure for computing your tax liability. The AMT is based on your income before deductions for personal exemptions, and adds back certain deductions allowed under the normal tax computation but not under the AMT, such as taxes and miscellaneous itemized deductions. Your income plus these "preference items" is reduced by an exemption amount, and the net result is subject to a flat 26% or 28% rate. You pay the higher of your regular tax or the AMT.

Here's where marriage hurts. First, the AMT exclusion for two unmarried individuals is \$48,450 each, for a total of \$96,900. A married couple gets an exemption of only \$74,450, a \$22,450 difference. At the lower 26% AMT rate, that's a potential \$5,837 increase in tax. At 28%, that's a \$6,286 hit.

Bush Benefits

Prior to 2010, and scheduled to return in 2012, we had reductions in deductions for both a) total itemized deductions and b) personal exemptions, as your total adjusted gross income increases. Marry an individual with substantial income and potentially all of your personal exemptions disappear. In addition, as much as 3% of your income (over a floor amount that changes annually) comes off your total itemized deductions.

Lose two personal exemptions of \$3,700 each and your taxable income is up by \$7,400. With a marginal tax rate of 28%, that's an additional \$2,072 in tax to be paid.

Social Security Slam II

This tax benefit keeps a whole lot of seniors living in sin. Depending on the numbers, in many cases two unmarried individuals receive more in Social Security benefits than they would if they were married. Don't look for logic and reason in governmental regulations. It's like finding an honest politician -- they're out there, but they usually don't last long.

Marriage doesn't always result in higher taxes, but it usually does when both spouses are working and earning substantial dollars. On the other hand, if one spouse doesn't work, there will be a marriage bonus (lower taxes) instead of a marriage penalty.

There are, of course, other tax benefits to being married. For example, there's an unlimited marital deduction under the gift and estate tax for gifts and bequests to a spouse. When I told my wife, Barbara, that I was writing a column on the benefits of living in sin, she suggested that she personally was looking forward to enjoying her unlimited estate-tax deduction . . .

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