Married Filing Jointly Isn’t Always the Best Choice

When you’re married, it’s easy to assume that filing a joint tax return is automatically the best—and perhaps only—option. In many cases, filing jointly does make sense. But it is not a requirement, and there are situations where filing separate returns can actually reduce your overall tax bill or provide other financial advantages.

With the changes to the state and local tax (SALT) deduction, this is an issue worth revisiting, especially for higher-income households.

The SALT Deduction Can Change the Math

One of the most interesting planning opportunities involves the SALT deduction. Under the current rules, the federal SALT deduction limit is generally higher for married couples filing jointly than for taxpayers filing separately. However, the income-based phaseout of that deduction can produce some unusual results.

For example, imagine a married couple with approximately $600,000 of adjusted gross income who collectively pay about $20,000 in deductible state and local income taxes. At that income level, the SALT deduction available on a joint return can be significantly reduced by the phaseout.

If the couple instead files separately and their income is divided relatively evenly, each spouse may be able to take advantage of the minimum SALT deduction allowed under the phaseout rules. In the right circumstances, that can result in a larger combined SALT deduction than the couple would receive by filing jointly.

The result can be counterintuitive: two separate tax returns can sometimes produce a lower combined federal tax liability than one joint return.

That doesn't mean married couples should rush to file separately. There are important tradeoffs.

Filing Separately Can Mean Giving Up Valuable Tax Benefits

The biggest issue with married filing separately is that some tax benefits are reduced, limited, or unavailable altogether. Depending on your circumstances, filing separately can affect benefits such as the Earned Income Tax Credit, education credits, the student loan interest deduction, the Premium Tax Credit, the Child and Dependent Care Credit, the adoption credit, and certain other deductions and exclusions.

The newer tax provisions for tips, overtime, and the enhanced senior deduction can also be affected by filing status.

That means a couple with significant SALT deductions might save money by filing separately but lose even more through other tax benefits. The only way to know is to run the numbers. This is particularly important for households with children, education expenses, student loans, or income from tips or overtime.

Your Income and Family Situation Matter

Married filing separately tends to be more worth considering for certain higher-income households, particularly those who don't qualify for many of the tax benefits that are restricted for separate filers.

For example, if you are a married couple with relatively high income, no qualifying children, employer-sponsored health insurance, and little or no eligibility for education or student loan benefits, the disadvantages of filing separately may be relatively small.

On the other hand, a middle-income household with children or significant education, childcare, tip, or overtime income could find that the lost tax benefits outweigh any additional SALT deduction.

That's why we don't recommend looking at the SALT deduction in isolation. The right question is not "Will we get a bigger SALT deduction?" It's "Which filing status produces the best overall result?"

There Can Be Other Reasons to Consider Separate Returns

The tax savings aren't necessarily limited to the amount of federal income tax you pay. When spouses file a joint return, they generally have joint and several liability for the tax reported on that return. In simple terms, either spouse can potentially be held responsible for the entire tax liability even if the income or tax issue arose primarily from the other spouse.

Separate returns can eliminate that particular joint liability between spouses.

There can also be situations involving student loan repayment calculations or retirement contributions where allocating income between spouses differently can produce a more favorable result. These situations are highly dependent on the individual's circumstances, so they need to be evaluated on a case-by-case basis.

Don't Forget About State Taxes

Federal tax planning is only part of the equation. Some states don't follow the federal filing-status rules exactly. A married couple may be able to file jointly federally but separately at the state level—or vice versa, depending on the state.

Community property states can create additional complications because income may have to be allocated between spouses under state law. That can eliminate some of the advantages that might otherwise exist from filing separately.

For this reason, any married filing separate analysis should consider both your federal and state tax returns before a decision is made.

One Important Rule: Think Before You File Jointly

There's another reason we want clients to think about filing status before submitting a return: once a joint return is filed, you generally cannot simply amend it later to turn it into two separate returns.

The reverse is generally possible. If spouses initially file separately, they can generally amend their returns to file jointly. That makes filing status an important decision to make before the original returns are filed.

If you're unsure which approach is best, filing an extension can provide additional time to analyze the numbers. An extension doesn't lock you into filing jointly; it gives you more time to determine the most advantageous filing status.

What We Recommend

If you've been filing jointly for years, don't assume that it remains the best choice every year. Changes in income, a new job, a major raise, changes in state taxes, retirement contributions, student loans, children, education expenses, or other life events can change the calculation.

We can run a married filing jointly versus married filing separately analysis to compare the two approaches and identify the potential tax savings or disadvantages before you file.

This is especially worth considering if you:

- Have relatively high household income
- Pay substantial state and local income or property taxes
- Live in a high-tax state
- Have significantly different incomes from your spouse
- Have student loans
- Have income from tips or overtime
- Have limited eligibility for credits and deductions affected by filing status

The bottom line is simple: filing jointly may be the most common choice, but "common" doesn't necessarily mean "best."

A quick comparison before filing could uncover thousands of dollars in potential savings or confirm that filing jointly is the right answer. Either way, it's better to know before the return is filed.