The IRS at the Wedding

You've all heard that April showers bring May flowers. That's fine and all, and it doesn't leave anything for the IRS unless you're a farmer or a florist. But June brings *brides* — young brides, old brides, blushing brides, even bridezillas. Now the IRS pays attention, because *now* the IRS gets to reach out for all sorts of extra taxes from the happy couple.

So, Mike and Sarah meet in college, fall in love, and get married. Maybe they host the big day at their college chapel. Maybe they get creative with the reception and throw a barbecue in a barn. What will the IRS think?
The classic "marriage penalty" occurs when two spouses, earning roughly equal amounts, earn enough together to push their taxable income into the 28% bracket for joint filers. For 2012, that bracket started at $142,700. So if Mike and Sarah each reported $100,000 in 2012 taxable income before the wedding, they each owed $21,454 in tax. But if they got married any time before the end of the year and reported $200,000 in *joint* income, they would owe $43,779 together. Do you think it will bug them to send the IRS an extra $871?

It gets worse when kids are involved. If Sarah has a qualifying child, she gets a $1,000 child tax credit, so long as her income is under $75,000. But when she and Mike get married and file together, that threshold doesn't double. It goes up just $45,000. That's barely half again what Mike would get on his own.

Those obvious examples are just a starting point. There are plenty of other marriage penalties scattered like icebergs throughout the tax code. For example, the Affordable Care Act imposes a 0.9% Medicare surtax, starting this year, on earned income over $200,000 for single filers and $250,000 for joint filers. If Mike and Sarah each report $200,000 in earned income singly, no surtax. But if our newlyweds report the same $400,000 total as husband and wife, Uncle Sam gets an extra $1,350. Wait a minute . . . shouldn't your uncle be *giving* wedding presents instead of *taking* them?

Maybe Mike owns a rental property. Like most rental properties, it loses money "on paper." There's a special "rental real estate loss allowance" that lets him deduct up to $25,000 of rental loss against his other income — so long as that income doesn't top $150,000. When Mike gets married, he and Sarah can still take that same $25,000 loss — so long as their *combined* income doesn't top that *same* $150,000! Oh, and that's only if they file jointly. If they file *separately*, and lived apart for the year, they get just $12,500 each. If they file separately and lived *together* during the year, the allowance is *zero*. Who wants to raise a toast to that?

There's still time for you to throw rice (or birdseed) at a wedding or two this month. So if someone you know is getting married, have them call us. We'll see if we can keep a a marriage "penalty" from turning into a marriage "surprise." And don't forget to save some cake for the IRS!