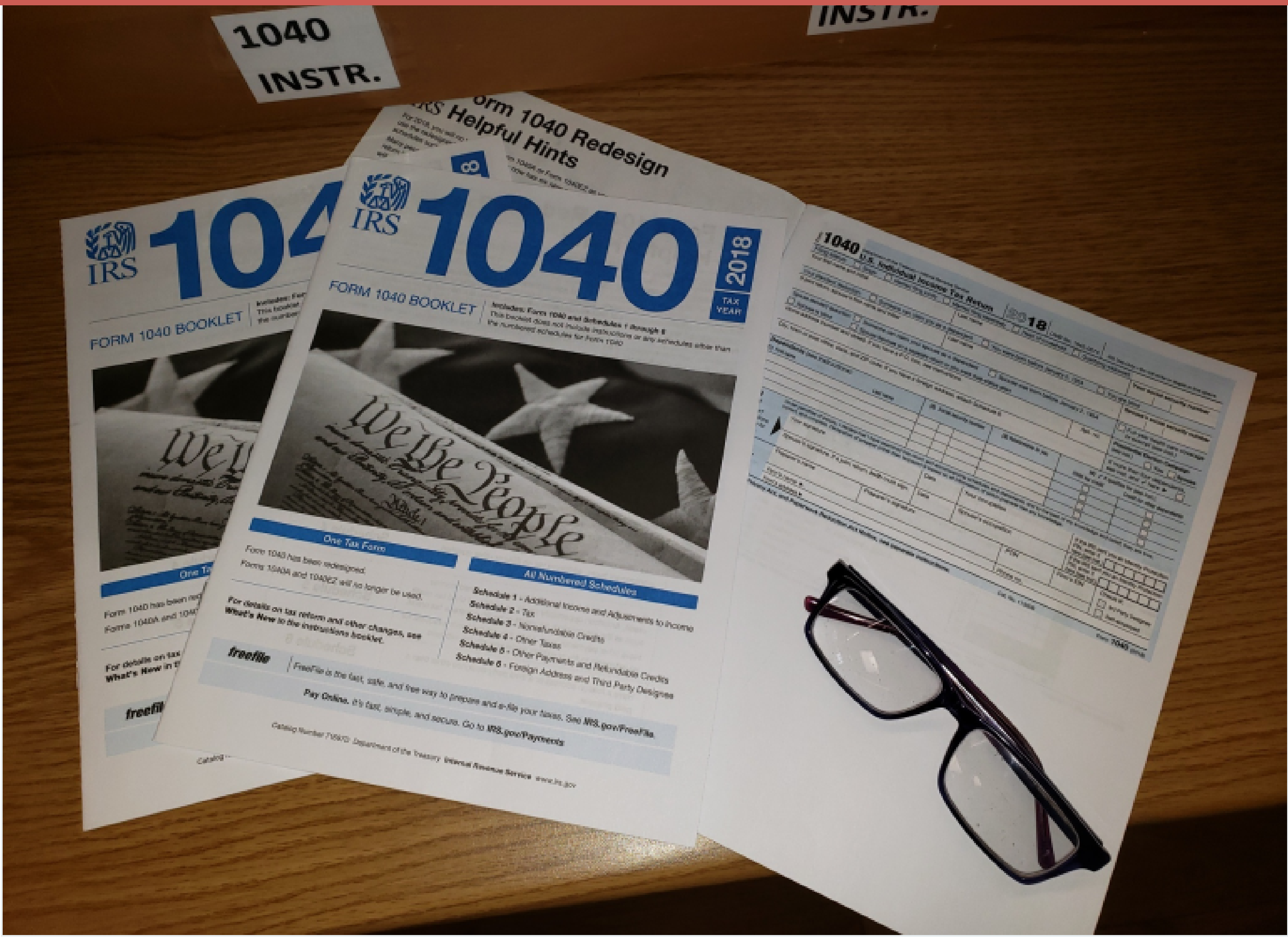
CPA
Practice Advisor



We generally assume that it is advantageous for a married couple to file jointly (MFJ) – it may almost feel natural to file a married filing separate tax return (MFS). That's because filing joint returns comes with many well-known benefits, including a lower tax bracket at both the federal and state level, a larger standard deduction and the opportunity to qualify for multiple tax credits.

However, there are particular instances when a minority of married couples should consider filing separately. Married taxpayers may be aware of certain "red flag" situations, for example when one spouse has significant debt, past unpaid tax liabilities, shady tax history, or income-based student loans. Healthcare may be a

lead to a reduction in the deductible paid each month.

However, if you have qualified for this credit, you may have to repay part of it if you incorrectly estimated your taxable income. This situation most often occurs after getting married and the incomes from the spouses are combined. So when the combined income of the married couple would require repayment of the advanced credit, it may be beneficial to file separately. This way, IRS would only take into account the income from the spouse who benefitted from the advanced credit for healthcare. There are some limitations to consider – this will only work where the taxpayers are not covered by the same marketplace policy getting the Advanced Premium Tax credit. Also, be careful of community property state reporting rules.

If the joint return required a full repayment of the advanced credit…then the Marketplace policy currently in effect should change so no advanced premium is allowed through the rest of the year. The married filing separate return should also reduce the advanced credit.

Removal of the Affordable Care Act (ACA) Penalty

The 2017 Tax Reform removed the Affordable Care Act Penalty starting in 2019. While the penalty still exists for the 2019 tax year, its rate is set at zero, so for all intents and purposes, it has been removed. However, for the 2018 returns, if a spouse is subject to this penalty, filing separately would generally report less income for each person, so there would be the possibility of paying less penalty for the spouse not having adequate health coverage.

Final Thoughts

Filing separately for married couples is an uncommon choice with significant consequences, so it is crucial to understand the pros and cons.To have a complete picture of this question, taxpayers need to add their healthcare tax situation to other elements. Healthcare always needs to be understood from its tax angle, and year over

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