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Some Financial Issues To Consider For Married Couples

Being married can be such a complicated situation! There are so many varied issues to consider and to adjust. In the case of tax and financial matters, there are four major areas to review to make sure they coordinate with your marital status. This is an overview of these areas with the purpose of making you think and react as soon as possible.

Remember: This will serve as a starting point for you in 2000. Reams of paper could be used on each area; all we are trying to do is to "kick start" the process for you. It is not meant to replace or substitute for the various professional experts that may come into play. Rather, use it as a guidesheet to get the ball rolling.

Adjust Your W-4 Form For Withholding

Because of the progressive nature of our tax codes, there can be a "marriage tax penalty" for situations when both spouses work. The marginal tax rates may be higher on a joint basis than when you file as single taxpayers. Also, when the combined income exceeds certain levels, some of the itemized deductions and personal exemption write-offs are lost due to limitations in the federal tax laws. So a married couple should review their income situation, and adjust their W-4 forms accordingly.

Remember, too, if you have recently married, that, for tax purposes, you are treated as being married for the entire year, even if you marry on the last day of the year. There is no proration here - it's all or none.

Legal Name Changes

This can be a concern, especially for new marrieds. Is one spouse planning to take the other's name? If so, it is your immediate obligation to notify the proper authorities and financial institutions.

The Social Security Administration must be notified. This will serve as official notification for the IRS as well. If you fail to do this, it could result in the delay of the receipt of any potential refunds from a joint tax return. Your legal name must match your social security number. To do this, simply call your local office, or use the Social Security Administration free "800" number to have the forms sent to you to handle the name change.

Also, any financial accounts such as bank, brokerage, or credit union accounts need to be reviewed as to how title should be held. Insurance policies, pension plans and especially annuities, may need to be notified as well as to how beneficiaries should be designated.



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Ownership & Estate Tax Issues

Should you put all your various savings, investments, and real estate holdings in joint names? It really depends on what goals you are trying to achieve. If you are trying to simplify and speed up the Probate process in event of the demise of one of the partners, putting everything into Joint tenancy with right of survivorship will do that. However, it may be a disadvantage from the standpoint of paying Estate or capital gains taxes down the road.

Under Joint tenancy with right of survivorship(JTWROS), it means the surviving spouse becomes sole owner of the asset upon death of the other; with some exceptions, it also means the right to transact business with this property is immediate without standard delays under normal Probate process. Additionally, this property under JTWROS supersedes any instructions under a Will. All these can be advantages. Or they can also be disadvantages depending on one's overall financial net worth.

As an example, if the combined net worth of husband and wife exceeds \$675,000, then the use of JTWROS may create federal estate tax disadvantages sometime down the road. Remember, although JTWROS can circumvent Probate, it cannot avoid Estate taxes. These are two separate issues. Under current federal law, no estate taxes are charged on taxable estates of less than \$675,000 for each person. Above that amount, estate taxes kick in, and they can be very high, up to 55% of the taxable estate. However, a "Marital deduction" provision exists which allows a spouse to leave to the qualified surviving spouse an unlimited amount without estate taxes(so here's a good reason to get married).

But, when the surviving spouse dies, the estate tax calculations come into play. Without getting into tremendous detail, a way to cut down on some of these heavy estate taxes when your combined taxable net worth is over \$675,000 involves having separate title and ownership to part of the assets, and using a bypass trust to lock in your individual \$675,000 exclusion. The savings can be enormous!

Secondly, using JTWROS in which appreciated property(such as a house, or stocks) is involved can create heavy capital gains taxes if the surviving spouse sells this property after the death of the other spouse. That's because the laws of JTWROS assume that each spouse owned 50% of the asset.

Now, normally when one inherits property from the deceased, it is inherited at what is called a "stepped up basis". That is, the fair market value at date of death becomes the new tax(cost) basis for the recipient. This is not normally the case under JTWROS. Only 50% of the property gets the stepped up basis. The other 50% keeps the original cost basis. Thus, using JTWROS title can create a larger capital gains tax under certain scenarios.

In summary, whether you should have your assets under joint ownership or not involves a number of complicated financial issues to consider, and it involves weighing the Probate process against the Estate tax process. This is especially critical when the total value of the assets exceed \$675,000 and/or there are assets that have appreciated a great deal from the original cost.



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A Special Note If Both Of You Owned Residences Prior To Marriage

Under current 2000 tax law, if you own a residence that appreciates over time, you can avoid paying capital gains tax on the first \$250,000 of profits when you sell. For married couples, this increases to \$500,000.

The moral of the story? When it comes to ownership issues involving a married couple, some detailed advice may be needed. While this may not be very romantic, it sure can be very profitable in the long run.

Wills, Beneficiaries, & The Like

Many people get married and completely forget that this legal process must be coordinated with their Will, and other Beneficiary related issues. This can prove to be disastrous if one of the spouses dies before making these changes.

For instance, if you get married, but forget to change the beneficiaries on a life insurance policy, or a pension, your surviving spouse may be out of luck. Even if you have a Will naming the surviving spouse as sole heir, it will not help. That's because a designated beneficiary on a life insurance policy, a pension, IRA, Keogh, SEP, annuity, etc. usually has precedence over instructions in a Will. So it is imperative that you make these changes immediately after marriage. The same rules apply to accounts with joint ownership.

If you had a Will when you were single, obviously it must be changed after marriage. Do you want your spouse to be the executor now? How about the way the assets are to be passed on now that you're married compared to being single? If you are planning to have children, or already have children, this Will planning becomes critical. Don't assume that if you die without a proper Will your surviving spouse will have full authority and rights. It doesn't work that way. The courts may have to step in and create enormous headaches for your surviving spouse and children.

Finally, you and your spouse should discuss having Living Wills to make clear how you want to be treated medically in the event life support systems are involved. How about burial instructions? Don't leave these decisions to a surviving spouse if you have strong feelings about them. The time to handle these issues is immediately after marriage. It makes great conversation on your honeymoon, don't you think?

Conclusion

Statistics show that these above-mentioned issues are frequently overlooked by married couples. But most of these overlooked areas can be handled quite easily and inexpensively. If done in time, it can make a huge difference in terms of taxes saved, and rights preserved for your surviving loved ones. Make this a priority in your marriage right now.