



Faggio Financial

EQUITABLE SOLUTIONS AND PROSPERITY PLANNING
Professional Guidance for Divorcing Individuals

John A. Faggio, CPA, CFP® *Financial Divorce Specialist*

DYK, No. 13, October, 2009

DID YOU KNOW

Why Filing Married Separate Is Such a Bad Choice?

In many of our cases, the question surfaces as to how a client should file - Joint (JT), Head of Household (HH), or Married Filing Separately (MFS). Filing Single is not an option during the divorce process where there is no legal separation document or divorce decree. There is specific criteria (see or ask for a FFLLC Flow Chart) that must be met to file HH, which usually results in the lowest tax. Sometimes, MFS is the preferable status, for instance if your client suspects that his or her spouse is hiding income or assets. Generally, the tax rate and the resulting tax liability will be higher for a individual filing MFS versus Single. Here is a comparison of the two filing status':

	Joint	MFS
Exemption for Alternative Minimum Tax	100%	50%
Child and Dependent Care Credits	Y	N
Earned Income Credit	Y	N
Education Credits (Hope, Lifetime Learning) Student Loan Interest, Tuition and Fees deduction	Y	N
Capital Loss deduction	\$3,000	\$1,500
First-time homebuyer credit	\$4,000	\$8,000
Rental Activities Special Allowance	\$12,500	\$25,000
Rollover from Traditional to Roth IRA	Y	N
Exclusion of Savings Bond Interest used for Higher Education Expenses	Y	N

In addition to these, the following credits and deductions are reduced (for MFS) at income levels that are half of those for a joint return: child tax credit, retirement savings contributions, itemized deductions, and deduction for personal deductions.

Especially at high income levels, the decision of which filing status that should be chosen can be very complicated. When your clients work with Faggio Financial, we always provide a comprehensive bottom line tax analysis to assure that they are choosing the filing status that provides them with the least amount of taxes.