

# Doron F. Eghbali Tax Law

## What Filing Status Lower Our Taxes the Most?

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Which filing status we choose could have rather significant implications on the taxes we pay. The US system - unlike its counterparts in other parts of the world - has put into place five separate filing statuses.

Filing status is important in claiming certain deductions and credits.

### CAVEATS

1. Some people may qualify for various filing statuses. Selecting the most effective and less tax costly status often boils down to running the numbers for each status. However, there are some guidelines that might be of assistance in selecting the less tax costly filing status.

2. The tax system is full of intricacies and minutiae. As such, you are *highly advised to seek competent legal counsel*.

### SEPARATE FILING STATUSES

There are five *SEPARATE* tax filing statuses. Each filing status has its own effective rates.

- Single
- Married Filing Jointly
- Married Filing Separately
- Qualifying Widow(er)
- Head of Household

### 1. SINGLES

Generally, single filers can take effective advantage of the the relative benefits of our tax systems in rate schedules and deductions. For instance:

- In income brackets above 25% and generally Alternative Minimum Tax, the allowed income for singles is usually MORE than HALF what married couples filing jointly receive.
- Single filers like couples filing jointly can take advantage of \$3,000 tax deduction on capital losses from their ordinary income.
- Charitable deductions also, generally, favor single filers.
- If in 2009, two single filers each earned \$180,000 and decided to file jointly for 2009, they might have to incur at least \$7,000 in added tax.

## **2. MARRIED COUPLES FILING JOINTLY**

### **Definition of Married**

Married applies only to the LEGAL union between a man and a woman. However, in CA, SOME domestic partners are also allowed to file a joint STATE return.

- If you and your spouse are married for THE WHOLE YEAR, you and your spouse could file joint return or separate return.
- Generally, you are legally married if you live separately but not LEGALLY SEPARATED under a divorce decree or separate maintenance decree.

### **Time of Marital Status**

Marital status is determined as of December 31. As such, engaged couples might want to run the numbers before setting a wedding date.

### **Definition of Unmarried**

You are unmarried for the whole year, if:

- On the last year of the year, you are LEGALLY unmarried or LEGALLY separated under a divorce or separate maintenance decree.

## **3. MARRIED COUPLES FILING SEPARATELY**

- Married couples filing separately, counter-intuitively, are **not** considered single filers.
- Filing separately, generally, splits the value of joint tax benefits down the middle.
- Generally, filing separately causes a net loss compared to filing jointly. The reason is filing separately prevents taxpayers from claiming lots of deductions or credits available to married couples filing jointly.
- If one spouse filing separately itemizes, the other spouse **MUST** itemize as well.

### **Why Filing Separately Might Make Sense, Sometimes?**

- If one spouse who has lots of medical expenses, or a casualty loss on a property that is not jointly owned, filing separately maybe more beneficial.
- If one spouse believes the other spouse is not forthcoming with the IRS, filing separately makes sense.

## **4. HEAD OF HOUSEHOLD**

To be considered head of household, taxpayer **MUST**:

1. Be single.
2. Provide HALF of someone else's support (Dependent). And,

3. The Dependent **MUST** live with the taxpayer at least **OVER** half the year, unless the Dependent is your parent.

### **Who is Dependent?**

- Your Child.
- Your Parents. Or,
- Somebody else.

### **Benefit of Filing As Head of Household**

The allowed income per bracket for those filing as head of household is **HIGHER** than those filing single or jointly.

### **5. QUALIFYING WIDOW(ER)**

To be considered a qualifying widow(er), **ALL** of the following requirements **MUST** be met:

- Those who do not remarry after their spouse passed away in one of the two tax years, before the current tax year. **AND,**
- Taxpayer **MUST SUPPORT** a child, stepchild or an adopted child for the *WHOLE YEAR*.

A qualifying widow(er) receives the most generous income tax bracket of all.

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