MIDLANDS BUSINESS TRENDS

Financial Planning Concerns for Unmarried Couples

by Jon Robertson, CFP ®

More and more couples are cohabiting today without getting married. These couples are usually better off coordinating their financial decisions even if they decide to manage their money separately. Unmarried couples have a host of financial planning concerns that differ from those of the traditional married couple. Some of the planning issues unmarried couples face are: **1** | income taxes, **2** | employee/government benefits and **3** | legal protections.

Income Taxes
A major income tax difference between married and unmarried couples is that most married couples file a "married filing jointly" tax return, while unmarried couples must file individual returns. This means that an unmarried couple must file multiple tax returns, while a married couple usually only files one return. More importantly, a married couple will often pay a different amount in income taxes than an unmarried couple with an identical economic situation.

The difference in filing status has both challenges and benefits. A tax advantage for married couples (and a disadvantage for unmarried couples) is frequently that a one-income family, or a family with great disparity in incomes, pays less in taxes when it files a joint return. On the other hand, a tax advantage for unmarried couples is that when they are a dual income family (especially when both partners have substantial incomes) they will generally pay less in income taxes when they file separate returns. This is sometimes referred to as "the marriage penalty."

An unmarried couple can use the disparity in the tax code to its advantage. The couple might want to structure financial transactions to allow the higher earning partner to take deductions. For example, the higher earner could make the charitable contributions and mortgage payments in order to receive the deductions, because typically the higher income earner gets more value from deductions than a lower income earner will.

Also, the flip-side of the equation is true. An unmarried couple might want to consider structuring financial transactions so that the lower income earner will receive the income from investments. For example, the couple could put investments that generate income, such as a brokerage account or rental properties, in the lower earner's name in order to take advantage of the lower income tax bracket.

Your tax advisor will be able to discuss these tax planning strategies as well as some more sophisticated strategies. It might be a good idea for both partners to use the same tax advisor so that he or she will know the complete financial situation and be able to help coordinate the best strategy for the couple as a whole.

Government and Employee Benefits
A married couple is eligible to receive Social Security benefits based upon the earnings of either spouse. A spouse is entitled to the greater of the benefit based upon his earnings history or one-half of the benefit based upon his spouse's earnings. A surviving spouse is also entitled to survivor's benefits. The benefits to marriage from Social Security can be substantial, especially when a couple has a large disparity in earnings. Unmarried couples are not entitled to any form of spousal or survivor benefits. An unmarried couple should be cognizant of this and plan for it. Also, beware that Social Security rules are extremely nuanced and one partner could be entitled to benefits from a prior marriage. An unmarried couple should discuss these issues with their financial advisor.

Frequently, employers offer employee benefits such as life or health insurance, or a survivor's pension, to spouses. Sometimes companies will also provide these benefits to an unmarried partner. Check with your employer to determine whether or not your partner is eligible for some of your employee benefits. Be aware that there are sometimes income tax ramifications of employer benefits to an unmarried partner that do not exist for unmarried couples.

Legal Protections
The law has not kept up with the fact that unmarried couples now constitute a larger portion of the population. Married couples have some built-in protections for when a relationship ends by death or divorce; unmarried couples don't have these protections.

If you are married and your spouse dies, you will automatically inherit at least some amount of money if your spouse does not have a will. Unmarried couples do not have this protection. Having a will and power of attorney could prove to be even more critical for an unmarried couple than it is for a married couple.

Jon Robertson, CFP ®

If a married couple chooses to split up, they can go to divorce court to dissolve the relationship and divide their property equitably. It is more difficult for an unmarried couple to use the court system to dissolve the relationship. An unmarried couple might want to make efforts to keep assets divided equally so that neither party will be harmed if the relationship ends. A person obtaining a divorce can also obtain a court order to distribute a portion of the retirement plan to the spouse without adverse tax consequences. Unmarried couples do not have this as a resource.

Unmarried couples should discuss these issues with an attorney to make sure the partners have all the necessary protections.

Property and tax laws make it more difficult for unmarried couples to coordinate their plans. It is important for your financial, tax and legal advisors to know both you and your partner's situation in order to be able to give the best advice possible. Once you and your partner have a plan in place, you will be one step closer to financial success and comfort.