

Getting Hitched: Financial Planning for Same-Sex Couples Considering Marriage

Wealth Management Insights | August 2015

With the Supreme Court striking down Section 2 of the Defense of Marriage Act and legalizing same-sex marriage nationwide, same-sex couples may find themselves learning an entirely new set of financial rules and strategies. August's Wealth Management Insights takes a look at the ruling's impact on financial, tax and estate planning for the LGBT community.

.....

Same-sex spouses who were denied spousal benefits within the past two years may be eligible to receive them retroactively.

.....

What you should know:

1. Same-sex couples experiencing marriage's financial benefits for the first time may need to unwind old planning strategies.

- Same-sex spouses will now be able to file both federal and state tax returns jointly, eliminating the need and expense of multiple sets of returns.
- Like their opposite-sex counterparts, married LGBT couples will be able to pass on assets to each other tax-free. Life insurance policies that were purchased specifically to cover estate taxes may no longer be necessary.
- Some financial and benefit plans require a legal spouse be listed as the primary beneficiary.

Same-sex spouses should verify that beneficiary designations on insurance, health and retirement accounts are up-to-date.

2. Same-sex couples may also have tax and estate planning benefits newly available to them.

- Same-sex couples now have the right to inherit a spouse's property without a will and make medical decisions on the part of a spouse.
- Spousal Social Security benefits are available to all legally married couples. Same-sex spouses who were denied spousal benefits within the past two years may be eligible to receive them retroactively. ▶

- Just like opposite-sex couples, spouses in a same-sex marriage can be held responsible for the other spouse's debts, such as mortgages, car loans, credit cards and student loans.

3. Same-sex partners must now consider the financial pitfalls as well as benefits of marriage.

- A married couple filing taxes jointly may end up paying more than they expected. The so-called marriage penalty results when a couple's combined income puts them in a higher tax bracket than if each spouse filed singly.
- Same-sex marriages are not immune to divorce. Some couples – especially those with significant assets from before the relationship – may decide to create a prenuptial agreement.
- Second-parent adoptions – when one person adopts the biological child of his or her partner

– are common in same-sex relationships. Note, however, that the \$13,400 adoption tax credit does not apply when a taxpayer adopts the child of his or her spouse.

What you should do now:

The Supreme Court's ruling has had a broad and personal impact on the lives of same-sex couples – and the ramifications of that decision are still unfolding. A Baird Financial Advisor can help same-sex couples sort through its implications and create a financial plan tailored to their specific needs. ■