

Prior to 2007, if a husband and wife owned and operated a small business, they had to file a partnership tax return if they wanted to split their income. Usually this was done so each partner could receive credit for Social Security and Medicare taxes paid and therefore build credit towards retirement benefits.

In 2007, Congress and the Internal Revenue Service recognized this was a complicated and costly solution to a simple problem. As a result, Congress passed the Small Business and Work Opportunity Act (SBWOTA).

This allows a husband and wife, who operate a qualified joint venture and file a joint tax return, to treat their respective share of income and expenses as separate sole proprietorships and file two Schedule C's with their Form 1040.

SBWOTA eliminates the need to file a partnership return and usually does not increase the total tax owed. Also, each spouse receives credit for Social Security earnings on which retirement benefits are calculated.