

“The Effects of Divorce on Income Tax Filings”

By Alicia Williamson on 2/25/2008

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Getting a divorce is never an easy experience and often entails an array of complex situation. Income tax is one of those situations that can cause turmoil around finances, property and child custody issues, so although you've made the decision to end the marriage, both the husband and wife are still legally responsible for all tax liabilities that have been incurred.

Marital Status on the Last Day of the Tax Year

Just when you thought you've turned a corner, and you're finally ready to end the marriage, here comes tax time. This is where it could get tricky and you could find your situation even more complicated. If you are getting ready to file for divorce, before you do anything you should know that divorce, annulment and even separation will very likely cause difficulties when it comes to filing your tax return. In fact, your marital status on the last day of the tax year determines your income tax filing status for that tax year. To grasp the full effect divorce can have on your taxes, you should consult both a divorce attorney and a tax advisor about your financial situation before you do anything. Without the help of both, you could find yourself in financial trouble.

The Impact of Taxes on Divorce

Divorce generally affects several tax issues and may have an effect if property is transferred between spouses or when the property is used for a different purpose after the divorce. By way of example, suppose while you were married you had a vehicle that was used for business purposes. Then after the divorce it's no longer used for your business. If that's the case, it could have tax consequences that must be addressed on your taxes. In another scenario, if a spouse receives alimony or spousal support, it is considered income to the receiving spouse and can be deducted on income taxes by the spouse paying the alimony. Alimony received is taxable just as ordinary income, so a \$60,000 payment received is actually worth \$42,000 after taxes. In addition, the custodial parent can file a claim for child-care credit for any children, but the parents will have to determine which parent is entitled to claim tax exemptions for the children. As you can see, tax time makes things after divorce a bit more complicated.

The Divorce Settlement and Capital Gains

Another area to watch out for is capital gains in the divorce settlement. Capital Gains are the fair market value of an asset minus the cost. Say for example, you and your spouse bought a house and you paid \$250,000 for the home, but it is now worth \$350,000. There is a capital gain of \$100,000. This also applies to any other assets you may have accumulated such as investments or mutual funds that have appreciated. So, for tax purposes, it's important that any property you receive in the divorce settlement doesn't have a capital gain larger than your ex-spouses. Being

cautious about this will prevent you from winding up with a tax liability when it comes to income tax time.

Filing Status After Divorce

The filing status you choose after divorce is also a very important decision. Suppose you were still married by the time December 31 rolls around at the end of the tax year. You have the option of filing a joint return with your ex spouse, which if that's a possibility would be an option that can save considerable taxes for both spouses. Keep in mind though, if you file jointly and your ex doesn't meet his or her obligations to the IRS you can be held responsible. If on the other hand you were divorced after December 31 and you qualify, filing as head of household rather than as a single can also save tax dollars.

Undecided About How To File

If you're undecided about which way to file your taxes after divorce or are simply not sure which would be best, one way to avoid any tax time snags is to draw up two sets of a rough estimate of your Federal and state taxes, which could be used as either separate filing status or joint filing status. That way, once the time comes to file your taxes, you'll be ready and prepared to make the decision that proves to be the best way to go when it comes time to filing your taxes.

About the Divorce Attorneys at Straight Divorce

A good [divorce attorney](#) can help make the transition a little smoother. Straight Divorce has successfully assisted thousands of individuals with divorce situations for over a decade. Making the divorce process as simple as possible, the lawyers at Straight Divorce are available for consultation. To speak with an attorney, please visit Straight Divorce at www.straightdivorce.com or if you are ready for the services of a [divorce attorney](#), please call us at 1.800.353.6058 or e-mail us at articles@straightdivorce.com for assistance.