7 Facts You Need to Know About Divorce and Taxes

Divorce is difficult and often devastating. Your life has changed dramatically, and that includes your tax status. If you are one of the many people who went through a divorce this year, you are facing a different tax situation. As a result, you may even be filing your own tax return for the first time.

Here are 7 facts you should know about taxes if you are about to be or were recently divorced.

1. Understand your filing status.
Your marital status at the end of the year determines how you are to file your tax return. If you were divorced by midnight on December 31st of the tax year, you must file separately from your former spouse. If your divorce was final on February 3rd or November 3rd, you must file separately as a single taxpayer. If you are the custodial parent for your children, you may qualify for the favorable head of household status. If not, you will file as a single taxpayer even if you were married for part of the tax year. These are hard facts of taxation, so it is best to act early.

2. If you are employed, change your withholding on Form W-4.
It's always best to review your withholding whenever there are life changes. The earlier in the year you do this, the better for tax implications. It is always best to consult with an

accountant during the difficult transition after a divorce. Financial guidance during the disorienting days surrounding a divorce can be vital to this new chapter of life—but it needs to be from someone knowledgeable and objective.

3. Review your divorce decree to confirm who will claim the children as dependents.

If your divorce agreement did not specify who claims the children as dependents, then the custodial parent is the appropriate one to claim them. If the agreement is joint custody, the parent with whom the child lives with the largest number of days during the tax year has the legal right to claim the child as a dependent.

4. Claim Head of Household if You Have a Child.

If you are considered single on the last day of the year (whether divorced or legally separated), you are allowed to take a higher standard deduction by claiming Head of Household compared to filing as a single earner. You are entitled to claim Head of Household if you have a qualifying dependent (your child) and provide more than half of their support. Under the present tax law, the standard deduction is $18,000 for Head of Household compared to $12,000 for single filing status. That can mean a tax saving between $720 and $1,920!

5. File first if you are entitled to claim your child, especially if there are issues with your former spouse.

If you are entitled to claim your children on your tax return, but your former spouse threatens to claim them instead, file early in the year. If you do file early, the IRS will require your ex to prove he or she was entitled to claim them instead, since you've already claimed your children as dependents.

6. Consider the tax implications of child support.

Child support is not tax-deductible to the person who pays it. Alimony is tax-deductible only if your divorce was final in the same tax year. Conversely, the recipient of alimony must claim it on their tax return if the divorce was final by December 31st of the tax year. However, child support isn't reported as income. If you chose to roll your support together into "family support" in your divorce agreement, it is fully taxable to the recipient and deductible to the payer—just like alimony. Under the tax reform of 2019 (the taxes you file in 2020), the person paying alimony is no longer allowed to deduct the alimony paid. And, the person receiving alimony will no longer have to claim alimony as income if your divorce was final after December 31st, 2018. Divorces that were final prior to 2019 are grandfathered in and subject to the old rules.

7. Claim the Child and Dependent Care Credit if you are eligible.

If you are the custodial parent and you incur work-related child care expenses for children under the age of 13, you may be able to claim a credit of up to $1,050 for one child and $2,100 for two or more kids. That can be a financial boost during a time of significant life transition.

Divorce isn't as inevitable as taxes, but it certainly brings new tax implications. When your financial life is turned upside down, your income tax situation shifts. In most cases, you are better off getting your own CPA rather than using the same one your prior spouse uses. You will then have a team focused squarely on your needs without distraction.

Getting your financial life together after divorce is possible, but it does require some work. Objective advice can save you thousands of dollars. ABC Tax Consulting is here to help you navigate your way to financial stability. Call us today with questions or for an appointment.

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