

Divorce? Alimony? Tax Reform Says Get Divorced Now—Don't Wait

Tax reform changes the alimony game. This may or may not have any relevance to you, but if it does, you will want to move quickly.

The Tax Cuts and Jobs Act (TCJA) eliminates tax deductions for alimony payments that are required under post-2018 divorce agreements. More specifically, the TCJA's new denial of alimony tax deductions applies to payments required by divorce or separation instruments

- executed after December 31, 2018, or
- modified after that date, if the modification specifically states that the new TCJA treatment of alimony payments now applies.

Example. Betsy is divorcing Tim, and Betsy will pay \$120,000 a year in alimony. If Betsy can deduct the \$120,000 in her 50 percent combined federal and state income tax bracket, her net cost is \$60,000 (\$120,000 x 50 percent).

To look at the alimony in another light, with no tax deduction, Betsy has to earn \$240,000, then pay taxes of \$120,000 in her 50 percent bracket, before she can give Tim the \$120,000. Regardless of how you look at the cost of alimony, the loss of the alimony tax deduction is huge.

Note: You deal with a judge (court) to finalize the divorce. This could take some time, so don't procrastinate, or you'll surely miss the deadline.