



Tax Reform and Divorce

The rules regarding alimony changed this year. If you were divorced in 2019, alimony is no longer taxable income to the recipient, and is no longer deductible by the payor. This could have a huge impact on your taxes. The good news is that if the divorce decree and property settlement were finalized before January 1, 2019, the old rules still apply. Any modifications to the agreement follow the old rules unless both sides agree to use the new rules. Here are a few scenarios to illustrate how this might look.

Scenario 1: Abel and Betty signed a property settlement and finalized their divorce on December 15, 2018. The settlement requires Betty to pay Able \$1,000 per month in alimony each month. In 2019, Betty has a deduction of \$12,000, and Abel has \$12,000 of income.

Scenario 2: Carl and Dana signed a property settlement and finalized their divorce on January 15, 2019. The settlement requires Carl to pay Dana \$1,000 per month in alimony each month. The alimony is neither deductible for Carl nor is it income for Dana.

Scenario 3: Abel and Betty's circumstances change. They alter their original agreement on February 15, 2019, after two payments were made. The alimony Betty pays to Abel is now \$500 per month. The agreement is silent about the

change to the law. Betty has a deduction of \$6,000, and Abel has \$6,000 of income.

Scenario 4: The circumstances of Scenario 3 are the same, except the modification provides that the alimony going forward follows the new law. Betty has a deduction of \$2,000, and Abel has \$2,000 of income. These numbers reflect only the payments made before the agreement was modified.

If you find yourself in any of these situations and have questions, I'm here to help.

Important Due Dates

- September 16, 2019 – Third Quarter Estimated Tax Payments Due
- October 15, 2019 – Extended Individual Tax Returns Due

Tax Notes

If you paid an estimated tax penalty because you paid less than 90% of your tax due, the IRS is waiving the penalty automatically. If you paid the penalty before the threshold was lowered to 85% then to 80%, you should receive a Notice CP21. If you do receive a letter from the IRS, don't panic. Come see me and we'll figure out how to proceed. You might get a refund!

Did You Know?

The Pumpkin Spice Latte was introduced by Starbucks on a limited basis in 2003. The following year, the latte became available nationwide. It is the most popular seasonal drink offered by Starbucks and contains sugar, milk, pumpkin puree, espresso, and preservatives.

Quote Corner

"Autumn is a second spring when every leaf is a flower."

~ Albert Camus

