

DIVORCE TIPS

YOUR CHANGING TAX PICTURE

If a divorce is in your future, you have a lot on your mind — the household, mixed emotions, perhaps children. But now is not the time to overlook your finances. Each case is different, and there's no pat answer. To help reduce the likelihood that a divorce will disrupt your tax and investment strategies, you need to understand a few fundamentals.

The rules governing divorce are complicated and also vary by state. The following is intended to provide only an overview of the issues involved.

Always consult your attorney and tax advisor about your specific situation.

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If you're faced with a divorce, you need to be aware of a variety of general considerations about your tax situation.

FILING STATUS

Most married couples file a joint return that provides a variety of tax advantages. A divorce, of course, changes that. In general, you are considered married for the entire year and can continue to file jointly if you have not obtained a final decree of divorce or separate maintenance (the document that puts the terms of a legal separation into writing) by the last day of the tax year, December 31.

TAX BENEFITS FOR DEPENDANTS

There are several types of tax credits that may apply related to your children, such as the child tax credit, dependent care credit, or education credits. You should consider which parent will claim these tax benefits and document the decision as part of the divorce agreement.

“*Don't be afraid. Be focused. Be determined.
Be hopeful. Be empowered.*
— Michelle Obama

ALIMONY

The taxability of alimony payments will depend on the date of execution of the divorce decree, separation agreement, or modification due to the passage of the Tax Cuts and Jobs Act of 2017.

Alimony payments required under a divorce decree or separation agreement executed on or before December 31, 2018 follows old rules. The payer can deduct alimony payments and the recipient must report the amounts received as taxable income.

Alimony payments for any divorce decree, separation agreement, or modification (specifically stating new rules apply) executed after December 31, 2018 is no longer deductible by the payer and is not considered taxable income to the recipient.

Keep in mind that not all payments made under a divorce or separation agreement are considered alimony; these rules apply only to alimony payments. Your tax advisor can help determine which payments qualify as alimony.

CHILD SUPPORT

Child support payments are neither deductible by the payer nor taxable to the payee.

Invictus Wealth Management | 2003 South Easton Road, Suite 208 | Doylestown, PA 18901
(267) 507-9771 | beth@invictuswm.com | www.invictuswealthmanagement.com

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