

Alimony and Taxes in Divorce

Come January 1st 2019, the tax ramifications of alimony will undergo a major shift. As the law currently stands, spouses that are ordered to pay alimony can deduct that amount from their yearly income. At the same time, spouses receiving alimony must treat it as income, which means they will pay federal income taxes on it. Because alimony is deductible for the paying spouse, he or she may end up in a lower tax bracket and thus may save considerable sums of money. This creates an incentive for high-earning spouses to be more agreeable to alimony, ultimately decreasing the time and money spent fighting in court. After all, the lure of being put in a lower tax bracket is all too enticing for many high-earning spouses.

Given the financial benefits to both parties, alimony is often used as a bargaining chip in divorce proceedings. However, alimony's value as a bargaining chip, as well as any incentive for a high-earning spouse to agree to it, will dissipate as the new tax laws come into effect. Under Donald Trump's new tax bill, alimony will no longer be deductible to the paying spouse or taxable to the spouse receiving it. The new tax law will apply to all divorces finalized after December 31st 2018, while those finalized prior to this date will continue to be governed by the tax law in effect right now.

Under the new law, the tax consequences for the paying spouse will be significant. The paying spouse will no longer be able to deduct alimony payments from his or her income, and despite being ordered to give such money away, he or she will be forced to pay federal income taxes on it. In addition to tax consequences for the paying spouse, the new law will also result in other, more general consequences. For example, it will almost certainly result in increased litigation. Because alimony is no longer deductible for the paying spouse, the incentive to agree to alimony (in higher amounts, or at all) is lost. Thus, high-earning spouses will likely try to fight alimony more often, thereby resulting in increased litigation.

For many people, it would be in their best interest to finalize their divorce prior to December 31st of this year. However, as the end of the year gets closer and closer, there are little options left for those who have not yet commenced divorce proceedings. Parties cannot simply get divorced over-night. In Pennsylvania for example, where one party has filed for divorce unilaterally, the court will impose a waiting period of one year before granting the divorce decree. Even if the divorce is mutual, the court will not issue a divorce decree until 30 days has passed. Thus, for parties seeking a mutual divorce in Pennsylvania, there is a small window of time left in which the divorce may be finalized prior to the new law taking effect. However, if the divorce is unilateral and the proceedings were initiated in the last few months, or have not been initiated at all, the new tax bill will govern alimony.

(For more information on this topic or any topic in divorce, custody, mediation, child support, collaborative law, PFA matters, alimony, or other family law matters, visit www.Pittsburgh-Divorce-Lawyer.com or contact Notaro & Associates, PC at 412-281-1988 for a free phone consultation with an attorney. You can also schedule online by clicking [here](#).)