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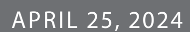
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Five Things Women Should Know About Taxes After A Divorce

Although we are past the April 15th deadline, it is still important to consider tax implications throughout the year as your financial circumstances evolve. The transitions that women navigate going through a divorce can be unsettling, including adjusting to different living arrangements, sharing child custody, and determining future income. As you move through the process of finalizing a divorce, one thing you can do to help ease the transition is being aware of how these changes will impact your tax filing.

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Here are a few examples of life changes that may trigger tax changes after a divorce is final:

1. Tax Filing Status

Your federal filing status is determined by your marital status as of December 31st. Once your divorce is final, your filing status will change to one of two options—Single or Head of Household. As Head of Household, you receive a larger standard deduction, but filing as Head of Household has additional requirements related to maintenance of a household for a dependent child. This means that your home serves as the primary residence for the dependent child for more than half of the tax year. If you have started the process of divorce in one tax year but is not finalized, you may want to consult your tax advisor or attorney as the laws for filing while you are separated differ state to state.

The standard deduction for your filing status is updated by the IRS each year but for Tax Year 2024, the standard deduction for single filers is $14,600 (single or married filing separately) and the standard deduction for heads of household is $21,900.

2. Claiming Children as Dependents

Another deduction to address in the Divorce Settlement Agreement is which taxpayer will be entitled to claim children as their dependent. While exemption amounts can change from year to year, the 2023 exemption amount for one child was $2,000 and begins to phase out if your Head of Household income exceeds $200,000. The exemption is subject to the tax law being updated for tax year 2024.

If your divorce settlement does not specify who gets this exemption, then the custodial parent automatically claims the child. This matter is often agreed upon during negotiations and the exemption is traded or shared with the non-custodial parent by using IRS Form 8332. This could the most beneficial financial option for a couple if one spouse is in a higher tax bracket. For example, some typical settlements allow for one spouse to always claim the same child. Be aware of this claiming strategy as the parent claiming the older child will run out of the exemption sooner.

While exemptions can be negotiated, child-care credits cannot. Only the custodial parent can take child-care credits.

3. Home Ownership Deductions

Since home mortgage interest is generally one of the most significant itemized deductions in reducing your overall tax bill, it's critical to have a clear understanding of who has the right to claim the deduction and accurately account for those payments. If you're still in negotiations, be sure your lawyer includes this as part of your Divorce Settlement Agreement.

In cases where you retain the home, but the mortgage is shared with your ex-spouse, the matter of who takes deductions for mortgage interest and real estate taxes paid becomes a question. Generally, both ownership of the home and actual amounts paid for the mortgage dictate who takes the deduction and for how much. So, if you are sharing a mortgage, the deduction included on your tax return should reflect your proportion of the expenses paid. If your ex-spouse is paying something towards the mortgage post-divorce, they too have the right to take deductions in proportion to the amount they are paying.

Sometimes, couples will retain joint ownership and share mortgage payments even after the divorce. In that case, deductions should be split 50/50. Bear in mind that the IRS usually awards the right to claim the deduction to the party that proves payment came from their separate funds.

4. Income and Estimated Tax Credits

It's rare that your post-divorce income would be similar to your income while married. From alimony and child support payments to any income earned independently, it's likely your stream of income will be significantly different. With that, in the case of earned income from employment, you'll need to recalculate estimated income tax and consider whether your withholding should change. Keep in mind that tax brackets for Head of Household filers are lower than those for joint filers, so if you were the primary income earner, you may need to withhold more tax by reducing the number of exemptions on your W-4 to avoid penalties for underpaid estimated taxes.

5. Splitting Up Investments

If you're still in the process of transferring assets according to your final settlement agreement, when initiating a transfer from the retirement plan from which assets will be split, be sure it is delivered to an account in your name following IRS guidelines to make sure the transfer will not trigger a tax event. sharing a mortgage, the deduction included on your tax return should reflect your proportion of the expenses paid. If your ex-spouse is paying something towards the mortgage post-divorce, they too have the right to take deductions in proportion to the amount they are paying.

Taxable accounts should include transfer of both the total value of the assets and the associated tax cost basis. Keeping track of cost basis also applies if you make improvements to a home; these expenses increase the basis of your home and should be carefully tracked.

Once you are in possession of your assets, the focus shifts to understanding your total portfolio, review your asset allocation as you plan for your future, and any tax implications associated with making changes to your investment strategy. Perhaps while married, your portfolio reflected a higher level of risk than you are comfortable holding or you may need to make a plan for liquidation of assets over time to meet living expenses. These decisions should be made with a clear understanding of potential tax implications. While changes may be called for to achieve a target allocation or to implement recommendations from a new advisor you've hired, be certain you fully understand the associated tax bill before pulling the trigger. You don't want to be surprised come tax time, which may be several months away from when you're making portfolio decisions.

This is also a good time to review how much you have saved for retirement. Evaluate whether you qualify to make additional contributions to either a company retirement plan or an Individual Retirement account. It's likely that your income profile has changed from the prior year, meaning you may now qualify to make contributions even if you did not qualify when you filed jointly while married.

There are a lot of details to consider and managing the tax implications of a divorce can be challenging. Now is the time to decide who will assist you in tax planning and preparation moving forward, especially if your spouse previously prepared your taxes or managed your relationship with your CPA.

If you're in need of investment management services or an updated financial plan, you may want to focus on firms that include all those services under one roof. That will likely save you time and money while simultaneously providing an opportunity to establish a long-term relationship with a team of professionals on your terms. Regardless of how you choose a tax professional, it's important you find assistance and support to ensure any life changes you're making now and into the future are reflected in your tax planning and filings.

We have also compiled a comprehensive Post-Divorce Checklist that can be download used as a roadmap to executing critical post-divorce actions. Failing to complete these can have signifi cant fi nancial consequences.

Often people think that once you get past the April 15th tax deadline you can ignore taxes until next year. Instead, to simplify your life as you move forward, you should keep taxes in mind as you make life changes. A good rule to follow is that any change you make to your finances will have some level of tax impact now or in the future. Since your tax bill is the largest bill you will pay over your lifetime—more than your mortgage or college payments— understanding the subtler aspects of your taxes after a divorce is a pivotal step in managing and taking charge of your wealth.

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