Tax Reform: Guide to Divorce

Course # 3421A

Taxes

2 Credit Hours

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TAX REFORM: GUIDE TO DIVORCE

The new Tax Cuts and Jobs Act has specific tax consequences for separated and divorced individuals and this course will ensure that you have a solid understanding of these changes. Major changes including the elimination of the alimony deduction, the tax modification of existing alimony agreements, whether to opt in or out of the new tax rule, and the child tax credit increase will all be addressed in this course material.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Highlights of Tax Changes Affecting Divorce
Alimony
Children and Divorce
Standard And Itemized Deductions

Study the course materials from pages 1 to 47

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Identify law changes due to the Tax Cuts and Jobs Act
- Recognize how alimony is affected by the Tax Cuts and Jobs Act.
- Identify how divorced taxpayers with children have been affected by the Tax Cuts and Jobs Act
- Recognize new changes made to standard and itemized deductions

Program publication date **5/13/2019**

EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

TABLE OF CONTENTS

CHAPTER 1: HIGHLIGHTS OF TAX CHANGES AFFECTING DIVORCE

Chapter Objective

After completing this chapter, you should be able to:

- Identify law changes due to the Tax Cuts and Jobs Act.

1.01 INTRODUCTION

Divorce can be taxing — in more ways than one. There's no doubt that dividing up financial and physical assets, negotiating spousal support, making arrangements for the care and support of children, dealing with the family home, and making the myriad other decisions involved in splitting up a marital partnership can be physically and emotionally draining. However, as tax professionals are well aware, each and every one of those decisions can have significant tax consequences that must be factored into the equation.

And under the 2017 Tax Cuts and Jobs Act, the equation has changed dramatically. Moreover, that's true not just for taxpayers who are currently in the throes of a divorce, but also for taxpayers who have been divorced for years and even for those who are happily married. For example, a divorced couple may have made decisions about spousal support and other financial matters based on tax assumptions that no longer apply. Similarly, a happily married couple may have entered into a prenuptial agreement that no longer makes "tax sense."

Planning Tip

Clearly, newly divorcing taxpayers will need to bone up on this new tax math. However, couples whose current divorce settlements were based on prior tax law assumptions may want to renegotiate — especially if the divorce was an amicable one. And couples with prenups should consider reviewing them now to avoid disagreements down the road.

1.02 KEY NEW LAW CHANGES FOR INDIVIDUALS

The most widely publicized and most dramatic new law provision affecting divorce is, of course, the change in the tax treatment of alimony. However, the new law changes that could potentially impact divorcing or divorced taxpayers go well beyond alimony.

Key tax law changes for individual taxpayers are discussed briefly in this section. The implications of these and other new law changes for divorced or divorcing taxpayers will be discussed in detail later in this guide.

Income Tax Rates and Brackets. The Tax Cuts and Jobs Act modifies the individual income tax rates and brackets for all filing statuses. [Code Sec.1(j)] The new rates are 10%, 12%, 22%, 24%, 32%, 35%, and 37%, compared to 10%, 15%, 25%, 28%, 33%, 35%, and 39.6% under prior law.

The following tables compare the tax rates for 2019 under the new tax law with the indexed rates for 2018 under prior law as previously announced by the IRS. [*See* Rev. Proc. 2017-58, 2017-45 IRB 489]

SINGLE

New Law Tax Rate	Prior Law Tax Rate
10% .... $0-$9,700	10% .... $0-$9,525
12% .... >$9,525-$39,475	15% .... >$9,525-$38,700
22% .... >$38,700-$84,200	25% .... >$38,700-$93,700
24% .... >$82,500-$160,725	28% .... >$93,700-$195,450
32% .... >$157,500-$204,100	33% .... >$195,450-$424,950
35% .... >$200,000-$510,300	35% .... >$424,950-$426,700
37% .... >$510,300	39.6% .... >$426,700

HEAD OF HOUSEHOLD

New Law Tax Rate	Prior Law Tax Rate
10% .... $0-$13,850	10% .... $0-$13,600
12% .... >$13,600-$52,850	15%> .... >$13,600-$51,850
22% .... >$51,800-$84,200	25%> .... >$51,850-$133,850
24% .... $82,500-$160,700	28%> .... >$133,850-$216,700
32% .... >$157,500-$204,100	33%> .... >$216,700-$424,950
35% .... >$200,000-$510,300	35%> .... >$424,950-$453,350
37% .... >$510,300	39.6% .... >$453,350

MARRIED FILING JOINTLY

New Law Tax Rate	Prior Law Tax Rate
10% ....$0-$19,400	10% .... $0-$19,050
12% ....>$19,050-$78,950	15% .... >$19,050-$77,400
22% ....>$77,400-$168,400	25% .... >$77,400-$156,150
24% ....>$165,000-$321,450	28% .... >$156,150-$237,950
32% ....>$315,000-$408,200	33% .... >$237,950-$424,950
35% ....>$400,000-$612,350	35% .... >$424,950-$480,050
37% ....>$612,350	39.6% .... >$480,050

MARRIED FILING SEPARATELY

New Law Tax Rate	Prior Law Tax Rate
10% .... $0-$9,700	10% .... $0-$9,525
12% .... >$9,525-$39,475	15% .... >$9,525-$38,700
22% .... >$38,700-$84,200	25% .... >$38,700-$78,075
24% .... >$82,500-$160,725	28% .... >$78,075-$118,975
32% .... >$157,500-$204,100	33% .... >$118,975-$212,475
35% .... >$200,000-$306,175	35% .... >$212,475-$240,025
37% .... >$306,175	39.6% .... >$240,025

Capital Gain and Qualified Dividends. Most capital gain and dividend income is taxed at lower rates than ordinary income. The Tax Cuts and Jobs Act retains favorable tax treatment for capital gain and dividend income, but makes some technical adjustments in the way the tax rate is figured. [Code Sec. 1(j)(5)]

Under prior law, a taxpayer's adjusted net capital gain (net capital gain plus qualified dividend income) was taxed at a rate of 0%, 15%, or 20%, depending on the taxpayer's regular tax bracket. Thus, the tax was 0% on adjusted net capital gain falling in the regular 10% or 15% brackets; 15% on gain in the 25%, 28%, 33% or 35% regular brackets; and 20% for gain otherwise taxable at the highest 39.6% rate. For this purpose, the adjusted net capital gain was treated as coming on top of the taxpayer's regular income.