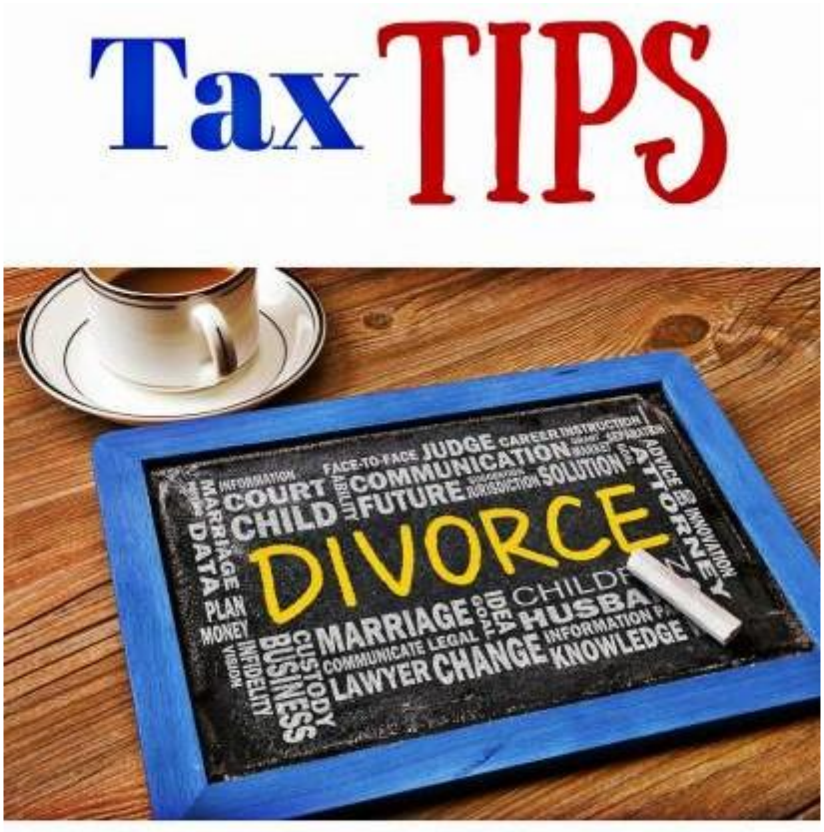
NEW TAX CONSIDERATIONS FOR 2018 AND BEYOND



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Congress recently passed a tax reform bill which was signed into law by the president.

I am not an accountant so this isn't a tax article but an FYI in family law and divorce primarily for New York. So how does the new tax reform possibly impact divorcing couples.

There are three main areas of impact

First, and the most significant area for divorcing and/or separating couples, the tax reform law eliminates the deductibility of spousal support for any new agreements entered inro after 12/31/18. This means that agreements signed after December 31, 2018 will not be eligible for the tax deduction for maintenance and spousal support. Agreement modifications made after that date could still have the tax treatment so long as the parties still desire it.

The present tax law provides spousal support for certain couples depending on their incomes, the higher-earner pays spousal support to a lower-earning spouse. The lower-earning spouse would pay taxes on the support received and the higher-earning spouse would be able to deduct the alimony paid. For some divorcing couples, this tax effect is very beneficial.

Second, is the elimination of the so-called SALT (state and local tax). We in New York and especially on Long Island have significantly higher property taxes than most areas in the country. The new law caps the combined property tax and state income tax deduction to $10,000.

When couples divorce, they now have to support two households, two homes, two sets of utility bills, car insurance, etc. There are however, certain changes that may help, the standard deduction would increase to $12,000 for single filers ($24,000 for married filers and $18,000 for the head of household). That would probably depend on specific circumstances and you should contact your accountant.

The *third* is how exemptions are handled. Personal and dependent exemptions are eliminated, which previously took $4050 per person (including dependents) off of income. Parents would often discuss how to split or allocate the dependent exemption for their children. That will be non-existent for 2018 and beyond.

However, the child tax credit has been doubled to $2000 per child under 17 years of age. Deductions reduce taxable income while tax credits directly reduce the tax owed. Thus, a parent in the old 25% tax bracket would save about $1000 in taxes per exemption and will now save $2000 in taxes per child as long as their children are under 17.

The income phase-out of the child tax credit has also been increased to $200,000. So while parents lose the exemption for each minor child and themselves, the tax credit might be more valuable depending on your income. Like the old dependent exemption, the child tax credit can be assigned to either parent. And like the old exemption, it may be more valuable to one parent than the other and should be discussed (and negotiated) during the divorce process.

The other trade-off for losing the exemptions is a doubling of the standard deduction, per above. In New York, this may not be helpful since homes and taxes are expensive so itemizing deductions may still be needed if the taxpayer exceeds the standard deduction limit.

The new law keeps the current home capital gains regulations, which should help divorcing couples keep the current exemption and associated rules when selling the marital home.

There are also a few other deductions that are eliminated in the law. The moving expense deduction is suspended from 2018-2025. The home mortgage deduction also faces changes. Currently, homeowners can deduct up to $1.1 million in the acquisition and home equity loan interest. The new law lowers that to $750,000 for new loans (and cap it at $1,000,000 for existing loans) and eliminates the deductibility of home equity loans (unless used for improvements on the home).

This article is not designed to be comprehensive, but to give divorced, divorcing and potential divorcing couples that they could be impacted by tax reform.

As always, speak with a qualified tax professional before making any decisions.