

The IRS — A Third Party in Every Divorce Settlement

Reaching a mutually acceptable divorce settlement between two parties is never easy. Add a third party, the IRS, and the process is further complicated.

How is the IRS a Third Party in Divorce Settlements?

In the event of a divorce, applicable IRS and state tax code along with tax-related case rulings must be carefully weighed. The IRS becomes a third party in divorce financial settlements to the extent that property division, alimony, and child support affect taxes and disposable income.

Tax Code Affects Alimony and Child Support Settlements

A prime example of IRS influence during divorce settlements is seen through alimony and child support calculations. The IRS treats alimony and child support differently. Alimony is taxable as income for the party receiving and deductible for the party paying. In contrast, child support payment is neither reportable income nor a deductible expense. Even so, child support payments still impact gross and net income.

Alimony and Child Support Tax Optimized Scenarios

Based on how child support and alimony payments are allocated, a lawyer can achieve a tax-optimized divorce financial settlement that often produces higher disposal income for both parties. Use a software program that instantly prepares a variety of alimony-child support scenarios, and you can quickly show your client available options.

Alimony and Child Support Examples

Here's how a child support and alimony settlement may or may not be optimized. Using a hypothetical example, with "John" as one spouse and "Mary" as the other, consider the following divorce and income situation:

- New Jersey residents, John and Mary are getting divorced and have two children.
- John's 2009 income is \$135K/year
- Mary's 2009 income is \$40K/year.
- Prior to divorce, John's after tax income was \$91K.
- Prior to divorce, Mary's after tax income was \$34K.

Out of many settlement options, consider the difference between the following two.

Option 1

- John pays Mary \$5K/year in alimony (**deductible**).
- John pays Mary \$20K/year in child support (**non-deductible**).
- John's after-tax income is \$68K
- Mary's after-tax income is \$58K.

Combined after-tax money available between John and Mary is \$126K.

Option 2

- John pays Mary \$18K/year in alimony (**deductible**).
- John pays Mary \$7K/year in child support (**non-deductible**).
- John's after-tax income is \$72K.
- Mary's after-tax income is \$56K.

Combined after-tax money available between John and Mary is \$128K.

Option 2 provides \$2,000 more after-tax income than option 1.

Divorce Financial Planning Software to the Rescue

In the past, understanding numerous alimony versus child support combinations, while factoring in state and federal codes was impractical — if not impossible. Not anymore. Now attorneys can create and evaluate divorce financial settlement scenarios in minutes:

With the right divorce settlement planning software, you can:

- Simultaneously show the after-tax impact on the income of both parents for up to five alimony vs child support payment schedules
- Easily compute required spousal support payments based on the custodial parent's after-tax budget requirement
- Assemble distributable assets and liabilities
- Propose various distribution scenarios
- Always know how much cash adjustment is needed to make the pot right
- Quickly produce customized, professional reports and charts, suitable for clients, opposing counsel and the judge
- Provide divorce planning that is applicable in all 50-states
- Offer high-quality solutions in a timely manner, and expand your firm's client base

Affordable and effective software cuts through the tax maze and helps you provide financially optimized settlement proposals during the initial consultation. Even with the IRS as a third party, you can convert prospects to clients and reach quick divorce settlements.

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