As 2018 Approaches Its End

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As 2018 approaches its end, what better time is there to discuss everyone's favorite subject: ***divorce***? Of course, the preceding sentence is a bit tongue-in-cheek; divorce is ***not*** anyone's favorite subject – including the author of this article. But, the subject of divorce is an important one that can have a life-long impact on both adults and children. Indeed, divorces can lead to financial ruin and significant psychological trauma. On the financial side, poor lifestyle planning, post-divorce overspending, or an overall lack of financial acumen can lead to devastation, including bankruptcy. The psychological trauma from divorce can range from mild depression to an exacerbation of mood or personality disorders. Still further, the long-lasting psychological impact of divorce often touches "children of divorce" regardless of whether the children are involuntary participants in court proceedings or unwitting players in parental alienation by one or both parents. If you want a primer on how ***not*** to behave during your divorce, spend 30 minutes on the internet reading about the antics of Brad Pitt and Angelina Jolie.

With that general information in mind, what happened in 2018? Well, Channing Tatum and Dewan split earlier this year. Jennifer Anniston and her husband (no one knows him) split after two years. Ariana Grande and Pete Davidson did not make it to the altar (Pete got the ring back, which is his property under New Jersey law). Finally, Olympic gold medalist Mary Lou Retton divorced after 27 years of marriage. And, if you remember nothing else, remember this: ***if it can happen to Mary Lou, it can happen to you.***

Celebrity breakups aside, 2018 also ushered in flurry of divorces between spouses who wanted to end their marriages prior to changes in the tax code that take effect in 2019. For starters, if you get divorced or reach a divorce settlement agreement after December 31, 2018, you should be aware that alimony is no longer taxable to the recipient. The practical effect is that the spouse who pays alimony will do so with after-tax dollars *without* the ability to take a year-end deduction for the payment of alimony. This may be very costly to high-income individuals who have significant alimony obligations. However, this change has caused a bit of an overreaction. Alimony is based on several considerations, including, among others, marital lifestyle (spending/saving/investing); the ability of one spouse to pay alimony; and the other spouse's need for alimony. Although the elimination of the alimony deduction is relevant, you should also be cognizant that matrimonial attorneys work with experienced accountants and, through their combined efforts, the duo can calculate an after-tax alimony payment, which reflects the tax consequences to the spouse who pays alimony.

A second change – one that took effect in 2018 – eliminated dependency exemptions for children. In 2017, parties could exclude $4,050 for each child-dependent; that exemption no longer exists. Instead, effective January 1, 2018, the child tax credit increased to $2,000 for each qualifying child (from $1,000). For those of you that do not know the difference, a tax exemption directly reduces your taxable income; a credit, offsets the taxes you owe.

Although the new tax law resulted in many changes, the final one I want to address will impact most New Jersey residents, including divorced spouses: the limit placed on what are referred to as SALT deductions (i.e. state and local taxes). Prior to the tax code changes, New Jersey residents could deduct both state income taxes and property taxes. The SALT changes – also effective for the 2018 tax year – limit SALT deductions to $10,000. As the Deputy Mayor in nearby Morris Township, I *know* how this will impact the residents of Mountain Lakes. Although the new tax code eliminated certain tax brackets and raised others, this one is sure to sting.