

Dividing Income And Expenses In The Year Of Divorce

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In the year you get divorced, you will have some unique tax challenges. Chief among them is how to divide joint income and expenses.

While you cannot file as a married couple for a particular year if you are divorced on or before December 31 of that year, you may still have some income and expenses that are joint. For instance, how do you handle mortgage interest that was paid on a jointly owned home? Or what do you do with interest income from a joint savings account?

The answer depends on where you live. If you live in a community property state, it's handled one way. If you live in an equitable distribution state, it's handled another.

There are only nine community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

The other 41 states are community property states. In Alaska, you and your spouse can choose to create a community property estate.

In a community property state, all income and expenses are considered to be earned or paid 50/50. If you get divorced on October 1, you are considered to have earned half of your spouse's income for the first nine months of the year. So even if you didn't get any of the money your spouse earned, you have to pay tax on half of it. Similarly, you get credit for half of the itemized deductions, whether you paid all or none of them.

If you lived apart from your spouse all year or meet some other exceptions, you can request relief from this provision under the innocent spouse rules. See your tax advisor or check out [The Divorce Financial Survival Series](#) for more details.

In equitable distribution states, the income is taxed to whoever earned it. If it was earned jointly (i.e. interest on a joint bank account) the income is split 50/50.

Deductions paid from joint accounts are split 50/50. Deductions paid from separate accounts are credited to the one who paid it.

Planning for these items in advance can help save you taxes down the road. Make sure you consult with a knowledgeable tax advisor to assess your situation.

For more information:

[Tax Rates And Dollar Limitations](#)
[The Divorce Financial Survival Series](#)