

Marriage and Divorce Mean Tax Changes

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H&R Block Gives Tips for Major Life Changes

KANSAS CITY, MO, Feb 12, 2010 (MARKETWIRE via COMTEX) -- Valentine's Day is just around the corner and what better time to talk about how falling in or out of love can also change a taxpayer's relationship with the IRS. By knowing what the tax rules are, taxpayers can be prepared when filing their tax returns. Being prepared helps them ensure they get the maximum possible tax benefits and, at the same time, avoid being hit with unexpected tax bills because of their new situations.

"Typically, the bigger the life change, the more impact it will have on your tax situation," said Amy McAnarney, executive director of The Tax Institute at H&R Block (NYSE: HRB). "Whether someone is coming into your life or exiting, the impact on taxes can be tremendous."

Major life changes can lead to re-learning what the appropriate tax filing status is and what "new" deductions or other tax benefits are available. Marriage, divorce and legal separation are some of the biggest reasons people have for altering how they file their taxes.

H&R Block recommends the following items to consider when preparing to file taxes:

Filing status

Married couples have the option to file as "married filing jointly" or "married filing separately." In most cases, married taxpayers file a joint return because of the added tax benefits, which includes eligibility for certain credits. However, filing separately can sometimes lower a tax bill. Couples should consult a tax professional to determine which status best meets their situation.

Whether couples file jointly or separately for calendar year 2009, they are advised to consider the possible implications of the addition of the Making Work Pay tax credit. Because the benefit of this credit was advanced through reduced withholding over the year, it could have resulted in not enough money being taken out of each paycheck to cover taxes based on a dual income household and/or multiple jobs for either spouse. If this is the case, they could see a reduction in their refund or even owe money to the government. If a couple is affected by this tax credit, then they should review their withholdings for calendar year 2010 to ensure that sufficient funds will be withheld to meet future tax obligations.

To file as head of household, taxpayers must meet these three conditions as of Dec. 31, of the previous year:

- Divorced (or met specific qualifications to be considered unmarried)
- Paid more than half the cost of keeping up their home
- Had a qualifying dependent living in their home more than half of the year.

Divorced taxpayers who do not qualify to use the Head of Household status will generally file as single. Taxpayers who are not divorced must continue to use one of the filing statuses for married couples.

Name, address change

Even when name changes result from marriage or divorce, it is important to remember to request a new Social Security card with the new name. If the name on the tax return and what the Social Security Administration has on file don't match, the IRS may delay processing the return, which means a refund could take weeks longer to arrive.

Inform the IRS of current mailing address to get refunds and correspondence without delay.

Alimony

Alimony is taxable and deductible; the payer may claim the payments as a deduction, while the recipient must claim alimony as taxable income. If the alimony payments decrease significantly in the first three years, the payer may have to include some of the

previously deducted alimony in income and the recipient would be able deduct some of the previously paid alimony. Be sure to review the recapture rules in IRS Publication 504, Divorced or Separated Individuals.

Children

In most cases, the custodial parent will claim the children as their dependents. However, non-custodial parents can claim children as their dependents with the written consent of the custodial parent. The written consent must be attached to the tax return on which the children are claimed. If the custodial parent releases the exemptions, the noncustodial parent would also claim the child tax credit for children who are under 17. The custodial parent, if eligible, would claim the earned income credit, the child care credit and file as head of household.

Child support

Child support is not deductible by the payer and it is not taxed to the recipient.

To see how life changes can change tax status and what documents are needed for specific tax situations, insert information in the tax preparation checklist.

Visit the H&R Block Web site or call 1-800-HRBLOCK for tax tips or to locate one of H&R Block's more than 13,000 locations nationwide.

About The Tax Institute at H&R Block

The Tax Institute at H&R Block is the go-to source for objective insights on federal and state tax laws affecting the individual. It provides nonpartisan information and analysis on the real world implications of tax policies and proposals to policymakers, journalists, experts and tax preparers. The Institute's experts include CPAs, Enrolled Agents, attorneys and former IRS agents who draw from years of experience and H&R Block's extensive network of resources. For more information visit our press center at <http://thetaxinstitute.com>.

About H&R Block

H&R Block Inc. (NYSE: HRB) is the world's preeminent tax services provider, having prepared more than 500 million tax returns since 1955. In fiscal 2009, H&R Block had annual revenues of \$4.1 billion and prepared more than 24 million tax returns worldwide, utilizing more than 100,000 highly trained tax professionals. The Company provides tax return preparation services in person, through H&R Block At Home(TM) online and desktop software products, and through other channels. The Company is also one of the leading providers of business services through RSM McGladrey. For more information, visit our Online Press Center at www.hrblock.com.

For Further Information:

Gene King
816-854-4287
Email Contact

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