Roses, Candy and Taxes: H&R Block Shares Tax Effects of Marriage, Divorce

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Life Changes Can Have Major Tax and Financial Implications

KANSAS CITY, Mo.--(BUSINESS WIRE)--Feb. 13, 2007--Whether you're tying the knot or severing the tie, Valentine's Day is a natural time to examine the tax implications of marriage and divorce. H&R Block offers these tax tips if you're considering one of these life changes.

More than just wedding gifts and thank you notes, marriage also means planning for a joint financial future, including how the couple's tax situation has changed:

- Marriage means choices. The IRS allows married couples to file using the "married filing jointly" or "married filing separately" status. Each has advantages that can be difficult to sort out. For example, if you claim medical expenses or other itemized deductions that are limited by your adjusted gross income, filing separately may be the way to go. But if you want to claim most tax credits or deduct your IRA contribution, you'll probably need to file jointly. Consult your tax professional to determine the right choice for your first time filing together.
- Social Security numbers don't change, but anyone who has changed their last name will need to apply for a new Social Security card. If the name and number don't match, the IRS might delay processing of the return, which means a refund could take longer than usual to arrive.
- Marriage also means adjusting retirement savings. Besides changing filing status on an employer's 401(k) account, newly married taxpayers also should consider increased limits for tax-deductible IRA contributions. If the couple's income meets certain limits, they could qualify for more of a deduction. In some scenarios, one spouse also may "borrow" from the other's earnings to meet the limits.
- Inform the IRS of a new address. If the IRS does not have the correct address on file for a newly married couple, it could take longer for a refund to arrive. Taxpayers shouldn't count on mail to be automatically forwarded and should consider filing Form 8822 to inform the IRS.

Divorce also can change a taxpayer's financial situation. The best advice is to understand the divorce agreement and its terms, especially key components that could complicate a tax return.

- Alimony is taxable and deductible. The person who provides alimony can claim the payments as a deduction, while the person who receives it can avoid a large end-of-year tax bill by paying estimated taxes during the year. Unlike alimony, child support is not deductible or taxable.
- Who claims children? The parent who has custody of a child usually can claim the child as a dependent. However, with the custodial parent's consent, the parent without custody can claim the child. (The custodial parent may still be able to claim certain tax benefits related to the child, including head of household filing status, the Earned Income Tax Credit, and the child-care credit.)
- Who is a head of household? There are several factors for determining the head of a household. A few include being considered "unmarried" on the last day of the year, having children or other dependents who live with you, and paying more than half the cost of providing a home for dependents. Taxpayers should consult with a tax professional to determine if they qualify for head-of-household status.
- Divorce, annulment and legal separation are considered the same by the IRS for tax purposes. The way a tax return is affected by the situation depends on how the decree is worded, and in cases where state and federal law differ, the IRS will side with the federal government.

Visit www.hrblock.com or call 1-800-HRBLOCK for more information on how marriage, divorce and other life changes can affect taxpayers' financial situations.

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