

Should You Race to Get Divorced Before the End of the Year for Tax Filing Status and Financial Planning?

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Deciding when to finalize a divorce can be influenced by many factors—financial, emotional, and legal. One key consideration is the impact your filing date will have on your tax filing status. Since the IRS determines marital status as of December 31, the date of your divorce could affect how much you owe or the refund you receive. Here's what to consider as you weigh the timing of your divorce.

For tax purposes, the IRS considers your marital status on the last day of the year. If your divorce is finalized on or before December 31, you will file as either "Single" or "Head of Household" (if you meet specific criteria). If you're still legally married on that date, you'll have to file as "Married Filing Jointly" or "Married Filing Separately."

- **Married Filing Jointly:** Typically provides the lowest tax rates and highest standard deductions. However, it can expose you to "joint and several liability," meaning you're both responsible for any tax debt or penalties.
- **Married Filing Separately:** This might be a good option if you want to avoid joint liability or if your spouse has significant tax issues, but it generally leads to higher tax rates and limited deductions.
- **Head of Household:** Is available if you are unmarried by the end of the year, have paid more than half of the household expenses, and have a qualifying dependent. This status provides a lower tax rate and a higher standard deduction than "Single."

The main financial difference between finalizing your divorce before or after December 31 hinges on tax brackets, deductions, and credits.

- **Married Filing Jointly vs. Single/Head of Household:** For many, filing jointly can lead to a lower tax burden, especially if there is a significant income difference between spouses. However, if your incomes are relatively similar, filing jointly may push you into a higher bracket. Additionally, if you file jointly, you may be eligible for tax credits like the Earned Income Tax Credit (EITC) and Child Tax Credit at higher income thresholds than if you file separately.
- **Head of Household:** If you qualify for Head of Household status, it may offer significant tax savings compared to filing as Single. This status is especially advantageous for those with dependent children and can be a compelling reason to finalize your divorce by year-end.

If alimony payments are involved, their tax implications depend on when your divorce is finalized. Alimony payments are only deductible to the payer and taxable to the recipient if the divorce agreement was finalized before December 31, 2018. If your divorce is finalized after this date, alimony is neither deductible for the payer nor taxable for the recipient under the Tax Cuts and Jobs Act. Therefore, your divorce timing may have no immediate tax impact if alimony is a factor.

Sometimes, finalizing a divorce quickly can result in the loss of other financial benefits, like health insurance coverage. Many spouses rely on their partner's employer-sponsored health insurance, which generally ends upon divorce. Before rushing to finalize, assess whether you're financially prepared to cover your own health insurance.

Racing to finalize a divorce can lead to rushed decisions that could have lasting financial impacts. Consider whether you have time to prepare for separate tax filings, adjust your financial plans, and navigate any immediate needs, like adjusting retirement contributions, updating beneficiary designations, or refinancing jointly owned assets.

The decision to finalize a divorce by year-end is highly personal and should be made with careful consideration. Here are a few key takeaways:

1. **Consult a Financial Advisor or Tax Professional:** A professional can help you assess the potential tax implications based on your specific financial situation.
2. **Evaluate Your Household and Dependents:** If you qualify for Head of Household, it might be financially beneficial to finalize by year-end.
3. **Think Beyond Taxes:** Consider factors like health insurance, alimony, and asset division to understand the full scope of how the timing of your divorce could impact you.

In short, racing to finalize a divorce by December 31 might be beneficial in some cases, but it depends on your unique financial situation. Ultimately, prioritizing a well-thought-out financial plan that aligns with your long-term goals may be more beneficial than a last-minute rush to lock in a different tax filing status.