



Great outcomes.  
Done well.

# Convert Property Settlement Notes into Deductible Maintenance Payments

## Example 1

When Andy and Sheila got divorced, Andy owed Sheila an equalization payment of \$200,000 which he could pay over time. If Andy paid \$20,000 per year plus interest on the unpaid portion, it would be tax-free income to Sheila because it's still a transfer of property. Andy earns \$190,000 per year and Sheila doesn't work. If Andy has no itemized deductions, the result would look like the following:

Andy		Sheila
\$190,000	Taxable Income	0
- 5,000	Standard Deduction	0
- 3,200	Personal Exemption	0
\$181,800	Taxable Income	0
\$46,993	Income tax	0
\$190,000	Taxable Income	0
- 46,993	Less taxes	0
- \$20,000	Less payment to Sheila	\$20,000
<b>\$123,007</b>	<b>Net cash</b>	<b>\$20,000</b>

## Example 2

Assume the same facts as in Example 1, except that Andy decides to call the payment maintenance and he pays \$25,000 to Sheila and the payments qualify as maintenance. His net after the 2005 taxes and the maintenance payment of \$25,000 to Sheila is \$125,884, which is \$3,250 **more** than in Example 1. Sheila has no itemized deductions. Her tax liability for 2005 is \$2,155 (tax on \$16,800 as a single taxpayer). As shown below, her net after taxes is \$22,845, which is \$2,845 **more** than in Example 1.

Andy		Sheila
\$190,000	Taxable Income	\$25,000
- 5,000	Standard Deduction	- 5,000
- 3,200	Personal Exemption	- 3,200
- 25,000	Maintenance payment	—
\$156,800	Taxable Income	\$16,800
\$38,743	Income tax	\$2,155
\$190,000	Taxable Income	\$25,000
- 38,743	Less taxes	- 2,155
- 25,000	Less maintenance payment	—
<b>\$126,257</b>	<b>Net cash</b>	<b>\$22,845</b>