

Divorce

Surviving Divorce and Protecting Yourself Financially

When you divorce, you not only dissolve a marriage, you also dissolve a financial connection. Resolving these financial issues can be overwhelming.

Dividing the assets

First, determine how the assets will be divided. The laws governing the division of property in a divorce vary depending on the state of residence. Community property states like Texas split the property accumulated during a marriage equally between the two parties.

Freeze the accounts

As soon as you know you are divorcing, direct your bank to freeze your joint accounts so that both signatures are required for any withdrawals. Split the balances in your joint bank accounts and open an individual account with your share. Similarly, you should advise your stockbroker in writing to require the written approval of both parties for all transactions.

Tax issues

Consult with a CPA to avoid common tax traps. There is a huge tax distinction between alimony and child support. Child support payments are tax-free to the recipient and non-deductible to the person who pays them. The person receiving alimony, however, must report it as taxable income, while the person paying can deduct the amounts. Be aware that the rules for structuring alimony payments qualifying as a deduction can be challenging.

You also should be aware that taxes play an important role in dividing assets, particularly if those assets have appreciated in value. When you sell an appreciated asset, you pay capital gains tax on the increase realized since the asset was purchased jointly, not from the time you received it as a result of a property settlement. That makes appreciated assets worth less than an equal amount of cash or non-appreciated assets. To protect yourself, use net-of-tax figures in arriving at your property settlement.

Protect your credit rating

Protect your credit by immediately notifying your credit card issuers in writing of your impending divorce. Ask them to freeze your account and inform them that you will not be responsible for any new debt. If you don't already have a credit card in your name alone, apply for one now. Don't overlook the importance of closing a home equity line of credit or margin account that may be approved but not in current use.

Keep tabs on your credit history by periodically requesting a copy of your credit report from a credit bureau. If you run into financial problems during your divorce, you can put a letter detailing extenuating circumstances in your report. Lenders may be more lenient toward granting you credit if they know the reason for any prior payment problems.

Living alone can be expensive

Once you're divorced, you'll learn that there's truth to the adage that two can live as cheaply as one. To prepare for the financial realities ahead, create a budget. Determine your income from all sources to calculate just how much money you have to live on each month. Then list all your expenses and decide which categories you expect will increase and where you might be able to cut back.

If you have children, be sure your settlement agreement includes a provision for your ex-spouse to carry life insurance for the children. To ensure the policy stays in force, you can require proof of coverage from the insurance company. Finally, don't forget to change the beneficiary on your own life insurance policies and retirement accounts and to revise your will.