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Tax reform will have big impact on divorce

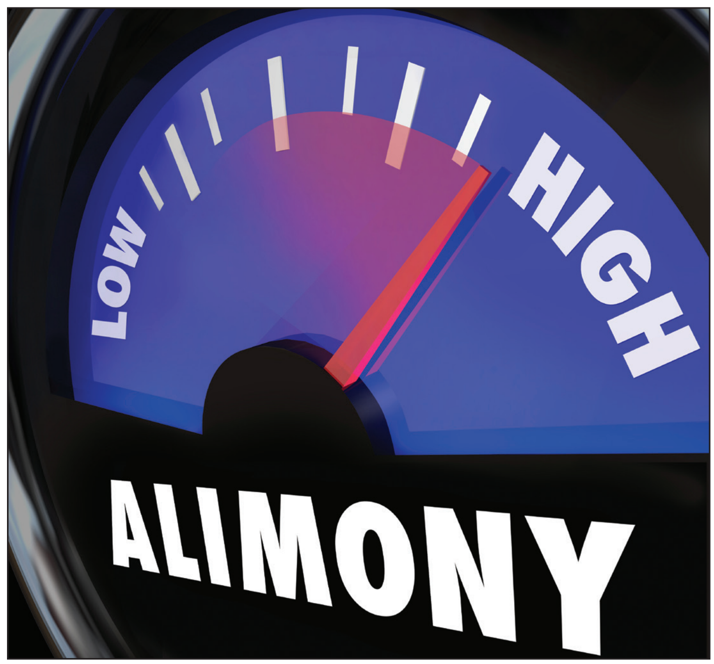
The new tax law passed by Congress late last year and signed into law by President Donald Trump does a lot of things. For example, if you're fortunate enough to leave behind a huge estate, your heirs will now get the first $10 million tax free. In addition, the corporate tax rate on income for businesses has been cut dramatically.

Of course, Uncle Sam's got to find a way to pay for these cuts. One of these ways will affect divorces dramatically: the elimination of the alimony deduction.

In a nutshell, before the new tax law, spouses paying alimony to an ex could deduct these payments from the amount of income they were taxed on. This would often be enough to move that spouse into a lower tax bracket, which would result in all of his or her taxable income getting taxed at a lower rate. The spouse receiving alimony, however, would pay income tax on those payments.

This is flipped under the new law. The paying spouse can no longer deduct alimony payments, while the recipient spouse gets his or her alimony tax free. This is a good deal for the government because the spouse paying alimony is generally in a much higher tax bracket than the spouse receiving it, meaning the government will make more money by increasing the paying spouse's taxable income than it did from taxing the receiving spouse on the payments.

It will, however, have a massive effect on divorces. That's because many states have "baked" the tax deduction into the formulas they use to calculate someone's alimony payments. Judges also take tax



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deductibility into account when calculating alimony in order to bring about a quicker settlement. The loss of the deduction will no doubt make it harder for divorces to settle quickly.

Also, now that alimony is not deductible, it may be harder for someone to make alimony payments while still paying as much in

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What employers need to know about the new tax bill

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Some lesser known provisions in the new tax law have the potential to impact the workplace and employers' practices.

One big change comes in the area of employee sexual harassment claims. Until now, employers who settled such claims could deduct the amount they paid the accuser from their taxable income, even if the settlement was to be kept confidential under a nondisclosure agreement. The tax bill eliminates this deduction. The idea behind this change is to discourage confidential settlements of sexual harassment claims. If employers settle these claims knowing that the public won't find out about what happened and how much they paid, the feeling is that they won't have much incentive to address the issue in the workplace. On the other hand, if they know they won't be able to deduct the costs of these settlements, presumably they'll be more likely to take a proactive approach to stopping such behavior in the first place.

It's always been an employer's responsibility to have good policies in place to address this issue, but it's more important than ever with the new law, so it's a good idea to talk to an employment lawyer and review your own policies to make sure you're doing everything you can to prevent such misconduct.

Another big change is the new "paid leave credit." Under the Family and Medical Leave Act, workers at companies of a certain size are entitled to 12 weeks of unpaid leave each year to deal with personal illness or take care of a sick family member. Under the new tax law, employers who offer paid leave instead can take a tax credit on a portion of the wages they pay to workers on leave as long as they're paying these workers at least 50 percent of their normal wage. Obviously, the purpose is to encourage companies to offer paid family and medical leave without forcing them to do so. However, employers should note that this credit will only be available for two years before Congress takes another look at it.

A third major change is the elimination of the deduction employers have been taking for subsidizing their workers' commuting costs. Before the new law, companies could provide parking and transit passes of up to $225 per month for their employees and then deduct these costs from their corporate taxes. But that's no longer true. The logic behind this change is that many employers are getting a big corporate tax cut so they no longer need smaller individual deductions like this that make the Internal Revenue Code more confusing.

Employers that have been taking the deduction on employee commuting costs may now decide not to cover these costs anymore, leaving it up to employees — who can pay for commuting costs with pre-tax income — to cover these expenses themselves. That could lead to employees wanted more pay to replace this lost benefit.

This is all just the tip of the iceberg. Other provisions could potentially impact employer operations too. Talk to an attorney where you live to learn more.

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Home values could decline, thanks to tax changes

When it comes to real estate, legal experts suggest that the massive tax overhaul could have some unintended consequences, including discouraging homeownership and slowing the pace of home appreciation.

Here's how the new law affects homeowners:

- **Lower limits on mortgage interest deductions:** Under the new law, homeowners can deduct interest on mortgages up to $750,000, down from $1 million. The reduction makes it more expensive to borrow money for high-priced homes.
- **Limits on SALT deductions:** Previously all state and local taxes (SALT) could be claimed as an itemized deduction. Now all SALT tax deductions — including property, income and sales taxes — have a collective $10,000 cap.
- **Standard deduction doubled:** The new law doubles the standard deduction to $12,000 for an individual filer and $24,000 for a married couple. That means fewer couples will have an incentive to itemize because their mortgage interest and $10,000-capped SALT deduction won't exceed $24,000.
- **Home equity loan advantages gone:** In the past, homeowners were able to deduct up to $100,000 in interest on home equity loans. That deduction is gone altogether, even if you take out the loan for real estate improvements. The change does not have a grandfather provision, meaning everyone with a home equity loan will be affected.
- **Most relocation deductions eliminated:** Under the old law, you could deduct some of your moving expenses when relocating for a new job. Now, only active duty service members may deduct those costs.

Tax reform will have big impact on divorce

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child support or school expenses. It could even make some couples feel they need to stay together when that's not the best thing for either spouse or the children.

This won't apply retroactively. It applies to divorce and separation agreements signed on or after Jan. 1, 2019.

The alimony deduction is the provision most closely connected to the divorce process. But the new law includes some other controversial new revenue sources that could impact divorces too.

For example, if you're paying state and local taxes, including property taxes, you can now deduct only the first $10,000 you pay each year, when you used to be able to deduct it all. This is bad news if you live in a city or state with high tax rates. If you have a home mortgage, you used to be able to deduct any interest you paid on that loan each year. Now you can deduct only the interest you pay on home loans of up to $750,000. Most of us don't have mortgages that big, but if you live in an expensive part of the country, you could be hit hard.

These changes don't directly relate to divorce, but they could impact the "gross income" that a court uses to calculate the level of support you have to pay, and they could also impact the real value of your home, which could complicate the divorce process further.

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There are a lot of other things in this complicated new law that could create traps we don't even know about yet. To get a better handle on how the tax law could affect your divorce, consult with a family lawyer where you live.

Tax reform impacts pass-through entities

Previously, net taxable income from pass-through business entities such as sole proprietorships, partnerships, certain LLCs, and S corporations was passed through to owners and taxed at their standard rates. Now, the Tax Cuts and Jobs Act creates a 20 percent deduction for this business income.

The proposals on pass-through business entities were a hot topic among lower and middle market businesses and were closely watched during the final months of negotiation over the tax reform bill. The end result, most experts agree, is complicated. The deduction is now based on an owner's qualified business income (QBI) and subject to a variety of limitations and exclusions.

Most simply, small businesses will have no restriction on taking the deduction as long as taxable income falls below $157,000 for a single return or $315,000 for a joint return.

Tax filers above that threshold will not qualify for the deduction if they are a specified service business or a business that conducts investing or investment management. The rules specifically list a host of excluded businesses, effectively blocking all professional consultants, medical professionals, financial managers, athletes, and artists from taking the deduction. The law does, however, make an exception for engineers and architects.


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Under the law, if your business isn't a service business, you still have to jump through one more hoop to qualify for the deduction: Your business either has to have a certain amount of W2 wages or a certain amount in depreciable business property. Specifically, the owner's QBI can't exceed 50 percent of W2 wages or 25 percent of W2 wages plus 2.5 percent of the cost of qualified property.

Qualified property means depreciable, tangible property (including real estate), owned by a business and used for the production of QBI.

The pass-through entity deduction also applies to investments in REITS and publicly traded partnerships, and although the corporate tax law changes are permanent, the pass-through entity deduction expires in 2025, just like the individual tax cuts.

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Airline passenger can seek emotional distress damages for needle prick

A passenger could try to hold an airline accountable for emotional distress she suffered after getting pricked by a hypodermic needle while reaching into a seatback pocket, a federal court of appeals recently decided.

The woman was traveling on Eftihad Airways from Abu Dhabi, Saudi Arabia to Chicago. She spent much of the 14-hour flight with the tray table in her lap because the knob holding it in place had fallen off. At some point, she reached into the seatback pocket to retrieve the knob, which she had placed in the pocket when she took it off the floor, and was unexpectedly jabbed by a hypodermic needle that someone left behind.

The prick drew blood, but the airline offered no medical attention beyond an antiseptic wipe, a Band-Aid and the advice to see a doctor when she got home. Her family physician later prescribed medication for possible hepatitis, tetanus and HIV exposure.

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Several rounds of tests came up negative, but the passenger said she had suffered severe mental anguish from the incident and sued Eftihad. A federal judge threw out her claim, ruling that under the Montreal Convention (an international treaty that governs injuries on international flights), she was only entitled to damages that stemmed directly from a bodily injury on the flight and that her emotional harm wasn't caused by the actual physical wound.

But the 6th Circuit reversed the lower court on appeal, deciding that under the Montreal Convention emotional distress damages are available as long as they can be traced back to the accident. This is different than how other courts have ruled in the past, and courts in other parts of the country might rule differently. But if you're suffering psychological trauma from an accident that happened on a flight, consult with a lawyer to discuss your options.