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EQUITABLE SOLUTIONS AND PROSPERITY PLANNING
Professional Guidance for Divorcing Individuals

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DID YOU KNOW
That Dependent Exemptions Can Offset Taxes Dollar per Dollar?

When we look at cases and determine how the exemptions should be allocated, typical considerations are:

1. **Who has physical custody of the child or children**
2. **The comparable Marginal Tax Brackets (MTB)**
3. **The phase-out of the exemptions at different AGI levels**
4. **The consequences of the Alternative Minimum Tax**

As a deduction from income, the exemption is worth $3,650 for 2009 and 2010. For example, if Dad is in the 28% MTB, the exemption equals $1,022. If Mom is in the 15% MTB, the exemption would be worth $548. If the couple had three children, you may be tempted to allocate the additional child or all the children to Dad; but, you need to consider the Child Tax Credit.

For those who have a Qualifying Child who was under age 17 at the end of the year and who lived with one or the other parent for more than half of the year, each dependent exemption could trigger a tax credit of $1,000 (maximum) when they file their return. This credit is phased out for Single high-income filers.

In the example above, if Mom was below the phase-out level, the three dependent exemptions would be worth an additional $3,000 tax reduction. That's $250 per month in additional income paid courtesy of the IRS. If the settlement called for the traditional split or alternative swop of dependents, Mom loses this $3,000 opportunity and Dad possibly pays more alimony than necessary.

Note that along with this credit, you have to be particularly careful when allocating deductions in 2010. For this year only, there will not be a phase-out of exemptions for high-income taxpayers.

Faggio Financial has the software tools to analyze these situations and provide you and your clients with the most tax-efficient strategy to handle these situations.

Reduce your exposure and save your clients money. Call John today for a fixed-fee engagement for making these recommendations.

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