How Does Divorce, Retirement, or Moving Affect My Taxes?

In this week's episode, we meet Daria, a Brooklyn-based listener who's currently finalizing her divorce from her husband. Like every other major life event, divorce changes the way in which you should file your taxes. For advice on how to get your taxes right after a divorce, host Stefanie O'Connell Rodriguez turns to Kristin Myers, editor-in-chief of The Balance, and Caleb Silver, editor-in-chief of Investopedia. They'll also delve into everything you need to know when filing your taxes after retirement.

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Daria: I used to like doing taxes before I was married…I feel differently about them now.

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Stefanie O'Connell Rodriguez: This is Taxes in Ten, a limited series from the podcast *Money Confidential* at Real Simple. I'm your host, Stefanie O'Connell Rodriguez. And this week, we're talking to a 45-year-old listener based in Brooklyn, New York, who we're calling Daria, not her real name.

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Stefanie O'Connell Rodriguez: When Daria and her husband got married, most of her income came from salaried W2 work, while most of his came from freelance 1099 work.

Daria: So, I thought like, maybe I can get more money back if I file separately from him? And that was absolutely not the case. I did our taxes once with selecting married but filing separately and then I did them as married and filed jointly and the difference was kind of extreme.

Stefanie O'Connell Rodriguez: At the time, Daria was using a tax software to file their joint tax return herself, but as the years went by, and their financial picture got more complicated as they bought property, had children, and worked in multiple states, they decided to hire a professional.

Daria: The way that we filed at the beginning of our marriage with less income was crossing our fingers and hoping that I was doing it the right way. Then we ended up deciding that to pay an accountant was absolutely worth the money, because we felt like it was just getting way too complicated.

Stefanie O'Connell Rodriguez: But a few years ago, Daria and her husband decided to separate, and are now in the process of finalizing their divorce.

Daria: One of the things that I'm most excited to be finally divorced is to just have a single person tax filing again. But I want to get as much money back as I'm owed, and I know if I filed married filing separately I wouldn't get back as much money as I probably should.

So, when we used to file together, I thought of our income as just like one pot and whatever we would have owed on a 1099—because he hadn't paid taxes throughout the year—gets made up for with my taxes that I overpaid with my W2 and, all in all, we would generally balance out. Now that we're living separately and paying for our lives separately, I don't want to get penalized by his income or even just my being married to him still.

The benefit, as far as the government's concerned, to being married is giving us a tax break. I'd like to be able to take the power back over my own income.

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Caleb Silver: Divorce is a financial decision and it's an emotional decision. So you have to be thinking about that as you're having those discussions. If you have property together, perhaps you own a business together, perhaps you have debts that are in both of your names, all of that is affected when you get divorced and especially when you're filing your taxes.

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Stefanie O'Connell Rodriguez: That's Caleb Silver, editor in chief of Investopedia. He and Kristin Meyers, editor in chief of The Balance, are back with us today to continue talking about the ways major life moments can change, not only the way we live, but also, the way we approach our money, specifically, at tax time—starting with divorce.

Stefanie O'Connell Rodriguez: At what point do you stop filing as married?

Caleb Silver: So, your marital status as of December 31st in the calendar year, that controls your filing status. So, if you're split up, but you aren't officially divorced before the end of the year, you can still file a joint return that might save you money—it might make things less complicated. Or you could choose the married filing separately status for the year you separate. So, it really depends on when your actual divorce papers go through and when you're officially divorced, but usually it's that last day of the year that you need to worry about.

Stefanie O’Connell Rodriguez:: Let's talk about another milestone, which is retirement.

Caleb Silver: So, retirement generally means you are no longer receiving an income from an employer, whether you're a W2 employee or whether you're a 1099 employee, you basically stop working and you intend to live off of a fixed income. Sometimes that fixed income could be money from your investment. Sometimes that’s Social Security, sometimes it's a combination of those things. Or maybe you have investments that pay you an annuity or a monthly fee for the money you invested over time.

That's kind of the technical definition of retirement. The other definitions are more soft, that's, “I no longer want to work. I no longer want to report nine to five to a company.” But retirement has really changed really over the last two or three decades.

So, if you're getting Social Security and you have passive income or active income from another source, that brings your income above a threshold, you will pay some taxes on your Social Security. And it's really a scaled-up number, depending on how much you earn and how much you're receiving in Social Security. But generally, you don't, if that's your main source of income.

Stefanie O’Connell Rodriguez:: And on the other side of the equation, not the income side, but potential deductions, anything specifically retirees should be looking out for?

Caleb Silver: There are some deductions that are available that are related to healthcare. They're complicated and they depend on the case. But by and large, you don't get a tax break by retiring. You're just no longer paying into a lot of the taxes you used to when you were a W2 employee. Now, you're the beneficiary of those taxes if you need it, whether that's Social Security or Medicare, you're going to be offered those once you reach a certain age.

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Stefanie O’Connell Rodriguez: After the break, we’ll be back to talk about moving and what you should keep an eye on this tax season, if you’ve recently made a move across state lines.

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Stefanie O’Connell Rodriguez: So, speaking of retirees and honestly, non-retirees these days, there's a lot of moving going on. So, I might be going from one state to another, which obviously, that could change my state tax obligations, but are there any other things that I need to be considering from a tax standpoint when I move?

Kristin Myers: It depends on where you're pulling in your income if you are a non-retiree. If you earn half of your income from Florida, half of it from New Jersey, both states are going to want a cut.

Caleb Silver: Right**.** The key is there are some states—and you see retirees moving to Florida a lot and moving to other states where there are no state income taxes, like Texas, you get tax benefits, and you don't have to pay state income taxes.

Now for retirees that aren't generating a lot of income, not such a big deal. But if you're getting income—either from your investments or you cross that threshold where your Social Security check is starting to get taxed as well—that's why a lot of folks are moving to states with no state income tax to avoid that.

On the other hand, this is for non-retirees, if you spend a certain amount of time doing business, whether you're an athlete, a pilot, a performer, in certain states for a certain period of time, they're going to want to tax you for that as well.

Kristin Myers: And I do want to mention, we've been talking about retirement, there is the FIRE movement, where people actually retire at a younger age, 32, 40. Unfortunately, a lot of the tax breaks that can come with pulling money from the retirement account does not apply to you if you are under the legal retirement age.

Stefanie O’Connell Rodriguez: Another thing that's in the news is climate related events—disasters. If I get assistance, what are the things I need to consider come tax time?

Kristin Myers: If the president declares a natural disaster, so Hurricane Ida was a recent one, I know that a lot of folks have the wildfires in California for example, you are able to get a tax break and a tax deduction. This is an unhappy tax deduction. And usually that's going to be around what is for a theft and casualty losses. Casualty losses is essentially defined as the damage or destruction of your property in that natural disaster. And again, it has to be a disaster that is declared by that state and federal government, as a disaster—it can't just be your pump flooded your whole yard and destroyed your house.

Stefanie O’Connell Rodriguez: If I received aid to rebuild my home, for example, would I have to pay taxes on that?

Kristin Myers: No, this is one of the few forms of income that the government actually recognizes as tax exempt. So there's no withholdings required for any disaster assistance, money, or grant that you might receive after a flood or a fire or a hurricane.

Stefanie O'Connell Rodriguez: Now, if we have someone in our lives who has passed away. What are the tax implications for settling their estate?

Caleb Silver: A lot of that has to do with how they set it up. If they set it up before they passed away, through a will, or a trust, or an irrevocable trust, that depends on how that money is going to be distributed. What we don't have any more is an inheritance tax. There's no inheritance tax that's federally imposed by the government. There are six states that still do charge an inheritance tax. And those are Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania, the 44 others do not. There are estate taxes that you do have to pay, which are very different.

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Caleb Silver: And the estate tax is assessed on the estate itself before its assets are distributed while an inheritance tax is imposed by the beneficiary in those six states when they receive it, but very different. It really depends on how it's set up and what you are actually getting from that person who passed away.

[BEAT DROPS]

Stefanie O'Connell Rodriguez: Next week, we round out our final installment of Taxes in Ten by taking a closer look at different kinds of investments—from 401(k)s to cryptocurrencies—and what buying and trading and cashing out can mean when filing our tax returns.

This has been Taxes in Ten, a limited series from the podcast *Money Confidential* at Real Simple. Follow *Money Confidential* on Apple Podcasts, Spotify or wherever you listen so you don't miss an episode. And we'd love your feedback. If you're enjoying the show, leave us a rating and review, we'd really appreciate it.

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