



LM Federal Credit Union

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**Wealth Management &
Financial Planning Services**

What are the tax implications of child support payments?

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When a separation or divorce occurs and the couple involved has one or more children, the noncustodial parent is usually ordered to pay some child support to the custodial parent. The child's expenses over and above this sum are generally borne by the custodial parent. Whether you are paying or receiving child support, you should be aware of the federal income tax consequences. You are not taxed on child support that you receive, and you cannot deduct child support that you pay.

Payments will be classified as child support for federal income tax purposes if the divorce decree or separation agreement:

- Fixes a sum that is payable for the support of a child (this can be either a dollar amount or a specific fraction of a payment), or
- Provides that the amount payable by the payor-spouse to the receiving spouse will be reduced when a contingency relating to a child actually happens, or at a time that can clearly be associated with a contingency relating to a child

For example, John agrees to pay his ex-wife, Carol, \$2,500 per month until she dies. (Note that the words child support are not specifically mentioned.) Carol has custody of their child, Justin. The divorce agreement states that upon a certain date, John's required payment to Carol will decrease by \$800. Because Justin will turn 18 within six months of the date on which the payment is scheduled to decrease, the payment reduction is assumed to be related to Justin's reaching 18 years old. Therefore, the \$800 per month reduction is treated as child support, regardless of the parties' intent.

From a tax perspective, being a custodial parent can be advantageous in terms of claiming the child-care credit. In addition, the custodial parent can potentially qualify for head of household filing status.

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