

# Spousal Support After Federal and State Tax

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The total spousal support payments are \$80,000.

The total cost of the spousal support, after federal and state taxes, to the payer is \$52,869.

The total net benefit of the spousal support to the recipient, after paying federal and state taxes, is \$54,321.

The net tax savings (payer's tax saving less recipient's tax cost) due to spousal support are \$1,452 over 3 years.

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## Analysis:

The chart below shows the net federal and state tax savings to spousal support.

Year	Net Tax Savings Due to spousal support		
	(a) George's Tax Reduction Due to support	(b) Marianne's Tax Increase Due to support	(c) Net tax change Due to support (a) - (b)
2014	\$18,034	\$15,058	\$2,976
2015	\$9,097	\$10,621	(\$1,524)
Total tax svgs/pmts:	\$27,131	\$25,679	\$1,452
Total payments made:	\$80,000	\$80,000	
Cost/Inc after taxes:	\$52,869	\$54,321	

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## Explanation of Analysis:

When spousal support is paid, the payer gets a tax deduction and the recipient pays tax on the spousal support income.

The tax deduction is a benefit to the payer (George). We calculate George's tax with the spousal support deduction. Then we calculate George's tax as if there were no spousal support payment. The difference is George's tax benefit due to the spousal support payment.

Note that we do not simply apply a marginal tax rate to the spousal support amount. We do a complete tax calculation. This counts the impact of the spousal support deduction on exemption phase-outs, itemized deduction phase-outs, the Alternative Minimum Tax, etc., and therefore it is the most accurate way to calculate the tax benefit.

We then do a similar set of calculations for Marianne, to find the extra tax that Marianne is paying due to the spousal support income.

We then subtract Marianne's tax cost from George's tax benefit, to get the net tax benefit.

Typically, the payer is in a higher tax bracket than the recipient. This means that the payer's tax savings is more than the recipient's tax cost. So there is a net tax benefit.

In this case, the net tax benefit is \$1,452 over the 3 years spousal support is being paid.