

# my divorce solution

## Real World Example

### Let's look at how taxes would affect this marital settlement agreement.

Harry and Sally have decided to get a divorce. They have three assets - real estate investment property valued at \$250,000, and IRA worth \$75,000 and a savings account with a balance of \$325,000.00. Harry needs cash, and so he suggested he keep the savings account and offers Sally the real estate investment and IRA. Harry assumed that Sally could sell the real estate to get cash if she needed it. Everyone, including the attorneys, agreed this was fair and a simple way to divide the assets, and that's what they did.

**Now let's look at what happened when Sally needed cash...**

# Harry & Sally

## Assets:

- Investment Real Estate: \$250,000
- IRA: \$75,000
- Savings Account: \$325,000

Assets	Sally	Harry
Investment Real Estate	\$250,000	
IRA	\$75,000	
Savings Account		\$325,000
TOTAL	325,000	\$325,000

## Sally's Tax Consequences: Real Estate Investment

Investment Real Estate: \$250,000  
Basis: \$200,000  
Capital Gain on Investment Real Estate: \$50,000

Federal tax on capital gain (15%): \$7,500  
State tax on capital gain (3.07%): \$1,535  
Total tax on Investment Real Estate: \$9,035

**Sally's tax consequences left her with a net balance of \$240,965**

# Sally's Tax Consequences: IRA

**IRA Value is \$75,000**

- Taxes Due (assuming 25% tax bracket) is \$18,750
- Assuming Sally is under the age of 59 ½ there would be a 10% early withdrawal penalty of \$7,500
- After Sally realizes the tax consequences, she would have a net balance of \$48.750

## Net Results After Taxes

Assets	Sally	Harry
Investment Real Estate	\$240,965	
IRA	\$48,750	
Savings Account		\$325,000
TOTAL	\$289,715	\$325,000

# What Might Seem Equal May NOT Be Equitable

Person	Asset	Less Tax Consequence	TOTAL
Jill	\$150,000 Stocks	<ul style="list-style-type: none"><li>▪ Cost Basis = \$50,000</li><li>▪ Assuming 15% the net value of the gain is \$100,000</li><li>▪ Capital Gains Tax is \$15,000</li></ul>	\$135,000
Jack	\$150,000 Cash	ZERO	\$150,000

Getting an analysis showing the short and long-term implications of different settlement proposals with expenses, taxes, inflation and investment earnings factored in, allows your client to make informed decisions.