Case #8: Richard and Betty Mini Case

Richard and Betty got divorced this year, in June. She got custody of the three children. As part of the divorce settlement, Betty got the home (which they purchased in JTWROS for $200,000). At the time of the divorce, it was worth $400,000. Richard will pay child support of $3,000 per month. The alimony payments start at $5,000 per month but are reduced to $3,000 per month when the youngest child reaches 18 years of age. The $3,000 will stop if she remarries or dies. In addition, Betty received a QDRO from his pension plan and other cash-type assets.

1. If Richard ends up paying more than one-half of the support of his three children, will he get the children's personal exemptions?
   
   A. Yes, he paid more than half of the support.
   B. No, she will have to use the child support money from Richard plus some of her alimony to support the children.
   C. No, she has custody.
   D. Yes, he is the one with the earned income.

2. If Betty sells the house 3 years after the divorce for $500,000 (net after commission), what is her taxable gain?

   A. $0
   B. $50,000
   C. $100,000
   D. $250,000
   E. $500,000

3. One of the children had medical expenses of $3,000 this year (not covered by insurance). Richard paid the expenses. Can he take the medical expenses as an itemized deduction?

   A. Yes, he paid the expenses.
   B. No, he was not obligated to pay the expenses.
   C. Yes, they are his children.
   D. No, they are not his dependents.
4. How much alimony can he deduct this year?

   A. $21,000
   B. $35,000
   C. $36,000
   D. $45,000
   E. $60,000

5. Betty took the QDRO money and rolled it into an IRA. Who should be the primary beneficiary of the IRA?

   A. Name her husband
   B. Name her children
   C. Name her estate
   D. She should see an attorney and do some trust planning.
Case 8 Answers

1. **Answer: C**

   The person who gets custody gets the personal exemption unless the divorce decree says opposite.

2. **Answer: B**

   Once she is divorced, she is single. Her basis is $200,000. The purchase price was $200,000. Her basis was their joint basis. The $500,000 exemption (married) only lasts for two years after divorce, after that she only gets the $250,000 single exclusion.

3. **Answer: A**

   Betty will list them as dependents on her tax form. If either parent can claim a child as a dependent under the rules for divorced or separated parents, each parent can include the medical expenses he or she pays for the child. This is true even if the other parent claims the exemption for the child.

4. **Answer: A**

   The IRS would rule that the alimony payments are disguised child support since they reduce from $5,000 to $3,000 when the children turn age 18. Therefore, only $3,000 would be alimony. He only paid 7 months, starting in June. $3,000 x 7 = $21,000. It says “this year”. The only possible answers are the 6 months and 7 months. 6 months is not an answer.

5. **Answer: D**

   Her husband is now her ex-husband. If it goes to her estate, it will go through probate. Answer B is a poor answer since the children are minors. The best choice is Answer D. Betty needs to see an attorney and do some trust planning. Until the come of age, whatever assets she has should be held in a trust with a trustee she can trust. Just having a will is not enough. That is the best answer.