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Tax Considerations in Divorce

- Dependents
- Basis Property, Including Personal Residence
- Dividing Retirement Accounts
- Alimony and Child Support



Retirement Plans and Divorce

A QDRO is a judgment, decree or court order (including an approved property settlement agreement) issued under a domestic relations law that: [IRC §414(p)]

- 1) Relates to the rights of someone other than a participant to receive benefits from a qualified retirement plan (such as most pension and profit-sharing plans) or a tax-sheltered annuity,
- 2) Relates to payment of child support, alimony or marital property rights to a spouse, former spouse, child or other dependent of the participant and
- 3) Specifies the amount or portion of the participant's benefits to be paid to the participant's spouse, former spouse, child or dependent.

Note that QDRO requirements are very specific and failure to strictly follow them can result in unplanned and adverse tax consequences.

Tax Effects of QDROs

- Benefits paid to a child or dependent. Benefits paid under a QDRO to the plan participant's child or dependent are treated as paid to the participant.
- Benefits paid to a spouse or former spouse. Benefits paid under a QDRO to the plan participant's former spouse are included in the former spouse's income.

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The former spouse can use the special rules for lump-sum distributions if the benefits would have been treated as a lump-sum distribution had the participant received them.

Any distribution received by the former spouse will qualify for rollover treatment in the same manner it would have qualified if the distribution had gone to the plan participant.

Please call 616-970-3000 for more information