

Tax planning problem



3 February Solution to Tax Planning Problem Since the property-transfer of \$ 200, 000 to Nell is not a cash-related settlement, it wouldn't be qualified as alimony (Cussen, Investopedia. com) and so neither it would be recognized as Nell's taxable income nor would it be deductible to Kirby. Thus, this part of agreement wouldn't have any tax-related consequence at all. 2) As per the requirements, the cash payments of \$1000 are qualified as alimony since these payments wouldn't be liable to Kirby after the death of his spouse, Nell. This implies that Kirby's taxable income, more specifically his AGI, would be reduced by \$1000, as this part of his income would be benefiting Nell. This is because in case of alimony, tax is charged to the party who receives the benefits of income and thus is nondeductible to the party earning that income (Cussen, Investopedia. com). In this regard, Nell's gross income and thus her taxable income would be increased by that amount as Nell is receiving the benefits of Kirby's income. 3) Out of \$900, only the amount of \$600 is considered as alimony. This is because this amount can't be declared as child support since continuation of this amount is not pertinent to any contingency related to child in terms of his death or attaining the age of maturity (Cussen, Investopedia. com). As a result, being alimony, this will reduce Kirby's taxable income and increase Nell's taxable income, each by \$600. On the other hand, the remaining \$300, to be ceased after any contingency to the child, can be declared as child support and thus, not being alimony, wouldn't account for any tax-related consequence to any of the party; neither of the party would recognize this amount in his / her taxable income. Works Cited Cussen MP. " The Fundamentals of Spousal Support Taxation." Investopedia. com. Investopedia, n. d. Web. 3 Feb. 2011.