

# Assister Job Aid: How Consumers Should Treat Alimony When Applying for Coverage through the Marketplace<sup>i</sup>

## What Assisters Need to Know

- The Tax Cuts and Jobs Act of 2017 made important changes to how consumers should treat alimony when reporting their income
- For divorces and separations that were finalized *on or after January 1, 2019*, **alimony should not be reported on the Marketplace application** as income or as a deduction
- For divorces and separations that were finalized *before January 1, 2019*, alimony **should generally be reported on the Marketplace application** as income or as a deduction
  - This means that, for divorces or separations finalized before January 1, 2019, ex-spouses' alimony payments to a former spouse will continue to be tax deductible and alimony that the former spouse receives from their ex-spouse should be reported as income.
- If a divorce or separation instrument executed before January 1, 2019, was modified after December 31, 2018, and the modification expressly provides that the Tax Cuts and Jobs Act's amendments to the alimony rules apply to the modified instrument, **alimony should not be reported on the Marketplace application** as income or as a deduction

Let's walk through a few scenarios so you will be aware of how to best help consumers and when they should or should not report alimony on their Marketplace applications.

## Test Your Knowledge

### Scenario 1

John and Mary have been divorced since 2016. Mary is seeking to enroll in coverage through the Marketplace, and wants to apply for APTC, since she is not eligible for coverage through her job. Mary makes \$40,000 a year from her job as an office manager. She also receives alimony payments of \$1,000 per month from her ex-husband John.

*Question 1:* What types of income should Mary report on her Marketplace Application? Please select the best answer.

- A. Mary should not report her income from her job or her alimony
- B. Mary should report her alimony, but not her income from her job
- C. Mary should report her income from her job, but not her alimony
- D. Mary should report both her income from her job and her alimony

*Answer 1:* The correct answer is D. Since Mary and John have been divorced since 2016, Mary should continue to report on the Marketplace application both her income from her job, as well as the alimony she receives from John. Since John and Mary's divorce was finalized in 2016, and not on or after January 1, 2019, the new alimony reporting rules don't apply to her.

*Question 2:* John works as a waiter at a restaurant, and earns \$30,000 a year. He is not eligible for coverage through his job. Like Mary, he also wants to apply for coverage through the Marketplace. How should John treat the alimony that he pays Mary when filling out his Marketplace application? Please select the best answer.

- A. John should report the amount of income that he earns from his job only. He cannot deduct the amount of money that he pays Mary in alimony.
- B. John should report the amount of income that he earns from his job. He also can take a deduction equal to the amount of money that he pays Mary in alimony.

*Answer 2:* The correct answer is B. Since John and Mary were divorced in 2016, John can report as a tax deduction the amount of money that he pays Mary in alimony to reduce his modified adjusted gross income when seeking coverage through the Marketplace.

### Scenario 2

Tom and Shelly divorced on February 1, 2019. Tom works at a car wash and earns \$25,000 a year. He is not eligible for coverage through his job, and wants to apply for coverage on the Marketplace. He receives \$500 a month from Shelly in alimony payments. Shelly works at a

daycare. She earns \$25,000 a year and is not eligible for coverage through her job. She wants to also apply for health insurance through the Marketplace.

*Question 1:* What type of income should Tom report when filling out his Marketplace application? Please select the best answer.

- A. Tom should report both the amount of income that he earns from his job as well as the alimony he receives from Shelly.
- B. Tom should report the amount of income that he earns from his job, but not the alimony he receives from Shelly.
- C. Tom should report the alimony he receives from Shelly only.
- D. Tom should report neither his alimony nor his income from his job.

*Answer 1:* The correct answer is B. Since Tom and Shelly were divorced on February 1, 2019, which is after January 1, 2019, Tom should not report the alimony payments he receives from Shelly when filling out his Marketplace application.

*Question 2:* How should Shelly treat the alimony she pays Tom when filling out her Marketplace application?

- A. Shelly should report the amount of income that she earns as a daycare provider. She can also deduct the alimony payments she pays Tom.
- B. Shelly should report the amount of income that she earns as a daycare provider only. She cannot deduct the amount of money that she pays Tom in alimony.

*Answer 2:* The correct answer is B. Since Tom and Shelly's divorce was finalized on February 1, 2019, which is after January 1, 2019, Shelly cannot deduct the alimony she pays Tom when filling out her Marketplace application.

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<sup>1</sup> This communication was printed, published, or produced and disseminated at U.S. taxpayer expense.

