Couple Separation - Money

Money can be particularly difficult when you are separating. can be a very big worry for many families. Who is responsible for what? Will there be enough? How can we trust what the other is saying?

How to Manage Money in Separation

The most important decision for you both to make is how you budget to run two homes. Although you are separating, the joint income that has covered the needs of the family in one home is still the joint income that will be used to cover the cost of two homes. Unless there is a way to earn more.

If this figure does not add up then it will be very difficult to agree on Maintenance.

What is Maintenance?

Maintenance is the name given to the amount of money agreed between you to maintain each other and any children in accordance to the money available.

There are two types of maintenance:

Spousal: Spousal Maintenance is for the needs of the Spouse.

Child: Child Maintenance is for the needs of the children

How Do We Work Out What is Fair?

Establish the facts about money.

Step 1: Information

You will need to gather information and details of the following:

1. What you earn

a) Your most recent P60 and three recent pay slips.

b) If you are self employed: annual accounts for the past three years.

c) Details of Social Welfare details.

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2. What your own

a) Insurance Policy details plus surrender values.

b) Details of any savings eg: Credit Union Book etc.

c) Pension Scheme: You will need your Explanatory Booklet plus any recent Benefits Statements.

3. What you owe

You will need details of both joint and personal debt.

When you start mediation or go to your solicitor they will ask you for this information so keep hold of it. It also contains a lot of the information you will need to do step 2.

Step 2: Work Out How Money Will Be Spent as a Separated Family

The basic financial reality of separation is that the expenditure figures for the family will be based on living in two separate houses. No matter who is responsible for what cost, your joint income will now have to cover this new family expense. Until you have an idea of this underlying figure, you may find it hard to work out individual costs such as maintenance.

You may have to make an educated guess at some of the figures at this stage but this exercise will help you get to grips with how the budget will look.

Write down the monthly costs of the family home and estimate the cost of a second home plus estimated bills. Add the monthly costs for the children, health, loans & repayments, insurance, transport and personal expense.

Step 3: Joint Cost

Add all of your final expenditure figures together. This will give you a total figure for what it will cost to run both homes.

Step 4: Joint Income?

Write down all your income and add this all together.

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Step 5: Balancing the Budget

Which figure is bigger?

If the expenditure is bigger than the income then you will have to look at balancing the budget.

a) What are necessary expenses?

b) What can you cut back on?

c) Is there any way of earning extra money?

Step 6: How Do We Work Out Child Maintenance?

Within the budget you will have written child expenses.

How much do they come to?
You will also need to add money for housing, food, utilities and transport.

Focus on these Questions:

- **What do we want for our children?**
- **How can we use our income to give them the quality of life we want for them?**
- **How do we organise our money so that it does not cause rows between us?**

It is important to understand the different taxation options that you have when you separate. You may need to seek specialist tax advice before making a final financial decision.

This extract is taken from the Citizen's Information Website www.citizensinformation.ie

Taxation in the Year of Separation

- **If a couple are assessed as single persons, there will be no change in their tax assessment if they subsequently separate.**
- **If a couple are taxed under separate assessment, their income up to the date of separation is assessed in the usual way and they can transfer between them any unused tax credits and rate bands that apply. For the remainder of the tax year after separation each spouse will be treated as a single person and the single person's tax credit will apply to their income.**

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- Under joint assessment, the assessable spouse spouse is accountable for tax purposes.

The assessable spouse is entitled to the married person's tax credit and double rate bands for the full year in which they separate. They are taxed on their own income for a full year as well as the spouse's income for the year up until the date if separation.

The non-assessable spouse will be taxed on their own income from the date of separation. They will be entitled to a full single person's tax credit and taxed under the single rate bands. If there are legally enforced maintenance payments then they may choose instead to continue to be taxed as a married couple.

Taxation in Subsequent Years

Depending on their circumstances, separated/divorced spouses may choose to be taxed either as a married couple or as single persons after the year in which they separate. The payment of maintenance and the type of maintenance payments are important in deciding which tax arrangement will apply.

Maintenance Payments

Where one spouse provides payments for the support of the other spouse and/or children, these are known as maintenance payments. Maintenance payments may be made under informal voluntary agreements or they may be legally enforceable.

Voluntary Maintenance Payments

Voluntary maintenance payments are ignored for tax purposes: the spouse who makes the payment is not entitled to a tax deduction for it and the spouse receiving the payment is not taxed on it. Both spouses are taxed as single people on their income. If you are paying voluntary maintenance and its your spouse's main income, then you may claim the married persons tax credit, rather than the single person's credit, but you will still have the tax rate band for a single person.

Legally Enforceable Maintenance Payments

Legally enforceable maintenance payments include those made under a court order or ruling, a deed of separation, a covenant or a trust.

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If the maintenance payment is for the benefit of a child then it is ignored for tax purposes. The spouse who makes the payment is *not entitled* to a tax deduction for it and the spouse receiving the payment is *not taxed* on it.

A maintenance payment for the benefit of a separated spouse is taxable for the receiving spouse. The paying spouse does not pay tax on it; it may be deducted from their taxable income. Both spouses in this case are taxed as single people.

Separated spouses may choose instead to be taxed as a married couple if there are legally enforceable maintenance payments. In this case the payments are ignored for tax purposes; the spouse who makes the payment is not entitled to a tax deduction for it and the spouse receiving the payment is not taxed on it.

If they wish to be taxed as a married couple they must both confirm this in writing before the end of the tax year. To be eligible they must both be resident in the State and there must be a legally enforceable agreement for maintenance payments. If they are divorced, they must not have remarried.

The way that maintenance payments are assigned either for the benefit of the spouse or children effects the way that the payment is taxed. This may make a difference to the amount of money actually received so i0t may be important to seek tax advice before maintenance payments are agreed.

Divorce

If you are divorced, your tax situation is the same as the case of separation.

One- Parent Family Tax Credit

If you are separated or divorced and you have a child that you support and that resides with you for some part of the years, then you may be eligible for the One Parent Family Tax Credit.

How to Apply

If you separate and the separation is likely to be permanent then you should contact your tax office to inform them of your change in circumstances.

Disclaimer: This document contains general information which may not address your particular circumstances; you may need more detailed information and/or legal advice.

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