

Equalization Payment Calculation



By Brian Madigan LL.B.

The *Family Law Act* deals with the division of family property upon the dissolution of the marriage. The Act calls upon the spouse with the higher net family property to make a payment to the other spouse so as to equalize their net assets. This is referred to as the “equalization payment”. Let’s have a look at the calculation.

Calculating the Payment

The first step in calculating the equalization payment is to calculate the net value of a spouse’s property as of the date of marriage and the date of separation.

- 1) You add up the value of a spouse’s assets at the date of marriage and subtract the spouse’s debts as of that date. This provides a net worth as of the date of marriage.
- 2) Then, add the value of the spouse’s assets as of the date of separation and subtract the liabilities on the separation date. This will provide a net worth as of the separation date.
- 3) Then, subtract the marriage date net worth from the separation date net worth and the result will show a spouse’s net worth increase during the period of the marriage. This final figure is the **spouse’s Net Family Property or NFP**.
- 4) The same calculation is then undertaken concerning the other spouse.
- 5) The spouse with the higher NFP owes the spouse with the lower NFP an amount that equalizes the two; this is called an **"equalization payment"**, and it is technically “one-half the difference between them”.

The best way to understand the calculation is to look at an example of the calculation. Let’s consider the circumstance of Brenda and Bill. When they get married, Brenda has assets of \$50,000 and liabilities of \$10,000; Bill has \$25,000 in assets and \$5,000 in debts.

A few years later when they separate, Brenda has assets of \$120,000, and liabilities of \$20,000, and Bill has \$70,000 in assets and \$10,000 in liabilities. Let’s go through the calculations and see how the formula works.

Brenda Date of Marriage

Value of Assets: \$ 50,000.00
LESS Value of debts \$ 10,000.00

Date of marriage net worth \$ 40,000.00

Brenda Date of Separation

Value of Assets \$ 120,000.00
LESS Value of Debts \$ 20,000.00

Separation Date Net Worth \$ 100,000.00

Increase in value of Brenda's property during marriage
Date of Separation net worth. \$ 100,000.00
LESS Date of Marriage net worth \$ 40,000.00

Brenda's NFP \$ 60,000.00

Bill Date of Marriage

Value of Assets: \$ 25,000.00
LESS Value of debts \$ 5,000.00

Date of marriage Net Worth \$ 20,000.00

Bill Date of Separation

Value of Assets \$ 70,000.00
LESS Value of Debts \$ 10,000.00

Date of Separation Net Worth \$ 60,000.00

Increase in value of Bill's Property During Marriage
Valuation Date net worth \$ 60,000.00
LESS Date of Marriage net worth \$ 20,000.00

Bill's NFP \$ 40,000.00

The *Family Law Act* says that each spouse should have an equal NFP. Therefore the party with the higher NFP (Brenda) will make a payment to the spouse with the lower NFP (Bill) equal to one-half the difference in their Net Family Properties.

Equalization payment calculation

The difference in the Net Family Properties is:

Brenda's NFP \$ 60,000.00

Bill's NFP \$ 40,000.00

Difference \$ 20,000.00

One half the difference \$ 10,000.00 (the equalization payment)

So, Brenda will pay Bill \$10,000 and then their respective NFP's will be equalized. Once the payment is made, both spouses will leave with one half of the net profits made by both of them during the marriage, that is, \$50,000.

There are some interesting opportunities for negotiation and potential for conflict, but you have to understand the basic formula first.

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