



# Forensic Accounting Today

Newsletter of Ron J. Anfuso, CPA/ABV, An Accountancy Corp.

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## Download Back Issues of Our Newsletter

We frequently receive phone calls from attorneys asking us to send them previous editions of our newsletter. Actually, all of our newsletters are available for download on our blog. To download previous versions, just go to [blog.anfusoocpa.com](http://blog.anfusoocpa.com).

Here is the list of the main topics covered in each of our previous newsletters:

- #1: *When to Retain a Forensic Accountant*
- #2: *What is Forensic Accounting?*
- #3: *How to Choose the Right Forensic Accountant*
- #4: *Important Family Law Cases: Anna Agnes Pereira, Respondent, Frank Pereira, Appellant*
- #5: *Euphrasia Van Camp, Respondent, v. Frank Van Camp, Appellant/ Euphrasia Van Camp, Appellant v. Frank Van Camp, Respondent*
- #6: *Gross Cash Flow and Business Valuation Issues: Analyzing Perquisites (Part 1)*
- #7: *Gross Cash Flow and Business Valuation Issues: Analyzing Perquisites (Part 2)*
- #8: *The Use of Forensic Accounting Experts in Court*
- #9: *Evaluating Law Practices Involved in a Divorce Matter (Part 1)*
- #10: *Evaluating Law Practices Involved in a Divorce Matter (Part 2)*
- #11: *Evaluating Law Practices Involved in a Divorce Matter (Part 3)*
- #12: *Evaluating Law Practices Involved in a Divorce Matter (Part 4)*
- #13: *Evaluating Law Practices Involved in a Divorce Matter (Part 5)*
- #14: *Epstein Credits: An Overview*
- #15: *Earning Capacity and Unemployment/ Underemployment*
- #16: *Protect Your Client from Being Encumbered with His/Her Spouse's Tax Debt*
- #17: *Determining Standard of Living*
- #18: *The Family Home: Primary Settlement Options*
- #19: *Dividing Pension Plans in Divorce and Legal Separation Cases in California*
- #20: *Divorce and Life Insurance Valuation*
- #21: *Analyzing and Dissecting Tax Returns (Part 1)*

Ron

## What Family Law Attorneys Need to Know about Analyzing and Dissecting Tax Returns

### Part 2

By Ron J. Anfuso, CPA, ABV, CFF, CDFA, FABFA\*

*Part one of this article discussed the role of tax returns in determining income when one or both of the divorcing partners has ownership interest in a corporation. Here in Part 2, I cover Partnerships, Limited Liability Companies and individual tax returns.*

### Partnerships

Owners of Partnerships are taxed as self-employed individuals based on their Partnership ownership percentage. Like with an S-Corporation, partners receive a Schedule K-1 reflecting their pro rata share of the Partnership net income. However, Partnership income is subject to self-employment tax whereas S-Corporation income is taxed only as ordinary income. Distributions on Partnership K-1s are reflected on Line 19 and marked with an "A".

### Limited Liability Companies (LLCs)

Owners of Limited Liability Companies are known as members. LLCs that have two or more members report taxes on IRS Form 1065, which is the same form used for Partnerships. The state of California has a separate form for Limited Liability Companies, which is Form 568. Members of LLCs receive Schedule K-1s for their proportionate share of the LLC's net income.

**Continued on page 2**

## Need a Financial Expert to Speak to Your Study Group or Bar Event?

Ron J. Anfuso can address any Forensic Accounting topic, including Moore/Marsden; marital standard of living and support needs analysis; financial specialists and Collaborative Law; gross cash flow available for support; DissoMaster™; divorce tax issues; divorce: what to expect; and business valuations. To discuss your group's needs, call Ron today!

\* For an explanation of these titles, please visit our website or request a copy of Issue 3 of *Forensic Accounting Today*.

## Individual Income Tax Returns

Individual income tax returns (IRS Form 1040/Franchise Tax Board Form 540) contain the road map for the various sources of income and tax deductions utilized in preparation of support calculations. Although they are presumptively correct per In re Marriage of Loh (2001) 93 Cal.App.4th 325, 112 Cal.Rptr.2d 893, caution should be exercised in placing entire reliance on what is reported on tax returns since taxpayers are generally adverse to paying taxes. It is possible that not all income has been reported on the tax returns as well as deductions for unsupported expenses or personal expenses that have been categorized as business expenses.

Wages and salaries from the business entities previously discussed are reported on Line 7. Taxable interest income is reported on Line 8A and non-taxable interest income (primarily from municipal bonds) is found on Line 8B. It is important to note that with the exception of some tax payers who are subject to alternative minimum tax (AMT), the amounts found on Line 8B are generally non-taxable and should be input into the non-taxable income box of the support calculation software.

Dividends are found on Line 9A on the individual income tax return. If the combined income and dividend income exceeds \$1,500, the detail of the sources of interest and dividends can generally be found on Schedule B attached to the tax return.

Rental income and expenses are found on Schedule E, page 1 of the individual income tax return. The net rental income may require adjustments such as the adding back of the non-cash expense depreciation and/or the reduction of the cash flow for principal paid on the mortgage loan, if any.

Schedule E, page 2, reflects the taxable income that is passed through from the business entities (S-Corporation, Partnership, LLCs) as discussed earlier. Note this is the taxable income only, and does not necessarily correlate with the distributions.

Tax deductions known as itemized deductions are found on Schedule A. Since most support calculation software utilizes gross income and then calculates the taxes, it is important that material tax deductions be included when utilizing such software. The two most common tax deductions are real estate taxes found on Line 6 of Schedule A, and mortgage interest, found on Lines 10 and 11 of the Schedule A. Other potentially relevant deductions are medical expenses found on Line 4, recurring charitable contributions listed on Line 18, and unreimbursed business expenses and other miscellaneous itemized deductions noted on Line 26.

Self-employed individuals who are owners of sole proprietorships report the income, expenses and net profit from their businesses on Schedule C attached to the individual income tax return. In cases of self-employed individuals, the Schedule C should be examined carefully for expenses that are personal in nature (i.e. perquisites) as adjustments to income may be required in order to reflect the owner's true ability to pay support.

## How long does it take your forensic accountant to return your phone calls?

Promptly returning phone calls isn't that hard. All it requires is being organized and making you and your clients their TOP PRIORITY. So why do some forensic accountants take so long?

"When you visit my office, you'll see it's organized— just like in the photo. No clutter... neat folders... well arranged

computer files. There's no wasted time looking for documents, so it's easy to be ready for you. On days I'm in court, I always get back to referring attorneys and their clients within 24 hours. That's a promise those who refer to me know I always keep."

**RJA**  
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## Just 1 hour

Spend just one hour with Ron. Enjoy breakfast or lunch on him.

That's all it takes to discover why

**Ron J. Anfuso, CPA/ABV**  
is the better choice.

Call or e-mail us to set up a time.