



# Forensic Accounting Today

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

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

Phone: (310) 378-6606 • E-mail: rja@anfusocpa.com

Website: www.anfusocpa.com • Blog: blog.anfusocpa.com



Issue 21

## Ron's Background Revisited

The early issues of *Forensic Accounting Today* included a short bio on Ron. Since many of you are new to our newsletter, we decided to present a somewhat expanded version of Ron's background in this issue.

Ron graduated, with honors (Magna Cum Laude, GPA 3.81) from National University, San Diego, California with a Bachelor of Arts Degree in 1990. After graduation he was employed as a senior accountant at Gursey | Schneider, L.L.P.

Today, Ron is a Los Angeles-based Forensic Accountant. Services of his firm cover the analysis of financial, accounting and tax aspects of marital dissolution matters. These include business valuations, Pereira apportionment of business interests, Van Camp analyses, determination of gross cash flow available for support, marital standard of living analyses, and tracing engagements for the purposes of determining post-separation reimbursements, family code §2640 reimbursements and characterization of property as community or separate. Ron's services also encompass other Family Law issues, such as allocation of interest in pension plans and apportionment of interests in real property (Moore/Marsden calculations), and other special projects.

Ron has testified as an expert witness in family law and civil/commercial litigation matters in Los Angeles, Orange, Santa Barbara, Santa Clara, San Mateo, Sacramento, San Bernardino, Riverside and Ventura County Superior Courts. He has been appointed as a forensic accounting and valuation expert pursuant to Evidence Code §730 on several occasions. Ron has prepared and presented reports including business appraisals of professional practices, automobile dealerships, retail establishments, manufacturing concerns, entertainment entities (including determination of celebrity goodwill) and various other business concerns.

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

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

Family law practitioners need to be familiar with the numerous types of income tax returns that are essential for financial analysis relevant to several issues in dissolution of marriage cases. These include matters such as child support, spousal support, division of property, tracing, and Family Code §2640, to name a few. It is advantageous, also, for you to have a general understanding of the relevant items on common tax returns that have an impact on such analyses. This article discusses the role of tax returns in determining income— sometimes referred to as gross cash flow available for support calculations.

### Determining Support Payments

The analysis of tax returns is an integral part of determining the appropriate cash flow available for support. Although it is only a starting point, an understanding of various tax returns will enable you to identify the sources of income and areas that may require further investigation.

### Evaluating Business Tax Returns

When one or more of the divorcing spouses owns a business, there will be a need to evaluate business tax returns. Although there are several types of business tax returns, the business tax returns one will encounter most often are Corporation (IRS Form 1120), S-Corporation (IRS Form 1120-S), Partnership (IRS Form 1065), and Limited Liability Company (IRS Form 1065/CA Form 568).

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## 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*.

# FRUSTRATED!



## Your forensic accountant missed the deadline AGAIN?

Completing work on time is not that difficult! Yet, we continue to hear frustrations from attorneys about some forensic accounting firms.

Meeting deadlines requires meticulous planning prior to beginning work on a case. It also demands careful delegation and timely completion of tasks.

Most importantly, firms should never take on a case unless they have the qualified manpower to timely handle the work. This is our policy! It's why referring attorneys know they can always count on us to meet their deadlines. Just ask them.



**Ron J. Anfuso, CPA/ABV**  
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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.

## Analyzing and Dissecting Tax Returns : Continued from page 1

Subchapter S-Corporations, Partnerships and Limited Liability Companies are considered pass-through entities. This means that the net income passes through to the shareholders', partners' and members' individual income tax returns via Schedule K-1s.

**Corporations:** Sometimes referred to as a C-Corporation, a Corporation differs from the other entities in that a C-Corporation does not pass net income through to the shareholders. The net income of a C-Corporation is paid to its shareholders generally as salaries and perquisites, and less often as dividend distributions. Most closely held C-Corporations salary out all of the income to the shareholders at year end to avoid double taxation by the payment of dividends out of retained earnings.

When reviewing a Form 1120 for a C-Corporation, start by analyzing Line 12 on page 1 (Compensation of Officers); Schedule E on page 2, which also lists compensation of officers by each individual officer; and Line 30 on page 1 (Taxable Income). The balance sheet (Schedule L) on page 4 of the tax return should also be reviewed for increases in loans to shareholders or decreases in loans from shareholders, which may represent cash flow to the shareholders. Several years of the tax return should be reviewed in order to determine if the shareholders have intentionally decreased salaries pending the dissolution action. If this occurs, the information should be presented to the Judicial Officer in the case. In addition, the net income of the corporation will usually increase since the shareholder's salary is treated as an expense of the corporation. Unless there is a valid business reason, such as the requirement for upcoming capital expenditures, closely held C-Corporations rarely retain earnings.

**S-Corporations:** S-Corporation tax returns also include a line for compensation to the officers, however it is Line 7 instead of Line 12 as it is on the C-Corporation returns. Unlike the C-Corporation, the compensation by officer is not reflected on Schedule E, so the Form W-2s or other payroll data for the officers must be requested in order to identify each officer's compensation in situations when there is more than one officer on payroll. In addition, shareholder distributions are reflected on the Schedule K-1, Line 16 and marked with a "D". These distributions represent cash distributions received by each shareholder in the year under investigation, which are in addition to any salary received by the officers as previously discussed. This amount does not always reflect the amount on Line 1 of the Schedule K-1 (ordinary business income or loss). Accordingly, when using DissoMaster™ or other support calculation software, adjustments may need to be made in order for the computer program to calculate the taxes correctly.

*In the next issue of **Forensic Accounting Today**, we will cover Limited Liability Companies, partnerships and individual income tax returns.*