



Finding H ASSETS in



HIDDEN INCOME and FAMILY LAW CASES

By Tracy L. Coenen, CPA, CFF

Divorce and child support cases often are highlighted by disputes over money. One party may be accused of artificially depressing earnings, hiding assets or manipulating the finances to lower the financial obligation to another party. Understanding the complete picture of the finances is necessary before a fair settlement can be reached.

Chicago divorce attorney Jeffrey Knipmeyer, partner at Nottage & Ward, cautions that spouses of individuals hiding income and assets rarely have the financial sophistication to recognize that manipulation is occurring. He adds that during the marriage, they typically have been hands-off, and their only knowledge of the finances depends on what the spouse has communicated.

Self-employed individuals, people working for family members and employees of closely held businesses have ample opportunity to manipulate the numbers. Sometimes a spouse stops taking a paycheck to make it appear that no earnings are available for support. A cash intensive business may have a sudden unexplained drop in revenue, which might suggest that cash receipts are going unreported. Financial analysis by a qualified expert can level the playing field when such issues are present.

Financial documents needed

A CPA can analyze the finances of an individual or business to search for hidden income and assets. Knipmeyer emphasizes the importance of retaining and working with a CPA early in the divorce process. By getting an early start on understanding the parties' assets and income, a CPA can assist the attorney in requesting documentation that will lead to the discovery of hidden money.

Knipmeyer notes there's little that can be hidden if the attorney hires the right experts. For example, an analysis of tax returns and financial statements from year to year will often provide clues about the money and allow a tracing of assets.

Consider seeking third party records, rather than relying on spouse-created documentation such as check registers and financial statements. Third party records such as bank statements, credit card statements and brokerage account statements are generally reliable and not subject to manipulation.

Income and expense analysis

Financial documents can show income or spending patterns that contrast with what's reported by the other side. Bank statements may show a higher level of revenue than reported on tax returns or to the court. An analysis of bank deposits should



be done, segregating transfers between accounts or other nonrevenue sources of funds, such as draws from a line of credit.

Business owners who intentionally underreport revenue on tax returns often still report all business expenses. An analysis of the expenses as a percent of revenue can quickly reveal such a problem. Look closely at the items that typically fluctuate with revenue. If cost of goods sold, payroll, or supplies suddenly increase as a percentage of sales, this may indicate unreported revenue.

On a personal level, a lifestyle analysis may indicate an undisclosed source of income. The party may claim his salary was reduced or eliminated, but spending patterns evidenced by bank or credit card statements may show expenditures at or above historical levels. This could indicate a previously unknown source of funds.

A sophisticated person hiding income may not use known bank accounts or credit cards to conduct financial business. He may be clever enough to take steps to conceal sources of income and spending habits. Many times, however, the individual is unaware that such documents can be examined and used to refute his income claims.

Hidden assets

In some cases, assets such as real estate, vehicles, jewelry, bank accounts and brokerage accounts are hidden to prevent the other party from obtaining his rightful share of the assets. Tax returns, financial statements, bank and brokerage records, and credit card documentation can be used to help find such assets.

Tax returns will list interest and dividend income, assisting in identifying bank and brokerage

accounts. Real estate taxes and mortgage interest paid may point to real estate owned. Expenditures from bank accounts and credit cards may show transactions related to real estate purchases, vehicle purchases or expenses or other assets acquired. Frequent trips to the same location may indicate real estate or business interests there. It may take some creativity, but a critical analysis of expenditures can provide important clues to concealed assets.

Knipmeyer stresses the importance of retaining CPAs who can explain the fruits of their labor once hidden assets are found. He said, "There is nothing worse than hiring a top-notch expert who is unable to effectively describe her conclusions to a judge or jury."

In a divorce, the client has one chance to get the best result. Knipmeyer emphasizes, "The court can only divide the property it is aware of and grant support based on income proven at the time of trial." In order to for the client to receive what she is rightly entitled to, Knipmeyer cautions that, "Not every divorce attorney or CPA has the sophistication and experience to handle hidden asset cases — choose wisely and choose early."

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