



The U.S. Individual Income Tax Return: *A Tool to Use for the Initial Client Interview in a Matrimonial Matter*



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During the initial client interview it is important to remember that while you are assessing the potential client, they are also considering their choice to use your services. In the current economic climate it is essential to differentiate yourself from the competition. Using the prospective client's individual income tax return to demonstrate your knowledge of the issues, as well as asking pertinent questions is key. In a matrimonial matter financial information is an important component of the case. Demonstrating to the potential client how well you understand the numbers can make a great first impression.

Using a tax return as an outline for the client interview will serve two purposes. First, it will give structure to the interview and assist in your assessment of the client for engagement acceptance. Second, it will immediately give you the financial framework of the client's situation and aid in the discovery process.

The tax return can answer many questions including the following:

- What sources of income do they have?
- Who works and how do they get paid?
- What investments do they have?
- Are there retirement plans?
- Did they have any retirement plan distributions?
- Do they own a business?
- Do they have rental property?
- Do they have a safe deposit box?

The following outline will help you conduct a "productive" interview using the Form 1040 U.S. Individual Income Tax Return.

FORM 1040: PAGES 1-2

Pages 1 and 2 are summary schedules. The totals of all of the various income and expense items will be listed here. This information is used to calculate taxable income and federal tax. All income and expense items are supported on additional schedules attached to the return and IRS documents.

In addition to the financial information you can find the following non-financial information: (1) the full legal name of each spouse, address and social security numbers of the taxpayers and their dependent children; and (2) the filing status of the parties.

Income and expense line items include:

Income

- **Wages** - shows employment by one or both of the parties. A copy of the W-2(s) should be requested and analyzed. It may be possible that not all of the wages are reported on this line. This would be the case if they had a 401(k). Examining this line and the corresponding W-2 may reveal additional income, as well as the existence of a retirement asset.
- **Interest Income** - is detailed on supporting Schedule B: Interest and Ordinary Dividends with the exception of the tax exempt interest, which is shown on a separate line on page 1 of Form 1040. Schedule B will enable you to identify interest paying investments and begin your document discovery list. In addition, by using an estimated interest rate, for example 4%, you can back into the approximate investment amount.
- **Dividend Income** - is also detailed on *Schedule B: Interest and Ordinary Dividends*. The entity paying the dividends may be found by going to the website for that particular payer. Here is where you can find the dividend per share for each investment. The number of shares owned can be determined by the dividend per share information, as well as an approximation of the investment value. This will provide more information for the document discovery list.
- **Alimony Received** - represents the taxable alimony received by the taxpayer.
- **Business Income** - is detailed on Schedule C. This form is used to report the business operations from a Sole Proprietorship or Single Member LLC. This schedule reports only the profit and loss of the business. The balance sheet is not reported. In evaluating this schedule the following questions should be asked:
 1. What type of business is it?
 2. Are personal expenses deducted on the business?
 3. Is all income reported?
 4. Is there inventory?
 5. What assets and liabilities does the business have?
- **Capital Gain (or Loss)** - this form reflects the gains and losses from the sale of capital assets. It is important to remember that the gross proceeds reported are not the same as the taxable gain.
- **Schedule E: Rental Real Estate, Royalties, Partnerships, S Corps, Trusts, etc.** - will disclose any rental property on the first page. Information on the value of the property can then be obtained from other sources such as tax assessments and appraisals.

Page 2 of Schedule E shows the income or loss from any partnership or S Corporation interests, as well as participation in any trust or estate. These types of entities are "pass through" entities. This means that their income and/or loss are "passed through" to the individual taxpayer. The entity itself does not pay the tax. It is important to get the K-1's for each interest, which may also lead to the need for the entity's tax returns; underlying financial documents and possibly a valuation of the entity. This is similar to a W-2 for a wage earner and will provide a lot of information.

Itemized Deductions (Schedule A)

This schedule is another good source of information about your prospective client. Information on this schedule includes:

- **Real estate taxes** - this line will show any real estate taxes paid. If you know the location of the property you may be able to look at the town's website and get their tax mil levy information. Divide it by the tax to give you an estimate of the assessed value of the real estate.
- **Interest paid** - if the taxpayer paid mortgage interest it will be on this line. This will alert you to the existence of a possible loan application.
- **Gifts to charity** - amounts on this line could be a possible source of funds that could otherwise be available for additional support.

Finally, the tax return can provide a rough estimate of the marital standard of living or at least be a starting point for a lifestyle analysis. Here are some simple steps to get you started:

- Begin with the taxable income from page 2 of the 1040.
- Deduct the actual taxes paid including self employment and FICA on wages. If you do not have the W-2 FICA can be estimated at 8%. The result is the net dollars the taxpayers have to spend.
- Deduct the mortgage interest, property taxes and cash contributions.
- Deduct an estimate of the principle payments on the mortgage and insurance on the house.
- The balance is the rough standard of living.

Using the U.S. Individual Tax Return as a guide for the initial client interview will impress your prospective client. A solid understanding of what information can be provided by this form should result in an efficient discovery process, as well as a new client.

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