

Impact of a Business within a Family

- A business within a family will have a significant impact on determining support payments and a division of assets during a divorce.
- · Understanding the accounting of a business and how a business is valued is imperative to negotiating a fair settlement.



Consider this...

- Income can be manipulated, hidden or may have been originally presented for tax, bank or other purposes that may not be a fair representation of an individual's earnings.
- Valuations vary based on assumptions as well as fair market values of assets held within a corporation.



Notice to Reader

- One the basis of information provided by management, we have compiled the balance sheet of the corporation as at December 31, 2016 and the statement of income and retained earnings for the year then ended.
- We have not performed an audit or a review engagement in respect of these financial statements and, accordingly, We express no assurance thereon.
- Readers are cautioned that these statements may not be appropriate for their purposes.

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Income Determination from a Small Business

- $\boldsymbol{\cdot}$ Line 150 on the Personal Tax Return may be manipulated based on
- · Tax Planning
- Accounting Policies
- Fraud

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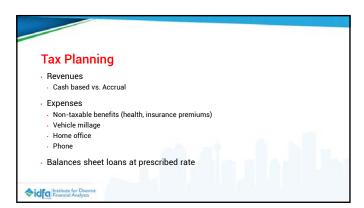
Valuation

- · The value of a business is subject to changes in fair market values and a number of assumptions
- Net Asset Approach
- · Multiple of Income
- · Earnings Based Approach

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Personal Tax I	Return - Line 150
· Total Income	
 Employment 	
· Dividend	
Interest	
- Rental	
· OAS/CPP	
 Pensions 	
 Support Payments 	

Tax P	lanning					
	STATEMENT OF INCOME	Salary	Dividend	Divorce Planning		
	Revenue	200,000	200,000	200,000		
	Expenses	100,000	100,000	100,000		
	Salary	100,000				
	Income before tax		100,000	100,000		
	Corporate tax		13,500	13,500		
	Income available to distribute		86,500	86,500		
	Dividend		86,500			
	Retained Earnings	-	-	86,500		
oidfa Institute fi	or Divorce Analysts					



Accounting Policies

- · Revenue Recognition
- · Earned vs. Deferred Revenues
- Timing
- Expenses
- · Non-taxable benefits (health spending, life insurance premiums, non-cash gifts)
- · Non-cash expenditures (amortization, bad debt)
- Timing



Fraud

- Revenues
- · Deposits made to another account
- Deposits made as Shareholder Loans
- · Cash not deposited to corporate accounts
- Barter



Fraud			
	nanagement fees to th to non-shareholders ses	ird parties	
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Fraud Detection

- · Variance Analysis two years prior to separation
- Measure variances with economic factors and other similar businesses within the industry
- $\boldsymbol{\cdot}$ Agree expenses with invoices and payments
- $\boldsymbol{\cdot}$ Trace employment expenses to T4 filings
- Trace management remuneration to personal tax returns



Valuation

 Estimation of the value of a business as a measure in splitting assets in a divorce.



Valuation Approaches Net Asset Based Earnings Based Excess Earnings Based

Net Asset Based Approach

- · Assets less Liabilities
- Liquidation value of the company, taking into account the income tax consequences of any asset appraisal increments or write downs
- · Consider changes in values (FMV)
- · Marketable Securities
- Property



Earnings Based Approach

- · The present value of the future benefits of ownership of the Company.
- · Inherent Assumptions:
- Normalized earnings
- Capitalized (discount) rate



Excess Earnings Based Approach

- · The present value of the future benefits of ownership of the Company.
- · Inherent Assumptions:
- Normalized earnings
- · Capitalized (discount) rate on tangible assets
- · Capitalized (discount) rate on intangible assets
- · Fair Market Value of tangible assets



Valuation

· Likely looking at a range and can negotiate something in-between



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- Finding fulfillment through advanced relationships by delivering trusted professional services that meet your needs and support you in achieving your ambitions.
- Shajani LLP can provide you an analysis of your client's financial statements and personal tax returns to direct questioning as well as valuations for small businesses for a division of assets.



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