



Net Worth Case Study Part IV: Calculation of Illicit Income

CASE INFORMATION:

Based on a request to the local tax authorities, you were able to obtain tax return information for both John and Sarah to determine their reported sources of income and deductions. In addition, you completed an analysis of the banking and credit transactions to determine personal expenditures incurred by John, Sarah and their household.

Based on your expenditure analysis and the documents obtained during the course of your investigation, the following expenses and sources of funds were identified for John and Sarah:

- 1) Your analysis of the banking and credit accounts of John and Sarah calculated the following personal expenditures:

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Clothing and Personal Items	\$ 8,260	\$ 10,255	\$ 15,489
Childcare	\$ 12,500	\$ 13,000	\$ 13,500
Entertainment and Recreation	\$ 22,463	\$ 27,225	\$ 32,412
Food and Beverage	\$ 18,474	\$ 21,856	\$ 23,887
Healthcare and Hygiene	\$ 4,250	\$ 3,265	\$ 3,961
Household Maintenance and Shelter	\$ 14,263	\$ 18,449	\$ 21,223
Interest on Credit Cards and Line of Credit	\$ 8,610	\$ 7,264	\$ 5,223
Property Taxes	\$ 5,200	\$ 6,550	\$ 7,300
Travel and Transportation	\$ 45,775	\$ 52,668	\$ 64,552
Total Expenses	\$ 139,795	\$ 160,532	\$ 187,547

- 2) A review of the annual mortgage statements showed the following interest paid by John and Sarah:

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Mortgage Interest – 549 Nice Lake Road	\$ 11,784	\$ 6,674	\$ ----
Mortgage Interest – 125 Anywhere Street	\$ ----	\$ 6,753	\$ 15,892
Total Mortgage Interest	\$ 11,784	\$ 13,427	\$ 15,892



- 3) A review of the annual car loan statements showed the following interest paid by John and Sarah:

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Car Loan Interest – 2017 BMW M5	\$ 403	\$ 21	\$ ----
Car Loan Interest – 2021 Audi Q7	\$ 864	\$ 1,468	\$ 1,116
Car Loan Interest – 2023 Porsche Cayman	\$ ----	\$ ----	\$ 1,629
Total Car Loan Interest	\$ 1,267	\$ 1,489	\$ 2,745

- 4) A review of John and Sarah’s Income Tax Returns show the following:

John Carson

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total Employment Income	\$ 62,500	\$ 67,225	\$ 71,000
Tax Withheld by Employer	\$ 16,625	\$ 16,806	\$ 17,750
Income Tax Refund Received	\$ 1,200	\$ 1,400	\$ 1,450

Sarah Carson

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Total Employment Income	\$ 15,275	\$ 16,500	\$ 18,000
Tax Withheld by Employer	\$ 2,291	\$ 2,475	\$ 2,700
Income Tax Refund Received	\$ 350	\$ 425	\$ 500

- 5) Sarah received \$45,000 in inheritance from her Grandfather’s estate in 2022.
- 6) John and Sarah had a gain on the sale of 549 Nice Lake Road in 2022. **Hint, the information to calculate the gain is included in the case study, Part II – Assets.**



FOR YOUR ACTION:

In your breakout groups, complete the following:

- 1) Determine the total expenditures for John and Sarah for the years 2021, 2022 and 2023.
- 2) Determine the total sources of funds for John and Sarah for the years 2021, 2022 and 2023.
- 3) Determine the total illicit income earned by John for the years 2021, 2022 and 2023.