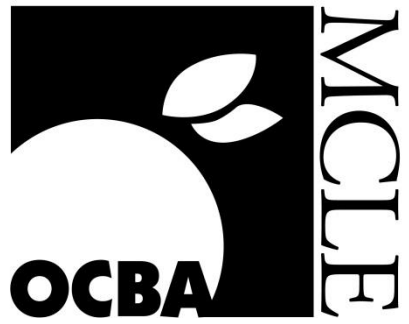

ORANGE COUNTY BAR ASSOCIATION

**FAMILY LAW
SECTION WEBINAR**

The Basics and Beyond to Properly Utilize
DissoMaster to Calculate Support



Wednesday, March 17, 2021

GUIDELINE SUPPORT AND DISSOMASTER

Presenter: Kenny Pierce, MBA | ABV | CVA | MAFF

Moderator: Marc H. Garelick, Esq. of Meyer, Olson, Lowy & Meyers, LLP

OCBA FAMILY LAW SECTION

MARCH 17, 2021

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Helping clients going through the divorce process for
over 18 years

Handled hundreds of marital dissolution cases

Testified in seven different counties

Flexible solutions for attorneys and clients

- Business valuations
- Controllable cash flow available for support
- Apportionment of community and separate property claims (real property, businesses, defined contribution plans, SOs, RSUs)
- Forensic tracings and special accountings
- Analysis of income, spending, and lifestyle during marriage to estimate the marital standard of living
- Spousal and child support calculations

WHAT DOES KENNY DO?

This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice.

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- How to (and how not to) enter wages, voluntary and mandatory retirement, as well as, after-tax and pre-tax health insurance premiums.
- How to create and interpret monthly overtime, annual bonus, and input variation reports.
- Provide insight into entries used for business owners such as self-employment income, S-Corp income, perquisites, and phantom income.

GOALS OF PRESENTATION

- \Downarrow Taxes = \Uparrow Net Disposable Income (NDI)
- \Uparrow NDI = \Uparrow Income available for support = \Uparrow Support

BASIC THEME OF SUPPORT

SUPPORT AND TAXES TABS

- Keep track of your spousal support formulas
 - View/SS County Mapping
- Actively manage spousal support taxability/deductibility for support modification cases
- Include Social Security – Yes/No
- Include state taxes – Yes/No
- Settings changed appear on standard DM report
 - Program Settings Report

- Earning capacity available for support subject to full state, federal, and **employment taxes**
- Pre-tax deductions (ex: 401(k) contributions)
 - Enter **full** amount of gross wages as wages and salary
 - Enter tax-deferred amount as Adjustments to Income (ATI), 401(k) employee contribution, or Mandatory Retirement
 - Voluntary (available for support)
 - Mandatory (not available for support)
- The “subject to employment taxes” logic becomes tainted if you use pre-tax wage deduction HI premium line

WAGES AND SALARY

FROM THE IRS WEBSITE

A 401(k) plan is a qualified profit-sharing, stock bonus, pre-ERISA money purchase pension, or a rural cooperative plan under which an employee can elect to have the employer contribute a portion of the employee's cash wages to the plan on a pre-tax basis. These deferred wages (elective deferrals) are not subject to federal income tax withholding at the time of deferral, and they are not reflected as taxable income on the employee's Form 1040, U.S. Individual Income Tax Return.

The employer reports elective deferrals on the participant's Form W-2, Wage and Tax Statement. **Although these amounts are not treated as current income for federal income tax purposes, they are included as wages subject to social security (FICA), Medicare, and federal unemployment taxes (FUTA).**

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(3,954)	4,094
Filing status	Single	HH/MLA		Net spendable income	2,905	4,094
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.5%	58.5%
Wages + salary	10,000	0		Total taxes	3,001	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	6,784	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	6,999	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,138)	4,290
Wages + salary	0	0	Basic CS	Net spendable income	3,121	4,290
Self-employment income	0	0	Add-ons	NSI change from gdl	216	196
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.1%	57.9%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,589	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,154	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,411	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.9%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(4,107)	4,257
Filing status	Single	HH/MLA		Net spendable income	3,085	4,257
# Federal exemptions	1*	3*	Jenny	% combined spendable	42%	58%
Wages + salary	10,000	0		Total taxes	2,658	0
401(k) employee contrib	0	0	Total	# WHA	5	0
Self-employment income	0	0		Net wage paycheck/mo	7,061	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	7,342	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,290)	4,453
Wages + salary	0	0	Basic CS	Net spendable income	3,302	4,453
Self-employment income	0	0	Add-ons	NSI change from gdl	217	196
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.6%	57.4%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,245	0
Required union dues	0	0	SS Payor	# WHA	9	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,418	0
Adj. to income (ATI)	1,000	0	Total	Comb. net spendable	7,755	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.6%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(4,107)	4,257
Filing status	Single	HH/MLA		Net spendable income	3,085	4,257
# Federal exemptions	1*	3*	Jenny	% combined spendable	42%	58%
Wages + salary	10,000	0		Total taxes	2,658	0
401(k) employee contrib	1,000	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	7,024	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	7,342	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,290)	4,453
Wages + salary	0	0	Basic CS	Net spendable income	3,302	4,453
Self-employment income	0	0	Add-ons	NSI change from gdl	217	196
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.6%	57.4%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,245	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,381	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,755	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.6%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(4,146)	4,300
Filing status	Single	HH/MLA		Net spendable income	3,132	4,300
# Federal exemptions	1*	3*	Jenny	% combined spendable	42.1%	57.9%
Wages + salary	9,000	0		Total taxes	2,569	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	6,213	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	7,431	
Other nontaxable income	1,000	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,330)	4,495
Wages + salary	0	0	Basic CS	Net spendable income	3,349	4,495
Self-employment income	0	0	Add-ons	NSI change from gdl	217	195
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.7%	57.3%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,156	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	6,570	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,844	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.6%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(3,591)	3,715
Filing status	Single	HH/MLA		Net spendable income	2,601	3,715
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.2%	58.8%
Wages + salary	10,000	0		Total taxes	2,684	0
401(k) employee contrib	0	0	Total	# WHA	5	0
Self-employment income	0	0		Net wage paycheck/mo	7,061	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	6,316	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(3,823)	3,955
Wages + salary	0	0	Basic CS	Net spendable income	2,769	3,955
Self-employment income	0	0	Add-ons	NSI change from gdl	168	240
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	41.2%	58.8%
SS paid other marriage	0	0	Joey	% of saving over gdl	41.2%	58.8%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,276	0
Required union dues	0	0	SS Payor	# WHA	9	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,418	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	6,724	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	6.5%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	1,000	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

- Wages Only → Support = \$4,095/month
- Wages with ATI → Support = \$4,258/month
- New 401k Line → Support = \$4,258/month
- Net Wage and Nontaxable → Support = \$4,300/month
- Mandatory → Support = \$3,716/month

- Paid by Party: Enter health insurance amount paid directly by the party
 - ATI and itemized deduction
- Wage Deduction: Enter health insurance deduction from party's wages
 - Itemized deduction only

HEALTH INSURANCE

- New line beginning in DM 2010-1
- There are THREE ways to handle pre-tax health insurance premiums:
 1. Exclude from Wages and Salary and use double entry – Other Nontaxable Income and Other Guideline Deductions
 2. IGNORE
 3. Include in Wages and Salary and enter amount on Pre-tax Wage Deduction line

PRE-TAX WAGE DEDUCTION

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
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Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(3,954)	4,094
Filing status	Single	HH/MLA		Net spendable income	2,905	4,094
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.5%	58.5%
Wages + salary	10,000	0		Total taxes	3,001	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	6,784	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	6,999	
Other nontaxable income	1,000	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,138)	4,290
Wages + salary	0	0	Basic CS	Net spendable income	3,121	4,290
Self-employment income	0	0	Add-ons	NSI change from gdl	216	196
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.1%	57.9%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,589	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,154	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,411	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.9%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	1,000	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
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Filing status	Single	HH/MLA		Net spendable income	2,905	4,094
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.5%	58.5%
Wages + salary	10,000	0		Total taxes	3,001	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	6,784	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	6,999	
Other nontaxable income	0	0	CS Payor	Proposed		
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Wages + salary	0	0	Basic CS	Net spendable income	3,121	4,290
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SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,589	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	7,154	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,411	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.9%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Monthly	
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Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(3,954)	4,094
Filing status	Single	HH/MLA		Net spendable income	2,905	4,094
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.5%	58.5%
Wages + salary	11,000	0		Total taxes	3,001	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	7,682	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	6,999	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(4,138)	4,290
Wages + salary	0	0	Basic CS	Net spendable income	3,121	4,290
Self-employment income	0	0	Add-ons	NSI change from gdl	216	196
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	42.1%	57.9%
SS paid other marriage	0	0	Joey	% of saving over gdl	52.6%	47.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	2,589	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	8,051	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	7,411	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.9%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	1,000	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

- Pre-tax HI Double Entry → Support = \$4,095/month
- Pre-tax HI IGNORE → Support = \$4,095/month
- Pre-tax HI New Pre-tax Line → Support = \$4,095/month

DEFINITIONS:

Income Taxes: Federal and State Income Taxes

Employment Taxes: Social Security and Medicare (FICA), Federal Unemployment Taxes (FUTA) , and CASDI

Guideline Income: Income/Benefit Available for Support (as defined by Family Code)

ASK YOURSELF:			ENTER VALUES AS:					
	Are Earnings/Benefits Subject to Income Taxes	Are Earnings/Benefits Subject to Employment Taxes	Are Earning/Benefits Considered Guideline Income	Wages & Salary	Other Taxable	ATI	Other Nontaxable	Other Guideline Deduction
#1	YES	YES	YES	<Enter>				
#2	YES	YES	NO	<Enter>				<Enter>
#3	YES	NO	YES		<Enter>			
#4	YES	NO	NO		<Enter>			<Enter>
#5	NO	YES	YES	<Enter>		<Enter>		
#6	NO	YES	NO	<Enter>		<Enter>		<Enter>
#7	NO	NO	YES				<Enter>	
#8	NO	NO	NO					

Note that #6 is equivalent to entering a value in Wages & Salary and Mandatory Retirement (Mandatory Retirement = ATI + Other Guideline Deduction).

Note that #8 is equivalent to entering a value as both Other Nontaxable and as a Other Guideline Deduction.

PHANTOM INCOME

- Pass-through entities (PTEs)
- When a case involves a PTE you should request the business tax returns, the Schedule K-1's, and the personal tax returns so that you can follow the flow of PTE income and PTE distributions
- The portion of the PTE income that is not distributed is referred to as “phantom income”

**Schedule K-1
(Form 1120-S)**

2020

Department of the Treasury
Internal Revenue Service

For calendar year 2020, or tax year

beginning / / 2020 ending / /

Shareholder's Share of Income, Deductions, Credits, etc.
▶ See separate instructions.

Part I Information About the Corporation		Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items	
A Corporation's employer identification number		1 Ordinary business income (loss)	13 Credits
B Corporation's name, address, city, state, and ZIP code		2 Net rental real estate income (loss)	
		3 Other net rental income (loss)	
		4 Interest income	
C IRS Center where corporation filed return		5a Ordinary dividends	
		5b Qualified dividends	14 Foreign transactions
		6 Royalties	
Part II Information About the Shareholder		7 Net short-term capital gain (loss)	
	D Shareholder's identifying number	8a Net long-term capital gain (loss)	
		8b Collectibles (28%) gain (loss)	
E Shareholder's name, address, city, state, and ZIP code	8c Unrecaptured section 1250 gain		
	9 Net section 1231 gain (loss)		
F Current year allocation percentage %		10 Other income (loss)	15 Alternative minimum tax (AMT) items
G Shareholder's number of shares Beginning of tax year End of tax year			
		11 Section 179 deduction	16 Items affecting shareholder basis
H Loans from shareholder Beginning of tax year \$ End of tax year \$		12 Other deductions	
For IRS Use Only			17 Other information
		18 <input type="checkbox"/> More than one activity for at-risk purposes*	
		19 <input type="checkbox"/> More than one activity for passive activity purposes*	
* See attached statement for additional information.			

PHANTOM INCOME - EXAMPLE

- Kenny is a 25% owner in a business owned by his father (75% owner)
- All business decisions are made by Kenny's father – **Kenny does not have any control**
- Kenny's 25% ownership interest yields \$120,000/year in taxable PTE income – This is in addition to his \$100,000/year salary
- Kenny's father **only distributes 30%** of the annual income so Kenny's PTE **distributions are \$36,000/year**
- This means that Kenny pays taxes on \$120,000 but only receives \$36,000/year
- There is **\$84,000 of “phantom income”** that needs to be properly addressed in the guideline support calculation

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Yearly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(41,000)	42,420
Filing status	Single	HH/MLA		Net spendable income	29,697	42,420
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.2%	58.8%
Wages + salary	100,000	0		Total taxes	27,883	0
401(k) employee contrib	0	0	Total	# WHA	2	0
Self-employment income	0	0		Net wage paycheck/mo	5,832	0
Other taxable income	0	0	Support (Nondeductible)	Comb. net spendable	72,117	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(43,784)	45,300
Wages + salary	0	0	Basic CS	Net spendable income	31,713	45,300
Self-employment income	0	0	Add-ons	NSI change from gdl	2,016	2,880
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	41.2%	58.8%
SS paid other marriage	0	0	Joey	% of saving over gdl	41.2%	58.8%
Retirement contrib if ATI	0	0	Chloe	Total taxes	22,986	0
Required union dues	0	0	SS Payor	# WHA	6	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	6,176	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	77,014	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	6.8%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Yearly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(77,744)	81,417
Filing status	Single	HH/MLA	151,136	Net spendable income	69,719	81,417
# Federal exemptions	1*	3*	Jenny	% combined spendable	46.1%	53.9%
Wages + salary	100,000	0	0	Total taxes	68,864	0
401(k) employee contrib	0	0	Total	# WHA	0	0
Self-employment income	0	0	151,136	Net wage paycheck/mo	5,647	0
Other taxable income	120,000	0	Support (Nondeductible)	Comb. net spendable	151,136	
Other nontaxable income	0	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(79,631)	83,237
Wages + salary	0	0	Basic CS	Net spendable income	71,584	83,237
Self-employment income	0	0	Add-ons	NSI change from gdl	1,865	1,820
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	46.2%	53.8%
SS paid other marriage	0	0	Joey	% of saving over gdl	50.6%	49.4%
Retirement contrib if ATI	0	0	Chloe	Total taxes	64,989	189
Required union dues	0	0	SS Payor	# WHA	0	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	5,647	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	154,822	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	2.4%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	0	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

ATTORNEY (NAME AND ADDRESS): California	TELEPHONE NO:	Superior Court Of The State of California, County of COURT NAME: STREET ADDRESS: MAILING ADDRESS: BRANCH NAME:
ATTORNEY FOR: Kenny	DISSOMASTER REPORT 2021, Yearly	
		CASE NUMBER:

Input Data	Kenny	Jenny	Guideline (2021)	Cash Flow Analysis	Kenny	Jenny
Number of children	0	2	Nets (adjusted)	Guideline		
% time with NCP	20%	0%	Kenny	Payment (cost)/benefit	(36,805)	38,080
Filing status	Single	HH/MLA		Net spendable income	26,659	38,080
# Federal exemptions	1*	3*	Jenny	% combined spendable	41.2%	58.8%
Wages + salary	100,000	0		Total taxes	71,261	0
401(k) employee contrib	0	0	Total	# WHA	0	0
Self-employment income	0	0		Net wage paycheck/mo	5,647	0
Other taxable income	120,000	0	Support (Nondeductible)	Comb. net spendable	64,739	
Other nontaxable income	36,000	0	CS Payor	Proposed		
New-spouse income	0	0	Presumed	Payment (cost)/benefit	(38,981)	40,331
Wages + salary	0	0	Basic CS	Net spendable income	28,235	40,331
Self-employment income	0	0	Add-ons	NSI change from gdl	1,576	2,251
Misc ordinary tax. inc.	0	0	Presumed Per Kid	% combined spendable	41.2%	58.8%
SS paid other marriage	0	0	Joey	% of saving over gdl	41.2%	58.8%
Retirement contrib if ATI	0	0	Chloe	Total taxes	67,434	0
Required union dues	0	0	SS Payor	# WHA	0	0
Nec job-related exp.	0	0	Santa Clara	Net wage paycheck/mo	5,647	0
Adj. to income (ATI)	0	0	Total	Comb. net spendable	68,566	
SS paid other marriage	0	0	Proposed, tactic 9	Percent change	5.9%	
CS paid other relationship	0	0	CS Payor	Default Case Settings		
Qual. Bus. Inc. Ded.	0	0	Presumed			
Health insurance	0	0	Basic CS			
Itemized deductions	0	0	Add-ons			
Other medical expenses	0	0	Presumed Per Kid			
Property tax expenses	0	0	Joey			
Ded. interest expense	0	0	Chloe			
Charitable contribution	0	0	SS Payor			
Miscellaneous itemized	0	0	Santa Clara			
Required union dues	0	0	Total			
Mandatory retirement	0	0	Savings			
Hardship deduction	0*	0*	Total releases to			
Other gdl. deductions	120,000	0	Kenny			
AMT info (IRS Form 6251)	0	0				
Child support add-ons	0	0				
TANF, SSI and CS received	0	0				

PHANTOM INCOME - EXAMPLE

- \$100,000 salary only, IGNORE PTE income and distributions:
 - Support = \$42,421
 - NSI = \$29,697 → $\$100,000 - \$27,883 \text{ (taxes)} - \$42,421 \text{ (support)}$
- \$100,000 salary + \$120,000 PTE income, ASSUME 100% OF INCOME IS DISTRIBUTED:
 - Support = \$81,417
 - NSI = \$69,719 → $\$100,000 + \$120,000 - \$68,864 \text{ (taxes)} - \$81,417 \text{ (support)}$
- \$100,000 salary + \$120,000 PTE income, ONLY 30% OF INCOME IS DISTRIBUTED :
 - Support = \$38,080
 - NSI = \$26,659 → $\$100,000 + \$120,000 - \$71,261 \text{ (taxes)} - \$38,080 \text{ (support)}$
- **\$84,000 NOT DISTRIBUTED (PHANTOM INCOME)**

PHANTOM INCOME - COMMENTS

- CCFAS not IAS
- The key word is CONTROLLABLE
 - What if Kenny was a 100% owner and had complete control over the business distribution policy?
- Is retaining all/some income required for the operation of the business?
 - The distribution policy should not be changed to manipulate support calculations
- Be prepared to provide supporting evidence for any claim that a PTE is required to retain all or a portion of their taxable income

“PHANTOM INCOME” IS NOT A FIGMENT OF THE IMAGINATION

KENNY PIERCE, MBA/CVA/MAFF | RUGETI & ASSOCIATES, P.C. | KPIERCE@RUGETI.COM

What is “phantom income”?

“Phantom income” can be an issue when dealing with divorcing parties that have an ownership interest in a pass-through entity (i.e., a partnership, limited liability company, or sub-chapter S corporation). A pass-through entity (PTE) reports revenues, expenses, and profits on their own tax return. The shareholders of the PTE receive a Schedule K-1 that reports their portion of the business profits and losses. These profits and losses are then *passed* from the PTE tax return to the shareholders’ personal tax return where taxes are paid on an individual level. The Schedule K-1 also reports the PTE distributions to each shareholder. The PTE can elect to distribute an amount equal to, less than, or more than the taxable income for that year. The portion of the PTE income that is not distributed is referred to as “phantom income.”

Practice tip: When a divorce case involves a PTE you should request the business tax returns, the Schedule K-1’s, and the personal tax returns so that you can follow the flow of PTE income and PTE distributions.

Why does “phantom income” matter?

In addition to Family Code section 4058, there is a large body of case law dedicated to defining “income” for the purposes of support. In the context of a divorce, an objective analysis of all resources available for support will move beyond the Internal Revenue Code definition of income, and will emphasize available and controllable cash flow.

In most cases involving a PTE, the taxable income as stated on the tax returns is different from the amount of controllable cash flow available for support. This difference (the “phantom income”) can have a large impact on a guideline support calculation.

Practice tip: When a divorce case involves a PTE, you should budget time and resources to interview the shareholder spouse about the PTE’s distribution policy and if the shareholder spouse does not control the level of PTE distributions, then budget time and resources to interview the controlling shareholder(s).

How to handle “phantom income” in a guideline support calculation? The analysis that follows is based on the following set of facts:

- John’s only source of taxable income is \$10,000 per month from an S-Corporation in which he has a 100% ownership interest;
- John’s S-Corporation has a distribution policy in which every month the business distributes \$5,000 (exactly 50%



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of the taxable income) and is required to retain the other 50% for corporate purposes;

- Jane does not work and has an 80% timeshare with their two children.

To establish an initial reference point, the guideline support software can be used to determine John’s tax liability that is generated by the \$10,000 per month of PTE taxable income. This is accomplished by blocking both child and spousal support and entering \$10,000 as Other taxable income from an S corporation.

	Guideline (2017)	Cash Flow Analysis	Gdln.
Nets (adjusted)		Comb. net spendable	7,399
John	7,399	Percent change	0%
Jane	0	John	
Total	7,399	Payment (cost)/benefit	0
Support		Net spendable income	7,399
Presumed	blocked	NSI change from gdl	0
Basic CS	blocked	% combined spendable	100%
Add-ons	blocked	% of saving over gdl	0%
Spousal	blocked	Total taxes	2,601

This initial reference point shows that when John reports \$10,000 per month in PTE taxable income, a \$2,601 per month tax liability is generated, leaving him with a monthly net spendable income of \$7,399.

While John is reporting \$10,000 per month in PTE taxable income, he is only receiving \$5,000 per month in distributions from the business. On a monthly basis, John is actually receiving \$5,000 and paying \$2,601 in taxes, leaving him with only \$2,399 of available and controllable after-tax cash flow.

Reflecting this amount of available and controllable after-tax cash flow in the guideline support software can be done two ways.

The first approach requires three entries:

1. Enter \$10,000 per month as Other taxable income so that the appropriate amount of taxes is calculated;
2. Enter \$10,000 as Other guideline deductions so that the taxable income is removed from the guideline income calculation;
3. Enter \$5,000 as Other nontaxable income to reflect the monthly amount actually received in PTE distributions.

The second approach only requires two entries:

1. Enter \$10,000 per month as Other taxable income so that the appropriate amount of taxes is calculated;
2. Enter negative \$5,000 as Other nontaxable income to reflect the amount of PTE taxable income that is unavailable.

When child and spousal support are blocked, both approaches result in a net spendable income of

\$2,399. The net spendable income reflects the \$5,000 of distributions actually being received less the \$2,601 tax liability related to the \$10,000 of PTE taxable income.

Guideline (2017)	Cash Flow Analysis	Gdln.
Nets (adjusted)	Comb. net spendable	2,399
John	Percent change	0%
Jane	John	
Total	Payment (cost)/benefit	0
Support	Net spendable income	2,399
Presumed	blocked NSI change from gdl	0
Basic CS	blocked % combined spendable	100%
Add-ons	blocked % of saving over gdl	0%
Spousal	blocked Total taxes	2,601

The guideline support software can also be used to highlight when “phantom income” is being handled incorrectly. Sometimes the “phantom income” issue is oversimplified. If \$5,000 per month is entered as either Other nontaxable income or Other taxable income, with no other entries, then the tax liability will be too low and the net spendable income will be too high.

A single Other nontaxable income entry borrows from the final piece of logic in the first approach described above without considering the full tax consequence of the PTE taxable income. This incorrect approach calculates zero taxes resulting in a net spendable income of \$5,000. That is

more than twice the \$2,399 of actual available and controllable after-tax cash flow.

Guideline (2017)	Cash Flow Analysis	Gdln.
Nets (adjusted)	Comb. net spendable	5,000
John	Percent change	0%
Jane	John	
Total	Payment (cost)/benefit	0
Support	Net spendable income	5,000
Presumed	blocked NSI change from gdl	0
Basic CS	blocked % combined spendable	100%
Add-ons	blocked % of saving over gdl	0%
Spousal	blocked Total taxes	0

A single Other taxable income entry effectively combines the two values in the second approach and enters the net result in a single line. While this incorrect approach does calculate \$881 in taxes due, this tax amount is insufficient to pay the full tax amount due for the \$10,000 of PTE taxable income being reported. This single entry results in net spendable income of \$4,119 which is much higher than the \$2,399 of actual available and controllable after-tax cash flow.

Guideline (2017)	Cash Flow Analysis	Gdln.
Nets (adjusted)	Comb. net spendable	4,119
John	Percent change	0%
Jane	John	
Total	Payment (cost)/benefit	0
Support	Net spendable income	4,119
Presumed	blocked NSI change from gdl	0
Basic CS	blocked % combined spendable	100%
Add-ons	blocked % of saving over gdl	0%
Spousal	blocked Total taxes	881

Properly addressing “phantom income” has an impact on both child and spousal support. Using the same entries described above, unblocking child and spousal support, assigning two children to Jane, and giving John (the noncustodial parent) a 20% timeshare results in the following guideline support:

	Child Support	Spousal Support ¹	Total Support
Reference Point²	\$2,672	\$1,884	\$4,556
Correct entries #1	\$921	\$579	\$1,500
Correct entries #2	\$921	\$579	\$1,500
Single entry – Nontaxable	\$1,920	\$1,040	\$2,960
Single entry - Taxable	\$1,582	\$987	\$2,569

1 Using Santa Clara guideline formula

2 Effectively assumes that 100% of the PTE taxable income is available to be distributed

Giving no consideration to the distribution policy of the PTE and assuming that 100% of the PTE taxable income is available to be distributed results in a support amount that is more than three times higher than the calculation that properly considers the available and controllable after-tax cash flow. Incorrectly assuming that “phantom income” can be addressed with a single Other nontaxable income entry results in a support amount that is almost double the correct support amount. Finally, using a single Other taxable income entry results in a support amount that is more than \$1,000 higher than the correct support amount.

Practice tip: Blocking child and spousal support and performing a tax-only calculation can allow for a comparison between the parties’ level of spending and the net spendable income (available and controllable after-tax cash flow) that is calculated by the guideline support software.

A sanity check for the support payor that has “phantom income”

We know from the calculations above that while John is reporting \$10,000 per month in PTE taxable income, he is only receiving \$5,000 per month in distributions from the business. We also know that John is paying \$2,601 in taxes. This leaves him with only \$2,399 of available and controllable after-tax cash flow from which to pay support. When “phantom income” is correctly entered into the guideline support software, John pays \$1,500 in total support. However, given the deductibility of spousal support the cost of this total support amount is only \$1,299. Subtracting the cost of the support payment from \$2,399 leaves John with \$1,100 (due to rounding it is shown as \$1,099 in the summary below).

Guideline (2017)	Cash Flow Analysis	Gdln.
Nets (adjusted)	Comb. net spendable	2,600
John	2,600	Percent change 0%
Jane	0	John
Total	2,600	Payment (cost)/benefit (1,299)
Support		Net spendable income 1,099
CS Payor	John	NSI change from gdl 0
Presumed	921	% combined spendable 42.3%
Basic CS	921	% of saving over gdl 0%
Add-ons	0	Total taxes 2,400
Presumed Per Kid		# WHA 0
Child 1	345	Net wage paycheck/mo 0
Child 2	576	Jane
SS Payor	John	Payment (cost)/benefit 1,500
Santa Clara	579	Net spendable income 1,500
Total	1,500	NSI change from gdl 0

Another check, using only the summary above and not performing the separate tax-only calculation, is to recognize that John is receiving \$5,000, but is paying \$2,400 in total taxes and \$1,500 in support, leaving him with \$1,100.

Using this sanity check, does the calculated support amount make sense when using a single Other taxable income entry? When “phantom income” is (incorrectly) entered this way, John pays \$2,569 in total support. Given the deductibility of spousal support the cost of this total support amount is \$2,243. Subtracting the cost of the support payment from \$2,399 leaves John with \$156. Does this make sense?

When a single Other nontaxable income entry is used, the cost of the support payment exceeds the \$2,399 of John’s available and controllable after-tax cash flow. Does this make sense?

Practice tip: Sanity checks can help support your own calculations, as well as, illustrate the errors in calculations performed by others.

Is retained income required for the operation of the business?

Again, “phantom income” is the portion of the PTE income that is not distributed. One of the facts set forth in the example above is that John’s S-Corporation is required to retain 50% of the taxable income for corporate purposes.

To determine how much income a business is required to retain requires a historical review of the business’ distribution policy along with an interview with the business owner. This determination has a large impact on support. For example, if it was determined that John’s S-Corporation was not required to retain 50% of the PTE taxable income, and in fact was able to distribute 100% of the PTE income, then John’s available and controllable after-tax cash flow would be \$7,399 and his total support payment would increase to \$4,556. In this example, making 100% of the PTE income available to John triples the total support amount.

Practice tip: Be prepared to provide supporting evidence for any claim that a PTE is required to retain all or a portion of their taxable income.

Properly addressing “phantom income” in a settlement or courtroom setting will likely require testimony from the business owner and a forensic accounting expert. The difference between PTE taxable income and available and controllable cash flow from a PTE must be clearly communicated. An understanding of the differences will empower clients, attorneys, and courts to equitably resolve PTE related support issues.

- DissoMaster is powerful software, let it do the work for you
- GIGO
- One paystub is not enough!
- If you have any questions, call your financial expert...

SUMMARY

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949.656.6969

Call or email me with questions

State of California

FAMILY CODE

Section 4055

4055. (a) The statewide uniform guideline for determining child support orders is as follows: $CS = K[HN - (H\%)(TN)]$.

(b) (1) The components of the formula are as follows:

(A) CS = child support amount.

(B) K = amount of both parents' income to be allocated for child support as set forth in paragraph (3).

(C) HN = high earner's net monthly disposable income.

(D) H% = approximate percentage of time that the high earner has or will have primary physical responsibility for the children compared to the other parent. In cases in which parents have different time-sharing arrangements for different children, H% equals the average of the approximate percentages of time the high earner parent spends with each child.

(E) TN = total net monthly disposable income of both parties.

(2) To compute net disposable income, see Section 4059.

(3) K (amount of both parents' income allocated for child support) equals one plus H% (if H% is less than or equal to 50 percent) or two minus H% (if H% is greater than 50 percent) times the following fraction:

Total Net Disposable Income Per Month	K
\$0-800	$0.20 + TN/16,000$
\$801-6,666	0.25
\$6,667-10,000	$0.10 + 1,000/TN$
Over \$10,000	$0.12 + 800/TN$

For example, if H% equals 20 percent and the total monthly net disposable income of the parents is \$1,000, $K = (1 + 0.20) \times 0.25$, or 0.30. If H% equals 80 percent and the total monthly net disposable income of the parents is \$1,000, $K = (2 - 0.80) \times 0.25$, or 0.30.

(4) For more than one child, multiply CS by:

2 children	1.6
3 children	2
4 children	2.3
5 children	2.5
6 children	2.625

7 children	2.75
8 children	2.813
9 children	2.844
10 children	2.86

(5) If the amount calculated under the formula results in a positive number, the higher earner shall pay that amount to the lower earner. If the amount calculated under the formula results in a negative number, the lower earner shall pay the absolute value of that amount to the higher earner.

(6) In any default proceeding where proof is by affidavit pursuant to Section 2336, or in any proceeding for child support in which a party fails to appear after being duly noticed, H% shall be set at zero in the formula if the noncustodial parent is the higher earner or at 100 if the custodial parent is the higher earner, where there is no evidence presented demonstrating the percentage of time that the noncustodial parent has primary physical responsibility for the children. H% shall not be set as described in paragraph (3) if the moving party in a default proceeding is the noncustodial parent or if the party who fails to appear after being duly noticed is the custodial parent. A statement by the party who is not in default as to the percentage of time that the noncustodial parent has primary physical responsibility for the children shall be deemed sufficient evidence.

(7) In all cases in which the net disposable income per month of the obligor is less than one thousand five hundred dollars (\$1,500), adjusted annually for cost-of-living increases, there is a rebuttable presumption that the obligor is entitled to a low-income adjustment. The Judicial Council shall annually determine the amount of the net disposable income adjustment based on the change in the annual California Consumer Price Index for All Urban Consumers, published by the California Department of Industrial Relations, Division of Labor Statistics and Research. The presumption may be rebutted by evidence showing that the application of the low-income adjustment would be unjust and inappropriate in the particular case. In determining whether the presumption is rebutted, the court shall consider the principles provided in Section 4053, and the impact of the contemplated adjustment on the respective net incomes of the obligor and the obligee. The low-income adjustment shall reduce the child support amount otherwise determined under this section by an amount that is no greater than the amount calculated by multiplying the child support amount otherwise determined under this section by a fraction, the numerator of which is 1,500, adjusted annually for cost-of-living increases, minus the obligor's net disposable income per month, and the denominator of which is 1,500, adjusted annually for cost-of-living increases.

(8) Unless the court orders otherwise, the order for child support shall allocate the support amount so that the amount of support for the youngest child is the amount of support for one child, and the amount for the next youngest child is the difference between that amount and the amount for two children, with similar allocations for additional children. However, this paragraph does not apply to cases in which there

are different time-sharing arrangements for different children or where the court determines that the allocation would be inappropriate in the particular case.

(c) If a court uses a computer to calculate the child support order, the computer program shall not automatically default affirmatively or negatively on whether a low-income adjustment is to be applied. If the low-income adjustment is applied, the computer program shall not provide the amount of the low-income adjustment. Instead, the computer program shall ask the user whether or not to apply the low-income adjustment, and if answered affirmatively, the computer program shall provide the range of the adjustment permitted by paragraph (7) of subdivision (b).

(Amended (as amended by Stats. 2017, Ch. 730, Sec. 1) by Stats. 2020, Ch. 36, Sec. 28. (AB 3364) Effective January 1, 2021.)