Using Net Worth Analysis to Uncover Hidden Assets

The need to search for hidden assets can arise in a variety of practice areas, including divorce cases, shareholder/partnership disputes, fraud investigations and business valuations. Financial experts continue to follow the example the IRS set when it nabbed Al Capone decades ago: using net worth analysis to ferret out hidden assets.

Developing a Financial Profile

The first step in a net worth analysis is to assemble a financial profile of the subject so the analyst can detect changes in net worth that might indicate hidden assets. The analyst collects documents related to financial accounts, real property, loans and credit cards (including applications), investments, insurance, tax returns, and consumer credit reports. But rather than rely solely on financial records, the analysts also gathers data from a variety of sources, including:

- Online databases, for background and assets checks,

- Online subscription services, for public and court records,

- Employment applications, for Social Security numbers, places and dates of birth, current and previous addresses, names of family members, education and previous employment — this information can reveal where a subject has lived, which helps target record searches, and provides alternative names in which the subject might hold assets,

- Payroll records, for salary history and banking information, and

- Expense reports, for credit card and bank accounts, and phone numbers called (which can reveal banking relationships, associates and witnesses).

- A subject's accountant, tax preparer, former spouses, former business partners, real estate agents and others can also provide information critical to compiling a comprehensive financial profile.

Anticipating the Defense

Parties suspected of hiding assets tend to offer typical excuses — cash hordes, gifts and loans from friends or relatives, gambling winnings — to explain funds from unknown sources.

Financial experts can often rebut these explanations, for example by showing that the party's alleged benefactors themselves were in no financial position to offer the funds. As Al Capone learned, net worth analysis can weave a strong case that someone is wrongfully hiding assets.

Analyzing the Data

Financial experts use several methods to analyze a subject's financial profile:

Asset method. The analyst compares the subject's beginning and ending net worth for the period in question, with adjustments for known income and expenditures. The end figure represents the subject's income from unknown sources. The analyst values the assets at their original cost to avoid understating or overstating funds from unknown sources if those assets appreciated or depreciated in value. For similar reasons, analysts usually overestimate funds available from legitimate sources and underestimate expenditures on legitimate items.

Expenditures method. This method focuses more on the subject's available income than on accumulated assets, matching total expenditures against available sources of funds. The analyst includes income from all sources, including salaries, inheritances, loans, gifts and cash on hand at the beginning of the period. Any excess of expenditures over available funds is attributed to funds from unknown sources.

Bank deposits method. This method is based on the assumption that money is either spent or deposited. The analyst adds the net deposits to all accounts (that is, deposits less transfers and re-deposits) to cash expenditures to calculate the total receipts. Funds from known sources are deducted from total receipts to estimate the total funds from unknown sources.

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