



## Unveiling Financial Fraud in Divorce: Types, Taxes, Red Flags, and Investigative Steps

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### Introduction

In the United States, millions of dollars are spent each year on extravagant weddings, with an average cost of \$28,000 per wedding (Business Insider, 2021). According to the Center for Disease Control and Prevention (CDC), over two million Americans were married in 2019, roughly a rate of 6.1 per 1,000 of the total population (CDC, 2020). It is a matter of concern that a considerable proportion of such marital relationships fail to maintain a state of happiness. In the United States, 40 to 50 percent of couples are divorced, which is the sixth highest divorce rate worldwide (Divorce.com, 2023). According to the CDC, over 600,000 couples were divorced in the United States in 2019 (CDC, 2020). This number amounted to over 1,700 divorces per day (CDC, 2020). Data suggests that the divorce rate has been steadily declining since 2000 due to the younger generation getting married later in life (Olito, 2019); however, other research findings indicate a significant increase in age-standardized divorces according to data from 1980 through 2010 (Kennedy and Ruggles, 2014) and record-breaking divorce rates among individuals over 50 (Hughes and Fredenburg, 2021). Age-standardized rate calculations are based on age-specific rates published in 1970 and for the decade from 1980 to 1990 and for years 2008 to 2011 for the “Divorce Registration Area” (which includes the District of Columbia and 29 states) (Kennedy and Ruggles, 2014). In both cases, the divorce rate was considerable.

Financial infidelity is one indicator of marital issues. Approximately one in three married couples have experienced financial infidelity (Harzog, 2022; Jeanfreau, Noguchi, Mong, and Stadthagen-Gonzalez, 2018). The National Endowment for Financial Education (2021) also found that 40 percent of Americans admit to committing financial infidelity against their partners, and in 16 percent of relationships, financial deceptions ultimately resulted in divorce. Divorce is one of the most stressful events in a person’s life. Not surprisingly, even in a situation where both spouses are financially faithful and honest during their marriage, divorce can often bring out the worst in people and lead to fraud during the divorce process.

Financial deceptions during a marriage can come in many different forms and in different magnitude. The focus of this article is not on minor lies, such as admitting having wagered \$10 on a sports bet when in fact \$100 was lost. Instead, the focus here is on financial deceptions that result in significant amount of funds not being properly awarded to the deceived spouse. Divorce fraud often begins with small, deceptive transactions that escalate over time. Fraud initiated during divorce tends to grow faster than other frauds, such as commercial fraud, and is time-compressed due to the time pressure of the divorce trial (Glenn et al., 2010, p. 363).

Apart from the emotional distress during a divorce, a financial dimension is also present, as marriage constitutes both an emotional and financial partnership. Once a couple chooses to divorce, the legal system often needs to assist with dismantling the financial partnership. During this time, assets and wealth are split between two parties who, often, have a great deal of animosity towards each other. Both parties worry about increased bills as they split one household into two. At the same time their expenses are increasing as they are often faced with exorbitant legal bills, dividing their wealth, and potentially paying the other spouse child support and/or alimony. This situation can create a perceived pressure on individuals to commit fraud.

During a divorce, commonly one spouse feels that (s)he is entitled to a greater share of the assets (Attridge, 1994). If one spouse believes they were cheated on during the marriage, whether true or not, they will feel that the cheating spouse

deserves punishment or should forfeit their rights to an equal share of the assets. However, most states are now no-fault states, meaning that even if adultery, cruelty, intemperance, or abandonment can be proven, they are essentially irrelevant (Gallacher, 2014). In many cases if one spouse has earned the bulk of the income during the marriage, they may find it justified in claiming a larger portion of the assets, reasoning that they “earned” it while the other spouse did not. Likewise, if one spouse brought more money into the marriage from an inheritance or another source to make improvements to the marital house, the funds were typically considered intermingled. These are just a few examples of how complicated divorces can be and why one spouse may rationalize defrauding the other spouse during a divorce.

Some estimate that allegations of financial fraud occur in approximately half of divorces (Glenn et. al., 2010). However, evidence of such claims is found in only approximately 10 percent of divorce cases (Glenn et. al., 2010). In other words, of the 600,000 divorces that took place in the United States in 2019 (CDC 2020), evidence of fraud was uncovered in approximately 60,000 cases.

One factor that can be attributed to the low detection rate of divorce fraud is the fact that uncovering such fraudulent activities is a complex and costly process to (Glenn et. al., 2010). Divorce fraud lengthens the divorce process, dramatically increases legal and professional fees, strains the court system’s resources, and can lead to bankruptcy. This fraud can also leave one spouse and the children of the marriage dependent on society to take care of their financial needs.

Due to the high emotional and financial impact of divorcing spouses and children and the negative impacts on society in general, helping the victims by detecting this fraud early and possibly preventing it from expanding further is imperative. Investigators, such as forensic accountants, can play a significant role in this process. Further exploration of this important topic is required to aid investigators in solving the complex puzzle of detecting financial divorce fraud. This study aims to provide a comprehensive understanding of divorce fraud with a focus on the financial perspective. Its goal is to help guide divorce fraud investigators in multiple ways who need to combine analytical and critical thinking skills when uncovering divorce fraud.

The article proceeds as follows. First, it explains various types of divorce fraud, including concealing assets, hiding income, improperly valuing assets, and dissipating funds. Subsequently, an analysis of how taxes play a role in divorce fraud is presented. Then, red flags that can help detect financial divorce fraud are explored along with steps to enhance the investigative process. The article ends with suggestions for future research and a conclusion.

## **Types of Divorce Fraud**

While there are many types of divorce fraud, the following four main types are discussed here: (i) concealing assets, (ii) hiding income, (iii) improperly valuing assets, and (iv) dissipating funds.

### **Concealing Assets**

Concealing assets in a divorce case is fraudulent and includes hiding or shielding assets from the marital estate. An asset not disclosed by one spouse deprives the other of its value, thereby resulting in an unfair financial advantage for the cheating spouse. These assets can include bank accounts, brokerage accounts (which are simple to set up online to transfer funds from unknown accounts), real estate, boats, cars, planes, an ownership interest in a business, foreign asset protection trusts, and digital assets, such as Bitcoin.

If the cheating spouse is an employee of a company, he or she may conceal deferred compensation plans, stock options, bonuses, expense accounts, and other fringe benefits. Often, the cheating spouse will title or re-title an asset in the name of a business they own or a relative or friend they trust. Other methods of concealing assets include depleting equity in real property by taking out a first or second mortgage before the divorce proceeding begins, pledging retirement assets as collateral for loans, or transferring assets out of the country. In addition, a spouse may place money or assets in a safe or safe-deposit box, or deposit funds into minor children’s accounts. Some suspecting spouses make overpayments to the IRS or a credit card company to temporarily remove and conceal assets from divorce considerations (Kindler, 2007).

In an example case, the court found that the spouse’s fraudulent transfer of lottery winnings to her mother’s address and using her mother’s address to communicate with the lottery officials during her divorce process constituted concealment of assets. The funds used to purchase the ticket were community property, and the wife’s claim that the winnings were a gift was not credible. The court found that the wife intentionally failed to disclose her lottery winnings in the marital settlement agreement, the judgment, and her declaration of disclosure (*Rossi v. Rossi*, 2001).

In another case, a court ordered the husband to pay sanctions of \$250,000 and attorney fees of \$140,000 for nondisclosure of assets. In this case, the husband failed to disclose ownership of Israel government bonds he purchased with bank loan proceeds, business entities, as well as a 401K plan. In addition, the husband also failed to disclose a personal residence he leased after the newly created business entity he wholly owned purchased it. This transaction was a material fact and should have been disclosed to the wife (*Feldman v. Feldman*, 2007).

### **Hiding Income**

Hiding income is difficult but not impossible. Those who receive cash can simply skim some of the cash proceeds, enabling them to hide income not only from their spouse but also from the Internal Revenue Service. Divorce frauds relating to hiding income take on different forms depending on whether the suspected spouse is an employee or is self-employed.

If a spouse has more than one job or one type of income, they may deposit their earnings from their main job in a marital bank account and their earnings from their second job in a secret bank account. For instance, a salesperson may receive a commission check every two weeks but only deposit one check per month in the joint account while depositing the second check into a personal account. In addition, a spouse may produce only the first two pages of a tax return showing income and purposely omit documents such as those of W-2, K-1, and 1099 that list accounts, rent from property, interest in savings accounts or investment accounts, gains, or losses on the sale of stock, and retirement plan distributions. Other ways to hide income include putting funds into EE Savings Bonds, which do not appear in account statements and are not registered with the IRS. A spouse who owns his/her own business and is self-employed can take many actions to hide income, at least temporarily. For example, (s)he may delay invoicing clients to complete contracts until after the divorce is finalized. These are some of the ways in which spouses hide their income from each other before and during divorce.

In the case of *Dow v. Dow*, the wife did not disclose that she had an Oregon Savings Grown Plan account (OSGP) at the time of the divorce. The court found that the wife engaged in a course of conduct designed to deceive her husband. This conduct concerned her annual income from 2005 to 2006. She used the OSGP account as a way to divert income from her reportable taxable income and, therefore, deleted this income from the income amount she was required to report to her husband (*Dow v. Dow*, 2013).

### **Improperly Valuing an Asset**

When a court divides marital assets, it must value at least the marital estate and, usually, the parties' non-marital estates as well (Turner, 2012). For an asset sold in the open market, value is most often determined using the net fair value, which is the price at which an asset would be sold in a transaction between a willing buyer and a willing seller (Turner, 2012) in an arm's length transaction. Examples of assets that can be sold in the open market include marital homes and commercial properties. For properties that cannot be sold in the open market, the valuation standard is known as the intrinsic value (Turner, 2012). Retirement benefits are examples of assets that cannot be sold in the open market. To determine the intrinsic value, the court looks at the value of the asset in the hands of its present owner without sale (Turner, 2012).

An asset is undervalued when one spouse states only part of its value. In this case, the asset is known, but the spouse committing the fraud attempts to deceive the other spouse about the true value of the asset. Typically, this situation involves an asset that is difficult to value and/or is in the control of the offending spouse. A typical asset which is difficult to be sold in the open market, difficult to be valued, and is in the control of one spouse is a privately held company. If the asset in question is a business, it is crucial to determine its correct value in order to determine a spouse's rightful share. Companies are often valued based on a multiple of annual net earnings. The greater the net earnings, the greater the value of the business and the higher the share of matrimonial settlement owed to the non-owner spouse. Therefore, the suspected owner spouse may have an incentive to undervalue the business by either overstating or expediting expenses and/or underreporting or slowing down income. For example, a spouse who owns and operates a medical practice may stop receiving new patients or pay personal expenses through the business. This situation lowers the practice's net income and, therefore, lowers the value of the practice.

In *Terwilliger v. Terwilliger*, Mr. Terwilliger represented to Mrs. Terwilliger that several closely held corporations they owned were experiencing financial difficulties. In particular, he stated one of the corporations, TransAmerica Cable d/b/a Mid-America Cable ("MAC") was nearly bankrupt and overdrawing at a rate of \$10,000 per day. Based on Mr. Terwilliger's representations, Mrs. Terwilliger agreed to accept, among other items, unencumbered stock equaling 10 percent of the companies the couple owned, which Mr. Terwilliger valued at \$11,000. In the settlement agreement, Mr. Terwilliger was

to receive, among other items, 90 percent of the stock of the corporations which he valued at \$100,000. Within two weeks of signing the settlement agreement and before the divorce decree was entered, Mr. Terwilliger represented to a potential buyer that MAC was worth \$1.7 million. The final decree of dissolution of marriage was entered and incorporated into the settlement agreement. Less than a month after the divorce decree was entered, Mr. Terwilliger entered into an agreement to sell MAC for approximately \$1.6 million to be paid in stock and cash. Mrs. Terwilliger moved to reopen to the decree of dissolution of marriage and modify the settlement agreement. After a court hearing, the court awarded Mrs. Terwilliger an additional \$384,166.50, which equals one-half of the profits realized from the sale of MAC, less the funds she had previously received from the sale (*Terwilliger v. Terwilliger*).

### **Dissipating Funds**

When a party to a divorce proceeding spends marital funds lavishly (for example, excessive gambling, drug usage) or merely for his/her own benefit (e.g., shopping sprees, vacations/hotel rooms with paramour), the amount of assets available for distribution by the divorce court diminishes (Locus, 2022). However, until the parties consider a divorce, each spouse is generally vested with the right to spend marital funds for their own enjoyment, such as clothing, traveling, and dinner. Given these two conflicting interests, the courts must decide (1) whether the alleged purpose of the spending is supported by evidence and, if so, (2) whether that purpose amounts to dissipation in those circumstances (41 A.L.R.4th 416). When analyzing whether the spending amounts to dissipation, most courts look at the proximity of the spending to the parties' separation, whether the spending was typical for the parties prior to the breakdown of the marriage, and whether the marital funds were used exclusively for the benefit of one spouse through the exclusion of the other spouse (41 A.L.R.4th 416). Spending marital funds on items such as necessities of life, attorney fees, legitimate household expenses, and business expenses are considered valid marital expenditures and, therefore, not the dissipation of assets (27 B.C.J.S. Divorce §943). A typical action by the suspected spouse who is trying to dissipate funds includes maximizing credit cards.

In the case of *Peterson v. Peterson*, the court found that the husband intentionally dissipated \$14,285 from his 401k plan after the petition for dissolution of divorce was filed. Therefore, the court awarded the wife one-half of the \$14,285 that the husband intentionally dissipated. The court stated that when a party has engaged in misconduct that dissipates marital funds, the court should allocate the dissipated funds to the damaged spouse in an equitable distribution scheme or the court could give the innocent spouse credit for half the amount dissipated (*Peterson v. Peterson*, 2021).

In another case involving dissipation of funds, the husband and wife began arguing over many issues, including money, visits by the wife's parents, their son's diet, and the wife telling the husband to move out of the marital home many times. During this time, the wife transferred \$540,000 from the spouses' investment account to an account titled solely in name of her mother. The court found that the transfer by the wife to her mother amounted to a dissipation of marital assets and that the \$540,000 should have been included in the calculations when dividing marital property (In re Marriage of Sinha, 2021).

As demonstrated, many types of divorce fraud exist. In addition to these types of divorce fraud, taking advantage of tax laws the other spouse or his or her attorney are unaware of can also deceive spouses. Taxes play a significant role in divorce fraud, as tax laws and regulations often come into play during the divorce process, particularly when it comes to dividing assets and income. The role of taxation in divorce fraud is discussed next.

### **The Role of Taxation in Divorce Fraud**

One spouse's (or his or her attorney's) knowledge of tax laws, particularly as those related to married individuals can be a powerful way to manipulate an inequitable property division if not to commit outright fraud against an unsuspecting spouse. By filing a joint income tax return rather than filing married separate income tax returns, one spouse can (1) cause an unwitting spouse to be subject to a tax liability triggered by the tax evasion of the other spouse, and (2) deprive the unwitting spouse of a refund that he or she would otherwise be entitled to, due to the Internal Revenue Service (IRS) applying it to satisfy the tax liability of the other spouse. These risks of fraud are in play as long as the spouses are married even if they are separated and in the process of divorce.

As discussed in more detail below, in addition to taking advantage of tax laws to defraud the other spouse, a spouse with superior tax knowledge can create the illusion that what in reality is an inequitable division of marital assets for the other spouse is equitable, if not overly generous. This is because from a monetary perspective, the fair market value of property is a misleading measure of value if such property has appreciated significantly since its acquisition. When such property is converted to money through a sale, the seller reports a taxable gain—the difference between the selling price and the original

cost of the property (basis). Consequently, considering a highly appreciated asset to be worth its fair market value may be illusory if its sale would trigger a significant amount of tax—reducing the monetary value accordingly.

Thus, in negotiating a divorce settlement, under the guise of generosity and fairness, a spouse aware of the tax significance of a property's fair market value—basis differential could lure the other spouse into accepting what is essentially an inequitable after-tax value split of marital assets. This result could be accomplished by offering the other spouse highly appreciated property in exchange for a lesser amount of money and/or non-appreciated property (with little, if any, adverse tax consequences). The consequences for an unsuspecting spouse accepting such an offer may be devastating if he or she sells the property, and the after-tax amount is far less than the value of the property. Although it is possible that the spouse's attorney may be aware of this tax trap, the spouse could be unrepresented or have retained an attorney who is not savvy in these aspects of tax law.

### **Filing Joint Returns: Joint and Several Liability**

The Internal Revenue Code (IRC) permits spouses to file their income tax returns separately or jointly. Spouses filing separately are each solely responsible for their tax liability as if they were single. Conversely, spouses who file jointly are jointly and severally responsible for the entire tax liability of the spouses as reported on the return in addition to other tax, interest and penalties that may be assessed by the IRS through an audit (IRC Section 6013(d)(3)). Thus, a spouse who wants no responsibility for the other spouse's tax liability should file separately. However, this tradeoff may be significant. Generally, the combined tax liability of a married couple is less filing jointly than it would be had they filed separately. Therefore, spouses not concerned about joint and several tax liability would probably choose to file jointly to save tax. Unfortunately, because the IRS can collect the entire amount of the tax liability from either spouse, a spouse duped into filing a joint return under the guise of saving tax could end up paying the entire tax bill.

For example, assume that without the other spouse's knowledge, unbeknown, a spouse commits tax fraud by not reporting income and claiming false deductions. There are several ways that this might occur. For example, one spouse may be a gambler or conduct an illegal business or receive cash payments without reporting them as income—all without the knowledge of the other spouse. Under those circumstances, it is also likely that the deceitful spouse hides the unreported income from the other spouse so he or she derives no benefit from it. In complete ignorance of this deceit, the unwitting spouse signs the joint return with his or her spouse.

Due to the unreported income and bogus deductions, the joint return generates a refund that the fraudulent spouse spends and does not share with the other spouse. Subsequently, the IRS discovers the tax fraud in an audit and assesses a large amount of additional tax plus interest and tax fraud penalties. Because the entire liability is joint and several, the IRS sends collection notices to each spouse. The good news is that the non-fraudulent spouse is not imputed with the fraud of the other spouse (IRC Section 6663(c)). Therefore, the non-fraudulent spouse is not responsible for the fraud penalty imposed on the other spouse (equal to 75 percent of any part of the under payment of tax attributable to fraud [IRC Section 6663(a)]). The bad news is that, absent the innocent tax relief discussed below, the entire balance of the remaining liability is joint and several. Therefore, if the fraudulent spouse disappears, the IRS has the authority to collect that amount from the other spouse. In the end, the fraudulent spouse who paid no tax on the unreported income as well as spending the wrongfully generated refund did so at the expense of the other spouse who paid the tax, interest, and non-fraud penalties (IRC Section 6013(d)(3)).

The example discussed above could also occur while the couple is either separated or separated and headed for divorce. At this point, while separated, the fraudulent spouse convinces the unwitting spouse to file jointly because filing separately would trigger a much greater tax liability for each spouse. As in the prior example, the unwitting spouse agrees to file a joint return, the fraudulent spouse disappears, and he or she is responsible for paying the entire tax bill.

### **Filing a Joint Return: Additional Concerns**

As explained below, filing a joint return with unreported income and/or false deductions is not the only way to defraud the other spouse. Although a premarital tax liability of one spouse does not become a joint liability through marriage, an unwitting spouse can be "tricked" to pay the other spouse's liability by filing a joint return. This result also is true with respect to a spouse's past due child support, debts to federal agencies (other than the IRS) and state income tax liability. To illustrate this point, consider the following example: Assume that prior to marriage, one spouse, then single, incurred a large tax liability that he or she did not pay and had not disclosed to the other spouse. Once married, the couple files a joint return.

The fraudulently minded spouse is aware that the other spouse, a wage earner, had a large amount of federal taxes withheld from his or her wages that would likely generate a refund.

Importantly, spouses who file a joint return are treated as single taxpayers. Therefore, the IRS has the authority to apply a refund from a joint return to any outstanding tax liability of either spouse. In this example, the IRS would apply the overpayment generated by the non-tax delinquent spouse to the other spouse's pre-marital tax liability. This result could be devastating to the non-delinquent spouse who may have anticipated a hefty refund that he or she never received. Parenthetically, the IRS in the role of a quasi-debt collector has the authority to apply the joint tax refund to the payment of other separate debts of a spouse including past due child support, debts owed to other federal agencies as well as state tax liabilities (IRC Section 6402).

### **Innocent Spouse Relief to Limit the Assessment of Tax Due to the Tax Fraud of the Other Spouse**

Importantly, IRC Section 6015 provides relief to spouses who filed joint returns with spouses who committed tax fraud. As explained in this section, the extent of the relief from joint and several liability is situational. Notably, many spouses may not be aware of this relief, much less understand whether they qualify for it. Moreover, the relief is only available by the election of the requesting spouse and subject to complicated rules and forms that may require the services of a tax professional, the cost of which may be substantial, and, in some cases, prohibitive.

Because a detailed discussion is beyond the scope of this article, only brief summaries are provided:

**Full Relief:** This relief eliminates the portion of the tax liability reported on a joint return that is attributable to an erroneous item(s) of the deceitful spouse. Generally, erroneous items are those that resulted in understated tax liability (such as unreported income, a bogus deduction, etc.). The innocent spouse must establish (i.e., has the burden of proof) that (s)he did not know or have reason to know of the erroneous item(s) and that it would be inequitable to hold the innocent spouse responsible for the payment of the tax, interest and penalties associated with such item(s). Inequity to the innocent spouse is subjective—based on facts and circumstances. For example, without the other spouse's knowledge, a spouse fails to report \$300,000 of income that is deposited in a secret account for his or her exclusive use. Under such circumstances, assigning responsibility to the innocent spouse, who did not know of the deceit nor benefitted from it, to pay the resulting income tax liability (including interest and penalties) would be inequitable.

**Partial Relief:** The main difference between partial relief and full relief is the degree of knowledge and benefit derived by the innocent spouse. Assume that in the example above, the non-reporting spouse transferred \$100,000 of the \$300,000 into a joint bank account. The remaining \$200,000 was deposited into a secret account for the deceitful spouse's exclusive use. Other than receiving the benefit of the \$100,000 joint bank account deposit, the other spouse had no knowledge nor received any benefit from the other \$200,000 of unreported income. In this instance, the innocent spouse would be relieved of the tax liability (interest and penalties) attributable to \$200,000 of unreported income of the deceitful spouse.

**Separating Joint and Several Tax Liability:** This special rule allows spouses, by an election by either or both spouses to split their joint and several tax liability into separate tax liability for each spouse. The rule applies to a spouse who is no longer married or is legally separated or is not a member of the same household with the other spouse at any time during the 12-month period prior to making the election. The election is available any time after the IRS sends a notice to a requesting spouse asserting the tax liability but no later than two years following the date in which collection was initiated by the IRS against the requesting spouse.

Pursuant to the election, the requesting spouse specifies which items on the joint tax return are attributable to the other spouse for purposes of computing such other spouse's income tax liability. Thus, the requesting spouse's liability would be computed based on his or her items. This is the same method that would be used by two spouses filing separate returns—reporting their separate income and deductions. Significantly, unlike the requests for full or partial relief, the requesting spouse does not have the burden to establish whether he or she knew or had reason to know of an understatement of tax (if any) or that it would be inequitable for such spouse to be liable for the entire amount of the tax liability. Conversely, absent the requesting spouse establishing that he or she signed the joint return under duress, if the IRS proves that the requesting spouse had actual knowledge of an erroneous item claimed by the other spouse that resulted in an understatement of tax, the election does not apply to the tax attributable to such item.

**Equitable Relief:** Equitable relief is an innocent spouse's final opportunity to receive relief from joint and several tax liability when none of the other relief is available. For example, assume that a married couple had filed an accurate return with a balance due. The innocent spouse did not know that the other spouse used the funds rather than pay them to the IRS. Under those circumstances, the IRS might relieve the requesting spouse of the other spouse's share of the tax liability.

In making this equitable determination, a variety of other factors are considered by the IRS in providing such relief, including: (1) abuse of the spouse during marriage; (2) financial hardship including inability to pay for basic living expenses; (3) the other spouse's legal obligation to pay the tax liability pursuant to the divorce decree; (4) which spouse the tax liability is attributable to; (5) which spouse received the benefit from non-payment; (6) mental and physical health of the requesting spouse; and (7) history of requesting spouse's tax compliance in other tax years (IRS Notice 2012, 2012 -4 C.B. 309).

### **Divorce Settlements Involving Appreciated Property**

Divorce settlements involve the division of property between spouses including money as well as other tangible and intangible property. In many instances, spouses value their property without regard for potential adverse tax consequences. Viewing the division of property from a tax perspective, the receipt of money is best because it eliminates the lurking tax consequences to the spouse who receives the money. Conversely, potential adverse tax consequences exist for a spouse who receives appreciated property. In this context, appreciated property is marital property that over time has increased in value beyond its initial cost (basis). The spread between the appreciated value and its cost is referred to as unrealized gain—the gain that would be taxable if the property were sold. Married couples, particularly those married for a significant amount of time, likely own multiple properties with differing unrealized gains.

Thus, a spouse (and possibly the spouse's attorney) who is unaware of the taxation triggered by sale of appreciated property received in a divorce settlement could be misled and possibly defrauded by the other spouse who is aware of it. For couples who own multiple and diverse types of property, many different complex ways exist in which one spouse can likely manipulate the division of assets to minimize his or her taxation to the detriment of the other spouse.

For simplicity, consider the following example. Assume a couple married for 50 years file for divorce. Their marital property includes \$900,000 in a money market account plus \$1,000,000 of collectibles the couple purchased throughout their marriage for \$200,000. If the collectibles were sold for \$1,000,000 (assuming a capital gain tax rate on collectibles of 28 percent plus 3.8 percent net investment income tax, for a total of tax rate of 31.8 percent—not including state income tax), the capital gain would be \$800,000 resulting in a tax of \$252,000. Therefore, collectibles with a value of \$1,000,000 have an after-tax value of \$748,000 (\$1,000,000 - \$252,000), or less when considering state income tax.

The spouse, aware of the tax consequences, offers the other spouse all the collectibles in exchange for all the money. On paper, it appears that the spouse receiving the collectibles is receiving \$100,000 more than the spouse receiving the \$900,000. In reality, after-tax, the spouse receiving \$900,000 has received \$152,000 more than the other spouse.

Obviously, if the other spouse or his or her attorney are aware of the tax consequences of the above-described property division, such spouse might not agree to it. On the other hand, such an offer could be made by a married couple who were interested in a quick and "amicable" settlement without incurring the cost of attorneys. Also, possibly one spouse will convince the other spouse that (s)he is making an overly generous offer and that attorneys are not necessary.

Whether or not the potential for outright financial divorce fraud or the victimization of an unwitting spouse exists, the investigator may look for red flags for either or both, which are covered in the following section.

### **Red Flags of Divorce Fraud**

Financial fraud investigations are similar to solving a puzzle (Coenen, 2022), not a step-by-step process; they are complex and challenging. Red flags in divorce fraud and steps which can be taken to further an investigation are valuable tools for solving this puzzle. Red flags are circumstantial clues that may assist the investigator in assessing whether fraud has occurred, and further investigation is warranted. Red flags of fraud in divorce cases occur in many different forms. They include behaviors, actions, conditions, or specific financial evidence of the possible existence of fraud. The more red flags appear, the higher the possibility of fraud.

The red flags listed below are not meant to be exhaustive but only represent a subset of possible clues that may warrant additional inquiries. Although the presence of a single red flag may not necessarily indicate fraud, multiple red flags may prompt further investigation. Conducting a more comprehensive investigation of potentially fraudulent activities can be expensive and time consuming. Hence, the investigator must weigh the costs against potential benefits before proceeding with the investigation.

The following table lists the four types of divorce fraud introduced above, their corresponding potential red flags, a brief description of what these red flags entail, and some suggested steps to further the investigation to detect potentially fraudulent activity.

**Table 1: Red Flags, Description of Red Flags, and Steps for Further Investigation for Concealing Assets**

<b>Title of Red Flag</b>	<b>Description</b>	<b>Steps for Further Investigation</b>
Changes to Online Accounts and Passwords	Shared email and joint bank account passwords are suddenly changed for no apparent reason, restricting access to information pertaining to potentially hidden assets.	<ul style="list-style-type: none"> <li>-Confirm whether legitimate reasons exist for password changes</li> <li>-Obtain court orders to access the account information if needed</li> <li>-Analyze transaction history on bank accounts for suspicious activity or undisclosed assets</li> </ul>
Transfers of Property to Children/Family Members	Property owned by the couple is suddenly transferred to children or family members for no apparent reason, indicating potential concealment.	<ul style="list-style-type: none"> <li>-Examine the timing and purpose of property transfer(s). Was the purpose legitimate (e.g., for tax or estate planning reasons)?</li> <li>-Investigate the financial relationship further between the suspected spouse and the recipient of the transferred property</li> <li>-Review legal documents (e.g., deeds and titles) for any irregularities</li> </ul>
Unusual Cash Withdrawals and Spending Behaviors	Large sums of cash are withdrawn and suspicious or changing spending behaviors occur, possibly indicating hidden assets or concealment attempts. The suspected spouse may live a lifestyle that exceeds his or her income. The money may be moved from known accounts and eventually disappears. Overseas accounts are popular destinations for hiding difficult to track assets. Unfortunately, with respect to assets that are thought to be transferred overseas, a foreign country's secrecy laws (especially banking laws) often restrict access to information without the express permission of the individual being investigated.	<ul style="list-style-type: none"> <li>-Analyze bank and credit card statements for unusual transactions or patterns</li> <li>-Compare any purchases that seem excessive or inconsistent with the spouse's income, which is reported in a Financial Affidavit (Locus, 2022)</li> <li>-Look for investments in art, jewelry, stamps, and gold that are not supported by banking transactions or financial statements</li> <li>-Identify potential offshore accounts used to hide assets</li> <li>-Seek assistance from international authorities to access information on foreign accounts</li> <li>-Seek assistance from international authorities to access information on foreign accounts, if necessary</li> </ul>
Cash Deposits Just Below \$10,000	Suspected spouse, who just returned from a foreign country, deposits cash just below the \$10,000 threshold, possibly to avoid filing a FinCEN Form 105 (the "Report of International Transportation of Currency or Monetary Instruments") with U.S. Customs and Border Protection (U.S. Customs and Border Protection, 2021). This action helps to circumvent tax payments on foreign income and to hide overseas assets from a marital partner during a divorce.	<ul style="list-style-type: none"> <li>-Identify all cash deposits just below \$10,000 made by suspected spouse</li> <li>-Investigate the source of the cash deposits</li> <li>-Examine suspected spouse's travel history for any correlation with the cash deposits</li> </ul>



**Table 2: Red Flags, Description of Red Flags, and Steps for Further Investigation for Hiding Income**

<b>Title of Red Flag</b>	<b>Description</b>	<b>Steps for Further Investigation</b>
Declining Income at Onset of Marital Difficulties	Suspected spouse's income suddenly declines when marital difficulties begin. (Note: as marital difficulties may start long before separation, pinpointing the exact timeframe can be helpful).	<ul style="list-style-type: none"> <li>-Review historical income records to identify any anomalies</li> <li>-Investigate the reason for the income decline</li> <li>-Cross-reference income with expenses to identify discrepancies</li> </ul>
Declining Income While Actual Living Expenses are Not Changing	Suspected spouse's income declines significantly but living expenses remain unchanged. A negative cash flow is shown on the Financial Affidavit, but all payments are met, suggesting that funds in undisclosed accounts may be used to cover the shortfall.	<ul style="list-style-type: none"> <li>-Analyze bank statements and credit card records to identify discrepancies in reported income and actual expenses</li> <li>-Investigate potential undisclosed accounts being used to cover expenses</li> <li>-Obtain court orders to access the account information, if necessary</li> </ul>
Multiple Bank Accounts	Suspected spouse is unable to explain multiple previously unknown bank accounts, possibly indicating undisclosed income. Particular suspicion arises if bank accounts are located out of state or overseas in offshore tax havens (such as the Cayman Islands) and if a separate email address or P.O. Box is used to receive bank statements (Huber and Glenn, 2009, p. 30).	<ul style="list-style-type: none"> <li>-Investigate the purpose of each account and its transaction history</li> <li>-Review statements of accounts for unusual activity or transfers</li> <li>-Identify potential offshore accounts</li> <li>-Obtain court orders to access information on foreign accounts, if necessary</li> <li>-Investigate if a P.O. Box address is used for bank statements that is different from typical mailing address</li> </ul>
Payroll Checks are Not Matching Deposits	Investigated spouse's payroll checks do not match deposits in the family account, possibly indicating an overseas slush fund over time.	<ul style="list-style-type: none"> <li>-Review payroll records and compare them with family bank account deposits</li> <li>-Investigate potential offshore accounts used to hide income</li> <li>-Seek assistance from international authorities to access information on foreign accounts, if necessary</li> </ul>
Bonus Payments Not Matching Deposits	Suspected spouse's business bonus payments do not match deposits into the family bank account, indicating that bonuses are potentially deposited into hidden accounts.	<ul style="list-style-type: none"> <li>-Review the suspected spouse's business financial records</li> <li>-Compare and match bonus checks with personal deposit records</li> <li>-Investigate potential undisclosed accounts where bonuses may have been deposited</li> <li>-Obtain court orders to access account information, if necessary</li> </ul>
Family/Friend Dealings	Accused spouse conducts financial dealings with parents, siblings, adult children, or close friends in the form of a gift of ownership interest in the family business, potentially indicating hidden income that is paid to the spouse by the family members or friends.	<ul style="list-style-type: none"> <li>-Investigate the nature and purpose of financial dealings with family members</li> <li>-Review legal documents and agreements related to these dealings</li> <li>-Analyze financial records and bank statements to identify any discrepancies between actual payments and reported income on the Financial Affidavit</li> </ul>
Time Spent in a Foreign Country	Suspected spouse spends significant time in a foreign country where (s)he owns property, but never brings foreign currency back to the U.S., indicating potential hidden rental income.	<ul style="list-style-type: none"> <li>-Investigate the suspected spouse's foreign property ownership and usage</li> <li>-Analyze financial records and tax returns for rental income reporting</li> <li>-Seek assistance from international authorities to access information on foreign property, if necessary</li> </ul>
Excessive Mail from the IRS	Accused spouse receives excessive mail from the IRS, possibly indicating multiple IRS audits and hidden income.	<ul style="list-style-type: none"> <li>-Investigate the reasons for the excessive mail from the IRS</li> <li>-Review IRS correspondence and documents related to audits</li> </ul>

		-Analyze financial records and tax returns for discrepancies in actual and reported income
Corporate Cloaking	A red flag occurs if the suspected spouse uses corporate cloaking—that is, setting up non-transparent or <i>masked</i> corporate structures—to create business entities that hold assets and money (Huber and Glenn, 2009, p. 28). For example, in Nevada and Delaware, corporations require limited information about officers, directors, and stockholders. All that is required is the name of the corporate officer (Huber and Glenn, 2009, p. 28). This may indicate the existence of a business unknown to the suspecting spouse that creates hidden income.	-Investigate the suspected spouse’s involvement in corporate entities -Analyze financial records, tax returns, and corporate documents for discrepancies or hidden income -Seek a court order to compel the disclosure of corporate information, if necessary
Inconsistencies between Stated Income/Expenses and Use of Cash	Suspected spouse claims to not have money or have business losses while making large purchases, such as expensive cars, clothes, and jewelry. The action is particularly concerning if large payments are made with cash as opposed to credit cards.	-Identify if large purchases are made by cash or credit card -Investigate the source of cash used for large purchases -Review financial records and tax returns for discrepancies between reported income and actual expenses
Suspiciously High Net Worth	Suspected spouse’s net worth exceeds the amount reasonably accumulated based on reported income during marriage (and is not explained by inheritance or lottery winnings), possibly indicating hidden income.	-Review financial records, tax returns, and asset documentation to identify discrepancies in actual vs. “reasonable” net worth -Investigate potential sources of unreported income, such as inheritance or lottery winnings
New Loans	Accused spouse takes out large new loans without worrying about repaying them, possibly indicating that hidden income is a source for loan payments.	-Investigate the purpose and terms of the new loans -Review financial records and bank statements to identify sources of loan payments -Analyze the suspected spouse’s ability to repay loans based on reported income

**Table 3: Red Flags, Description of Red Flags, and Steps for Further Investigation for Improperly Valuing Assets in Divorce Fraud**

<b>Title of Red Flag</b>	<b>Description</b>	<b>Steps for Further Investigation</b>
Improperly Valuing Real Estate	Suspected spouse insists on being present during appraiser’s visit to view property and provides incorrect information to a real estate appraiser (e.g., regarding improvements made to the property), causing licensed property appraiser to undervalue real estate owned by suspected spouse.	-Investigate the appraiser’s qualifications and potential relationships with suspected spouse or family members -Review the appraisal report for inconsistencies -Examine any communication between the suspected spouse and the appraiser -Request same appraiser to re-work the original appraisal using correct information -Obtain second, independent appraisal with correct information
Large Changes in Common-Size Statement Items	Unusual changes in items in a business’s common-size statements may indicate small deceptive transactions to reduce the business value that escalate over time. (Note: In common-size analysis, each item in the income statement, such as net income, cost of sales, and expenses, is stated as a percentage of revenue over a historical period, usually three to five years. This study identifies business trends useful for divorce fraud investigations.)	-Review percentages in common-size statements for unusual changes over time -Investigate annual trends first, followed by monthly trends to focus in on specific transactions -Investigate any unexplained losses or trends

Cash Sales	Unusually high amount of a business's sales transactions suddenly made in cash may indicate underreporting business income.	-Review financial records for sudden increases in cash sales -Investigate the source and legitimacy of cash sales
Personal Expenses Become Business Expenses	New types of business expenses occur that are likely to be personal expenses, indicating falsely identifying personal expenditures as business expenses to reduce business value. (Examples of such expense categories are entertainment, spa treatments, and education).	-Review financial records for new or increased business expenses -Investigate the legitimacy of these expenses and their relation to the business
Suspicious New Hires (Ghost Hires)	Salaries and wages suddenly increase with new hires who are distant friends, family, or even people who have no business experience or do not exist at all. Creation of false payroll entries manipulates business finances to reduce business value.	-Review payroll records for suspicious new hires -Investigate the legitimacy and qualifications of new hires
Compensation Above Fair Market Value	Suspicion arises when compensation to family members is above fair market value, potentially lowering the company's value.	-Review family members' compensation records -Compare compensation with industry standards -Determine family members' qualifications and job responsibilities
Rent Above Fair Market Value	Rent paid for business premises is above customary amount in a particular geographic area and is paid to a related party, resulting in a lower company valuation.	-Obtain and review the rent payment records -Compare the rent with market rates in the area -Investigate the relationship between the property owner and the business owner
Capital Investment Made Below Fair Market Value	A capital investment in a suspected spouse's company is made below the fair market value by another party, signaling a potentially suspicious, non-arm's length transaction that results in a lower business transaction.	-Review the transaction agreement -Investigate the parties to the transaction -Analyze the source(s) of the capital -Compare the investment to market values
Unusually High Prepaid Expenses	Prepaid expenses suddenly rise in the year before a divorce filing compared to previous years, possibly as a form of "window dressing" by the suspected business-owning spouse. For example, typical monthly subscription expenses are charged as annual prepaid expenses instead.	-Analyze the prepaid expenses account -Compare the expenses with previous years - Investigate the reason for the sudden increase in prepaid expenses
Recent Use of LIFO Inventory Method	Last-in-first-out (LIFO) inventory method is suddenly used to report inventory value in year before a divorce filing. The LIFO method tends to undervalue inventory of a business and therefore the overall value of a business, especially if inventory consists of products that fluctuate significantly in value or have traditionally increased in value, such as antiques, stamps, coins, other collectibles, art, fine wine, and jewelry.	-Review the inventory valuation method -Determine if valuation method was changed to LIFO before separation or divorce filing -Investigate the reason for the change in valuation method -Assess the value of inventory items, especially those with fluctuating or traditionally increasing values
Improperly Expensing Moving Expenses	Some moving expenses must be capitalized over time. Expensing all moving expenses simultaneously instead of capitalizing them over time may possibly deflate the business value. If moving expenses are unusually high might also cause unjustified reduction in business value.	-Determine if company moved in the year before the separation -Review the moving expense records -Investigate the reason for expensing the moving expenses all at once -Assess the impact on the business valuation
Fully Depreciated Assets Not Valued	Fully depreciated assets for tax purposes are not listed at market value in the business valuation, potentially undervaluing the business.	-Secure a supply catalog and take a physical inventory of assets -Investigate insurance payments related to company assets and determine if insured assets also appear on list of assets use to value the company

		-Determine which assets need to be included in the company valuation and to what extent
COGS Increase with New Supplier	COGS suddenly increases with appearance of a new supplier, possibly inflating COGS and reducing profit margin and firm value. Suspected business-owning spouse may inflate costs of purchases by establishing an intermediate or “middleman” company which purchases and resells products that were previously purchased directly from the supplier. If intermediary is owned by the spouse directly or a family member and purchases the products, marks them up, and then resells them to the business, company value is reduced if the finished product is sold at the same price and profit margin is reduced.	-Analyze the financial records for sudden increases in COGS -Investigate any new supplier’s background and ownership -Compare the prices charged by the new supplier with market rates and with prices charge by former suppliers -Examine any potential relationships between new supplier and the suspected spouse or their family members
Decreased Price Per Unit with New Customers	Suspected business-owning spouse deflates the unit cost of sales by establishing a “middleman” company, which buys directly from the spouse’s company at a discount and resells to the customer at the normal price, reducing the profit and value of the spouse’s company. (In an extreme case, the suspected spouse can apply the last two mentioned tactics simultaneously and make the scam work in both ways, where the middleman decreases profits on both ends, on the sale and buy sides.	-Examine sales records for sudden decreases in unit price -Investigate new customers and any potential relationships with the suspected spouse or their family members -Analyze if the new customer has the role of “middleman” and ascertain their relationship with the spouse’s company
Unusually Long Payment Terms or Collection Periods	Business suddenly has unusually long payment terms or collection periods, possibly to temporarily deflate business earnings and value. For example, suspected spouse defers customer billing or even makes calls to customers with suggestions to pay bills at a later time without any repercussions. Suspected spouse may also ask to receive customer payments in the form of cash and deposit those at a later date. Alternatively, suspected spouse may ask customer to pay a third party who will later forward the money after the business valuation is complete. If suspected spouse is an attorney, client fees may be temporarily parked in an escrow account.	-Analyze financial records for unusual changes in payment terms or collection periods -Review customer billing and payment practices -Investigate any sudden changes in the company’s customer base -Examine the suspected spouse’s communications with customers
Accounts Payable Do Not Match	Accounts payable are for more units than the sum of the units sold to customers plus the units in inventory, possibly indicating a fictitious account payable for which a related party is willing to receive the payment. This tactic reduces the value of the company.	-Analyze financial records to identify inconsistencies in accounts payable: Compare units in accounts payable to sum of units sold to customers plus units in inventory -Investigate the validity of accounts payable and accounts paid -Review supplier relationships and contracts -Examine the suspected spouse’s involvement in accounts payable management
Suspicious Terms in Notes Payable	The existence of a business note payable without legitimate terms, possibly inflated by the suspected business-owning spouse which reduces the value of the company. Suspicion arises if the term of the note reveal that the note holder is a related party, the purpose of the note is not specified, the fund cannot be	-Review the terms of notes payable -Investigate if funds were received by the company in return for the loan -Examine the relationship between the note holder and the suspected spouse or their family members -Assess if the purpose of the note is legitimate

	accounted for, and the interest rate is much lower than the market rate, benefiting the business owner.	-Ascertain if payments related to the note can be accounted for -Establish if the interest rate is unusually low
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**Table 4: Red Flags, Description of Red Flags, and Steps for Further Investigation for Dissipating Funds**

<b>Title of Red Flag</b>	<b>Description</b>	<b>Steps for Further Investigation</b>
Only One-Party Benefits from Funds Spent	The suspected spouse uses marital funds solely for his or her pleasure, such as extravagant travel or expensive dining, without benefiting both parties.	-Analyze bank statements and expense records to identify unusual transactions -Determine the purpose of expenses and whether they benefit both parties -Obtain additional documentation, such as receipts or invoices, to verify the nature of the expenses
Loans to Losing Business	Suspected spouse is involved in suspicious loan or note transactions, such as loans to a losing business, which may have the sole purpose to temporarily dissipate funds to avoid sharing them in a divorce settlement.	-Investigate the purpose and terms of the loan or note transaction -Review the financial health of the business receiving the loan -Examine the relationship between the suspected spouse and the business
Unusually Large Necessary Expenses	Suspected spouse pays necessary expenses that are unusually high, such as attorney fees higher than customary fees for a typical divorce.	-Compare the suspected spouse's necessary expenses to industry standards -Request additional documentation to support the claimed expenses -Investigate the reason for the unusually high expenses
Multiple Bank Accounts	Suspected spouse owns multiple bank accounts with many convoluted and large transfers, possibly to move funds to a safe haven where they can be dissipated and hidden and not be subject to sharing in the divorce settlement. Moving funds around makes it difficult to determine a spouse's financial status.	-Obtain and analyze the suspected spouse's bank account statements -Trace the origin, destination, and purpose of large transfers -Investigate the purpose of each bank account and the need for multiple accounts
Spouse Conducts Related-Party Transactions	Suspected spouse makes unexpected cash gifts or loans to family or friends, pays off previously unknown debt instruments, or sells assets to a friend or relative at an amount less than the market value, possibly to dissipate the funds before a divorce.	-Review suspected spouse's financial transactions for any related-party transactions -Investigate the purpose and terms of transactions, including any unexpected cash gifts, loans, or asset sales -Examine the relationships between the suspected spouse and the related parties involved in the transactions
Spouse Frequently Refinances Mortgage	Suspected spouse frequently refinances mortgages, which may deplete the equity in real estate investments and invest in hidden assets, thereby potentially dissipating marital funds.	-Analyze the suspected spouse's mortgage and refinancing history -Investigate the reasons for frequent refinancing and the use of funds received from refinancing transactions -Review the equity in the real estate investments and look for any hidden assets that were established at same time as real estate equity was depleted
Dubious Financial Advisor	Suspected spouse recently hired a dubious financial advisor, who may be cooperating to set the stage for deceitful activities, such as dissolving funds by spending lavishly on gambling and drugs.	-Identify the financial advisor and review their professional background and qualifications/certifications -Investigate any recent changes in suspected spouse's financial activities since hiring the advisor -Look for any payments related to gambling or recreational drugs

## **Future Research**

Future research could delve into which fraud types are more common, and how commonly forensic accountants are used during the divorce process. Future analyses could also examine divorce fraud from a legal perspective by discussing the most important cases and laws relevant to the issue. Additionally, the profiles of individuals who are more likely to commit divorce fraud could be explored. Research has also shown that females tend to be more collaborative, whereas males tend to be more competitive (Ersoy, 2008; Tannen, 1992). Therefore, after women instigate a divorce, the male partner may become angrier and more vengeful, leading to a higher likelihood of committing divorce fraud. However, the social exchange theory, which is based on the idea that relationships between two people are based on a cost-benefit analysis, suggests that the greater one's income, the more likely the person is to exhibit infidelity. Therefore, regardless of gender, the primary breadwinner may be more likely to commit divorce fraud (Munsch, 2015). Future studies should explore these hypotheses.

## **Conclusion**

While marriage is meant to be an honest partnership involving trust, intimacy, and fidelity, allegations of financial fraud occur in approximately half of divorces. Financial divorce fraud exhibits unique characteristics that render its detection challenging: its complexity, coupled with the fact that suspicious activities often begin in anticipation of a divorce filing, its interplay with tax laws, the expenses associated with its detection, and its time-compressed nature due to the time pressure of the divorce process.

Ending a marriage can entail equitably untangling a complex web of businesses, commingled assets, retirement accounts, and real estate, which may even span across the globe. Even in the absence of intentional fraud, divorce remains a challenging process. Unfortunately, in the emotionally charged situation of a failing marriage, one or both parties commonly resort to deceitful actions or intentionally commit financial divorce fraud in an effort to tip the scales in one's favor.

To detect divorce fraud and make helpful recommendations to clients, investigators must remain current and continually learn about new methods used in divorce fraud. This article provides background information for four main types of divorce fraud which cause an unfair advantage for the suspected spouse: (1) When concealing assets, the suspected spouse shields assets from the marital estate. (2) The fair payout from the marital estate to the suspecting spouse is reduced when the suspected spouse hides income, such as from activities in foreign countries. (3) The suspected spouse can undervalue assets to reduce the amount owed. Typically, this process involves assets which are difficult to be sold in the open market and/or are in the control of the offending spouse, such as privately-owned businesses. (4) Spending marital funds lavishly (for example, through gambling and drug usage) can result in dissipating of funds, which is another way to gain an unfair financial advantage during a divorce. The spending of funds is more likely to be classified as dissipation of funds if the expense occurred close to the date of separation, if the spending was atypical in relation to prior spending behavior, and if the marital funds were used exclusively for the benefit of only one spouse.

Tax laws also play a key role in financial fraud, as defrauding a spouse often coincides with tax fraud. Having knowledge of tax laws related to marriage can be a powerful way for one spouse to manipulate the marital estate division. For example, by filing a joint income tax return rather than filing separate income tax returns, one spouse can cause an unwitting spouse to be subject to a tax liability triggered by tax evasion and deprive the unwitting spouse of a tax refund. Fortunately, IRC Section 6015 provides some relief to the so-called "innocent" spouse who filed joint returns with the deceitful spouse who committed tax fraud.

Through listing the specific warning signs for financial divorce fraud, this article guides investigators in combining analytical and critical thinking skills to uncover this fraud. However, recognizing one or multiple red flags is just the first step in the investigative process. The article also provides suggested steps to further the investigation, if necessary. Given that divorce fraud investigations can be expensive, cost-benefit analysis can provide help when determining if pursuing a red flag is worthwhile.

This article is useful for professionals in the fields of accounting, finance, and law and may also be of interest to individuals going through a difficult divorce. The valuable information covered here aims to help these professionals in detecting financial divorce fraud and minimizing harm to its victims.

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