



CHARTING PROGRESS WITH YOUR FINANCIAL INSTRUMENT PANEL

Various dials on a financial instrument panel layout your assets, liabilities and tax obligations in an organized fashion

Summary: The benefits of listing your assets on a side-by-side financial statement is that when you compare the purchase price of your property with its current market value, you see how well you have done in appreciation – and how much capital gains tax you are likely to pay.

When working on your personal financial plan, you should follow your own best advice in plotting your future. You cannot deal in abstracts when you work with assets and liabilities, so you need a system which will organize these, and assist you in projecting your future growth.

To help you chart your progress in your financial plan, it is important that you have what we call a financial planning instrument panel. This is a series of dials with information prepared by your CPA, financial planner, or by you.

Side-By-Side Financial Statement

This dial is an inventory of your assets and should be prepared each year on the same date, usually December 31. (See Figures 1 and 2.)

List all your assets. In the left column, determine the cost – your tax base – that you paid for a particular asset. In the right column, list the asset's estimated present value (what you can sell it for). (Where you have liens or owe money on the property, determine the book value equity and the fair market equity.) When you add up the columns, you will have your total asset value at book value and at fair market value. Subtract these numbers from your liabilities and you will end up with your book value net worth and your fair market value net worth.

The benefit of these figures is that when you compare the purchase price of your property with its current market value, you see how well you have done in appreciation – and how much capital gains you are likely to pay. When you add up the total fair market value of your assets with the face value of your insurance policies, you have the amount of your taxable estate, and you can determine what your estate taxes will be.

You can check this value against your estate tax tables and determine how much in estate tax will have to be paid upon your death, and how much offsetting life insurance you will need to pay those taxes.

Side-By-Side Balance Sheet for Financial Planning for: <input type="checkbox"/> Estate, <input type="checkbox"/> Partnership, <input type="checkbox"/> Corporation, <input type="checkbox"/> Trust			Name of Entity				Date	
			*Use column with asterisk to indicate by reference to footnote letter the method used for valuation					
NO.	DESCRIPTION OF ASSET BY COMMON NAME	*	GROSS BOOK VALUE AFTER DEPRECIATION	GROSS ESTIMATED PRESENT VALUE	LIEN ON ASSET	NET BOOK VAULE OVER LIENS	NET E.P.V. OVER LIENS	
1								
2								
3								
4								
5								
6								
7								
8								
(CONTINUED ON REVERSE SIDE) PAGE 1								

Figure 1. Sample Side-By-Side Financial Statement (Page 1)

NO.	DESCRIPTION OF ASSET BY COMMON NAME	*	GROSS BOOK VALUE AFTER DEPRECIATION	GROSS ESTIMATED PRESENT VALUE	LIEN ON ASSET	NET BOOK VAULE OVER LIENS	NET E.P.V. OVER LIENS
9							
10							
11							
12							
13	TOTALS FOR ASSET ITEMS		\$	\$	\$	\$	\$
14	DESCRIPTION OF LIABILITY NOT ENCUMBERING AN ASSET (LIKE LIABILITIES MAY BE CONSOLIDATED INTO CATEGORIES)					BOOK VALUE	ESTIMATED PRESENT VALUE
15							
16							
17							
18							
19							
20	TOTAL LIABILITIES NOT ENCUMBERING AN ASSET						
21	TOTAL NET WORTH CALCULATED ON BOOK VALUE AND ESTIMATED PRESENT VALUE BASIS						
*FOOTNOTES FOR METHODS OF ESTABLISHING VALUES A – Valued by certified appraiser with written appraisal B – Valued with market data from stock broker C – Valued by using CPI increase from previous certified appraisal D – Best estimate by (Name and credentials): _____ E – Best estimate by (Name and credentials): _____ F – _____ G – _____							
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Figure 2. Sample Side-By-Side Financial Statement (Page 2)

Asset Tracking

This dial, which can be in the form of a computer program but can also be done on paper, is a file that tracks the performance of each of your assets. It keeps score of the cash flow received from each asset, the taxable income or taxable loss, the appreciation, and whether the asset has gone up in value from the previous year. You use this dial to determine whether to keep or sell an asset. (See Figure 3.)

From this dial you can also determine who is best to own the asset: a trust, the family partnership, the family corporation, or whether it should be given to a charity or given as a gift to the children.

Tax Projections

On this dial, you keep records of all types of income and deductions from past income tax returns. These are placed on a spreadsheet, along with the income and deductions for the first nine months of each fiscal year.

You have five columns of income and deduction information from your last five yearly income tax returns, as well as one column for the first nine months of this year. From the income and deduction patterns over the last five years, you and your planning team can project the likely income for the current year from the first nine month's figures.

Projections can usually be accurately made, unless you decide to use a tax shelter, make charitable gifts, reduce your income, increase your expenses or shift income to another entity. Always keep in mind that any significant change in your financial activities will alter the results of the projection.

For larger estates, you need another dial – a spreadsheet reflecting 10 years growth in the net worth of the estate. You need to determine the appreciation percentage you feel comfortable with – 8%, 10%, 20% -- and reflect how the value of the assets and the estate will increase over the next 10 years.

We insert on the spreadsheet the maximum tax-free gifts the family can make each year and come up with the adjusted gross estate for estate tax purposes as it will be in the future. From these bottom-line numbers, you can determine what the estate taxes are likely to be and spread those numbers out over 10 years. Then determine the total amount of liquidity available to pay the taxes each year.

Life and P/C insurance: The summary and analysis of your life and property and casualty insurance are two important dials. These should be prepared something like an annual financial statement. Only the agent of record on each type of insurance should prepare the summaries and analyses on the same date each year, reflecting what insurance is in force and what insurance is still needed.

In larger estates, the insurance summaries and analyses should be given to the bank each year, along with the financial statements, as proof of sufficient insurance coverage.

All the dials on your financial planning instrument panel are essential helping you and your advisors make informed decisions in plotting your financial course for the future.