

## **Equitable Distribution Case Study The Magnolias**

### **Wilma Lee Magnolia v. Henry Magnolia**

#### **Basic Information:**

##### Important Dates:

Wilma and Henry were married July 4, 2003 – the “DOM”.

They separated on December 1, 2023 – the “DOS”.

Date of Trial is April 10, 2025 – the “DOT”.

##### Children:

There were two children born during the marriage, Henry Junior is 17 on the DOT and Rosa Lee is 14.

Wilma Lee has custody of the children pursuant to court order.

Henry Junior is intellectually and physically handicapped and has been since birth.

##### Other Information:

Wilma Lee is 45 years old.

Wilma Lee has not worked outside of the home since DOM.

Wilma has a BA degree from a liberal arts college. She also has a nursing degree that she earned during the first several years of marriage.

Henry is 49 years old.

Henry completed high school but did not attend college.

Both parties are in good health.

### **Information about Assets and Debts**

#### **1. Magnolia Leasing, LLC**

-A business started by Henry one year after he and Wilma married. It is a commercial leasing business, meaning the business owns property leased to others who use the property to operate businesses of their own.

-Henry's father operated a similar commercial leasing business before he retired. Shortly after Henry and Wilma married, Henry's father transferred ownership of a retail shopping center to Henry.

-When he received the commercial property, Henry formed Magnolia, LLC, listing himself and Wilma as the sole owners of the LLC. He then transferred ownership of the shopping center to the LLC.

-During the marriage, Henry managed the business operations of Magnolia Leasing. Other commercial properties were bought and sold through the LLC during the marriage, and the income earned by Henry from the operation of the business supported the Magnolia family.

-Wilma helped with the business from time to time during the marriage but spent most of her time caring for the children and the marital home.

-Wilma's expert – a CPA, CVA, ABV, from Charlotte with a resume 25 pages long - testified that the value of Magnolia Leasing as a going concern on the DOS was \$1.5 million, but by the DOT that value had dropped to \$1 million. He explained that he used the capitalization of earnings method to arrive at both values. He also explained that the reduction in value during separation was the result of the sale of one of the rental properties by the LLC after the separation of the parties. Henry admitted that the property was sold during separation with the proceeds of the sale used to pay business debts. Wilma's expert testifies that he found no business record supporting Henry's claim that the proceeds of the sale were used to pay business debt.

-Henry offered the testimony of his accountant, Mr. John Magnolia. In addition to being Henry's uncle, John has kept the books for Magnolia Leasing since the formation of the business, and he has kept books for other businesses in the area for the last 25 years. John tells you that on the DOS the business owned rental properties worth \$700,000. By DOT, that value had dropped to \$400,000 due to the sale of the rental property during separation. John testified that there is "no way" Henry could sell the business for more than the value of the rental properties. In John's opinion, the market for commercial rental property in the area is in a steep decline, and Henry will be lucky if he is able to continue to make enough from the rental property to continue operating the business in the future. John Magnolia tells you that he "has no idea" what happened to the proceeds of the sale of the rental property after the date of separation.

## 2. Post separation income from Magnolia Leasing.

- During separation, Henry received \$150,00 from Magnolia Leasing.
- Henry claims the income was his salary for his work managing the business.
- Income tax returns listed the payments as distributions of the LLC.

## 3. Marital Residence

- Built before the marriage by Henry on a .5-acre tract of land given to him by his father
- Henry borrowed \$100,000 to build the house.
- On the DOM, the house and .5 acre of the land had a market value of \$150,000 and the loan balance was \$95,000.
- During the marriage, the mortgage was paid with marital funds.
- The parties stipulated that the fair market value of the house and .5 acre of land on DOS was \$450,000. The mortgage balance was \$15,000.
- During separation, Henry has paid the mortgage pursuant to an order of postseparation support. Wilma and both children have lived in the house throughout separation and continue to do so at the time of trial.
- On DOT, the house has a fair market value of \$470,000 and the mortgage has been reduced to \$13,000.

#### 4. Mustang Convertible Automobile

- Purchased for \$38,000 one month before DOS by Henry who gave it to Wilma as a birthday gift.
- Wilma has driven the car since Henry gave it to her.
- On DOS, the car loan had a balance of \$38,000. Henry has made all payments since separation to "save his credit." He has paid a total of \$5200 since separation. On DOT, the balance on the car loan is \$35,000.
- Wilma introduces evidence of that the "blue book" value was \$32,000 on the DOS and \$28,000 on the DOT. Henry argues the value would have been higher at the time of trial if Wilma had not driven the car to Key West Florida on two separate occasions to visit a new male friend.

#### 5. Joint Savings Account

- DOS value was \$50,000
- DOT value is \$0.
- Interim distribution at beginning of case gave \$25,000 to each party and thereafter the account was closed.
- Both parties admit that in 2013 Henry deposited \$20,000 into the account that he received as an inheritance from an uncle. Henry argues that the \$20,000 is his separate property.
- Both parties admit that numerous withdrawals and deposits were made in the account during the marriage.

#### 6. 37-acre tract of land

- Land titled in both parties
- The land was received as a gift from Wilma's aunt during the marriage.
- Aunt testified that she gave the land to Wilma and Henry because of her love for her niece. She stated that she did not intend for Henry to have any part of the land that she and her late husband worked so hard for.
- Wilma introduced evidence that the tax value at the time of conveyance was \$100,000 and the tax value on DOS was \$175,000. Neither party introduced evidence of the value on the DOT.

#### 7. IRS Debt

- Assessed against Wilma and Henry as individuals and against Magnolia Leasing. Incurred as the result of an audit of the tax records of Magnolia Leasing.
- On DOS, debt had balance of \$38,000. Henry made payments during separation and the balance on the DOT is \$35,000.
- Wilma testified that she had no idea that Henry was "defrauding the IRS" during the marriage and that there is no way this debt was her fault.

## 8. “Collectibles”

-On the 37-acre tract, there are two barns full of old farm machinery, items Henry has collected over the years of the marriage from flea markets and auctions.

-Henry says it is all “junk” with no value.

-Wilma testified that Henry told her during the marriage that they would be able to retire and move to Florida with the proceeds from the sale of the “antiques” in the barn.

-Wilma had to obtain an order from the court during discovery because Henry kept the barns locked and refused to allow her to inventory the contents. She also testified that she saw Henry removing farm machinery from the barns after separation but before she was able to inventory the contents of the barn.

-Wilma’s appraiser – who is the owner of a local auction house and regularly buys and sells personal property as part of his business - testified that the contents of the barn had a value of \$25,000 on the DOS. He also testified that, based on Wilma’s description of the farm equipment she saw Henry remove from the barn, the missing equipment had a DOS value of at least \$5,000.

## 9. 401K Accounts

-Both Henry and Wilma have accounts in their individual names.

-On DOS, Wilma’s had a value of \$50,000. On the DOT, it had a value of \$48,000. All contributions to Wilma’s account were made during the marriage. No contributions have been made into her account since the DOS.

-Henry’s account had a value of \$150,000 on the DOS. He opened the account 5 years before the marriage, and the account had a value of \$20,000 on the date of marriage. 3 months before separation, Henry withdrew \$15,000 from the account and spent it on a Caribbean vacation that he took with a female friend (the cause of the separation).

-On DOT, the balance in Henry’s account was \$155,000; Henry made contributions to the account in the amount of \$800 during separation.

## 10. Credit Cards

-Both Henry and Wilma have a credit card in their individual name.

-Wilma’s card had a balance of \$3,000 on the DOS. On the DOT, it had a balance of \$4,500. Wilma made \$800 worth of purchases with the card after the DOS. She testified that the entire debt was incurred for household needs and clothing for herself and the children.

-Wilma has made monthly minimum payments on her card of \$15 per month since the DOS, for a total of \$240.

-Henry’s card had a balance of \$500 on the DOS. On the DOT, the balance is \$2,000. Henry made \$500 worth of purchases with the card after the DOS. He testifies that the debt was incurred for his clothes, gifts for the children, as well as for his living expenses after the DOS. He also has made the \$15 per month minimum payment on the debt since the DOS, for a total of \$240.

**WORKSHEET**  
**Classify and value the assets and debts**

	<u><b>MARITAL</b></u>	<u><b>SEPARATE</b></u>	<u><b>DIVISIBLE</b></u>
1. Magnolia Leasing, LLC	_____	_____	_____
2. Post separation income	_____	_____	_____
3. Marital Residence	_____	_____	_____
4. Mustang Convertible	_____	_____	_____
5. Car Loan	_____	_____	_____
6. Joint Account	_____	_____	_____
7. 37-acre tract	_____	_____	_____
8. IRS Debt	_____	_____	_____
9. Collectibles	_____	_____	_____
10. Henry's 401(k)	_____	_____	_____
11. Wilma's 401(K)	_____	_____	_____
12. Wilma's Credit Card Debt	_____	_____	_____
13. Henry's Credit Card Debt	_____	_____	_____

Notes:

## **WORKSHEET DISTRIBUTION**

**List all distribution factors:**

**WORKSHEET**  
**Distribute the assets and debts**

	<u>HENRY</u>	<u>WILMA LEE</u>
1. Magnolia Leasing, LLC	_____	_____
2. Postseparation Income	_____	_____
3. Marital Residence	_____	_____
4. Mustang Convertible	_____	_____
5. Car Loan	_____	_____
6. Joint Account	_____	_____
7. 37-acre tract	_____	_____
8. IRS Debt	_____	_____
9. Collectibles	_____	_____
10. Henry's 401(k)	_____	_____
11. Wilma's 401(k)	_____	_____
12. Wilma's Credit Card Debt	_____	_____
13. Henry's Credit Card Debt	_____	_____
Distributive Award?	_____	_____