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Wednesday, May 30, 2001

John Johnson, Attorney  
Johnson Law Firm, PLLP  
1000 Anywhere Street  
Minneapolis, MN 55402

**Your File No: 50000-11**

**RE: John Smith**  
**Accident Date: June 2, 1999**

Dear Mr. Johnson,

Enclosed please find my report, opinion & conclusion (along with supporting exhibits), regarding the loss of income to John Smith as a result of an accident which occurred on June 2, 1999. This report renders an opinion that the death of Mr. Smith resulted in a projected earnings loss of around **\$417,500** (before discounting).

**PURPOSE:** The purpose of this report is to analyze the earnings activity of Mr. Smith, based upon 10 years of historical data as reported on personal income tax returns, in order to project a loss of earned income thru age 65

**INCOME SUMMARY:** Mr Smith worked primarily in construction, both as an independent contractor and as an employee, as well as a cattle farmer. Mr. Smith reported profits and losses from his self employment activity, in addition to his wage income earned in various tax years. His wife, Jane, maintained gainful employment by working full time hours as a Registered Nurse.

**METHODOLOGY:** I received copies of the personal tax returns filed by Mr. & Mrs. Smith for tax years 1990 thru 1999 (the year of death). I then charted the reported net self-employment Income earned in each of those tax years by Mr. Smith (see Exhibit A). I also charted his reported wage income for that same time period (see Exhibit B). For 1995, I included the Unemployment Compensation of \$2,736 as "earnings" for purposes of this report. In the year of death, 1999, I used the actual self employed and wage income reported, respectively, and then annualized those figures for the entire year. Exhibit C is a compilation of the wage income and the net self employed income to reflect the combined earned income for tax years 1990 thru 1999. We then calculated a Trend Line based upon the combined earned income (see Exhibit D). Trend Analysis serves to "blend" or "smooth" the ups and downs of the actual historical data, to provide a forecast equation. Please refer to the red line and the mathematical equation in Exhibit D. Trend analysis, using linear regression, is one of the best known mathematical techniques to predict the future, because it is based upon historical data. This presents a more objective picture by plotting the actual earning activity history, then projecting that trend into the future. A table summarizing the results of the trend analysis are shown in Exhibit E.

John Johnson, Attorney  
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**LIMITATION OF SCOPE:** This analysis was limited to the financial information provided to me, which was solely the jointly filed personal income tax returns of John & Jane Smith, for the tax years 1990 thru 1999. Furthermore, my analysis was limited to his net self-employment income (Schedules C & F activity), as well as his wage income, as reported on their Federal 1040 Tax Forms. I have not investigated other financial matters such as additional non-taxable income, outside gifts, loans, inheritances, insurance proceeds, return of capital, inter-related transactions, or any other financial circumstances that may be non-taxable, which would not otherwise be reported on their individual income tax returns, but could impact my analysis. Such an investigation is outside the scope of this engagement. I also decided not to make assumptions about future Fringe Benefits, which were not consistent given the historical fluctuation in wage income and therefore, can not be accurately projected thru age 65.

There have been no adjustments, or assumptions made, regarding future inflation rates. Accordingly, no discount rates have been applied to our figures. Therefore, all figures have been presented in "real" or "constant dollar" terms. Once a discount rate is determined, it would be appropriate to apply that rate to the figures listed in Exhibit E.

**OPINION & CONCLUSION:** Based upon the tax information provided to me, it is my opinion that we can measure the loss of earned income as a result of the death of Mr. Smith on June 2, 1999. We can objectively project this measurable loss over a 17 year period, until Mr. Smith would have reached age 66, by using a standard linear regression analysis. This mathematical analysis produces a trend line, based upon actual past historical data, to project the future earnings. The sum total of the loss of future earnings is projected to be **\$417,500** (before discounting).

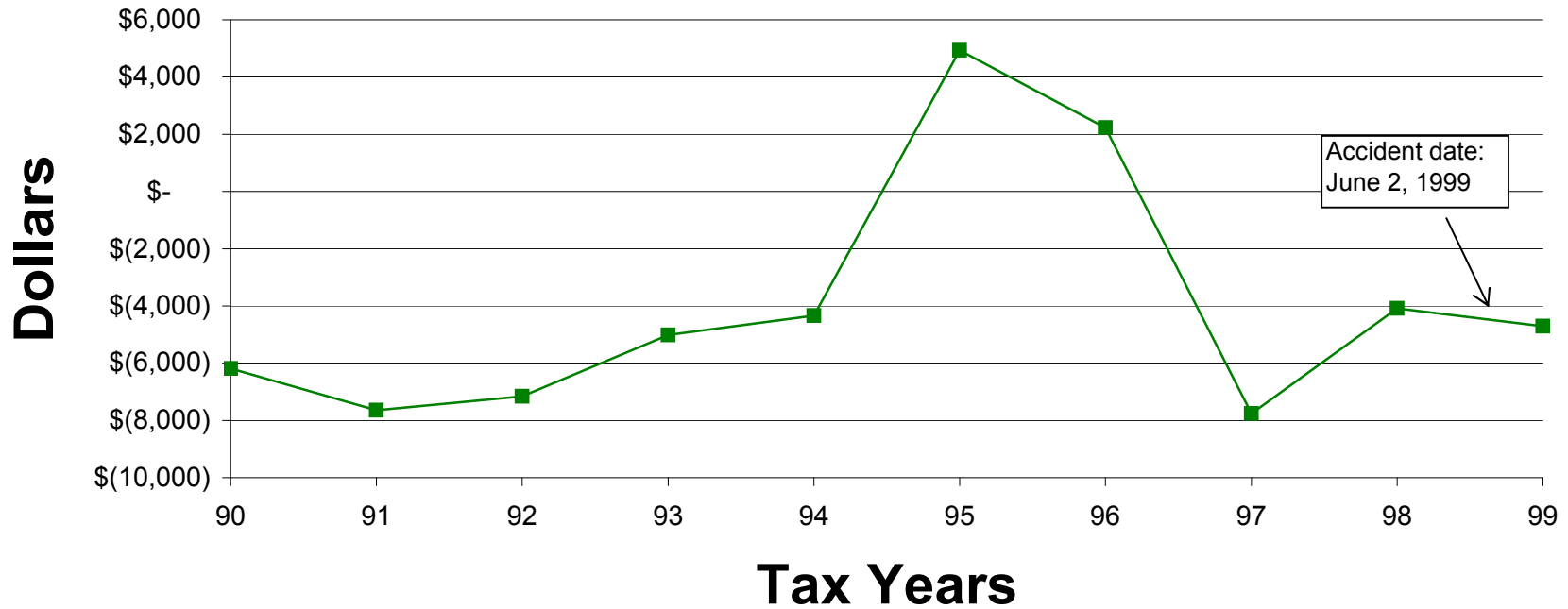
Sincerely,

William E. Bryant, CPA, CVA

cc: File

EXHIBIT A

## John Smith: Reported Net Self-Employed Income 1990 thru 1999



Per Tax Returns	
Year	Net Income
1990	\$ (6,187)
1991	\$ (7,641)
1992	\$ (7,159)
1993	\$ (5,010)

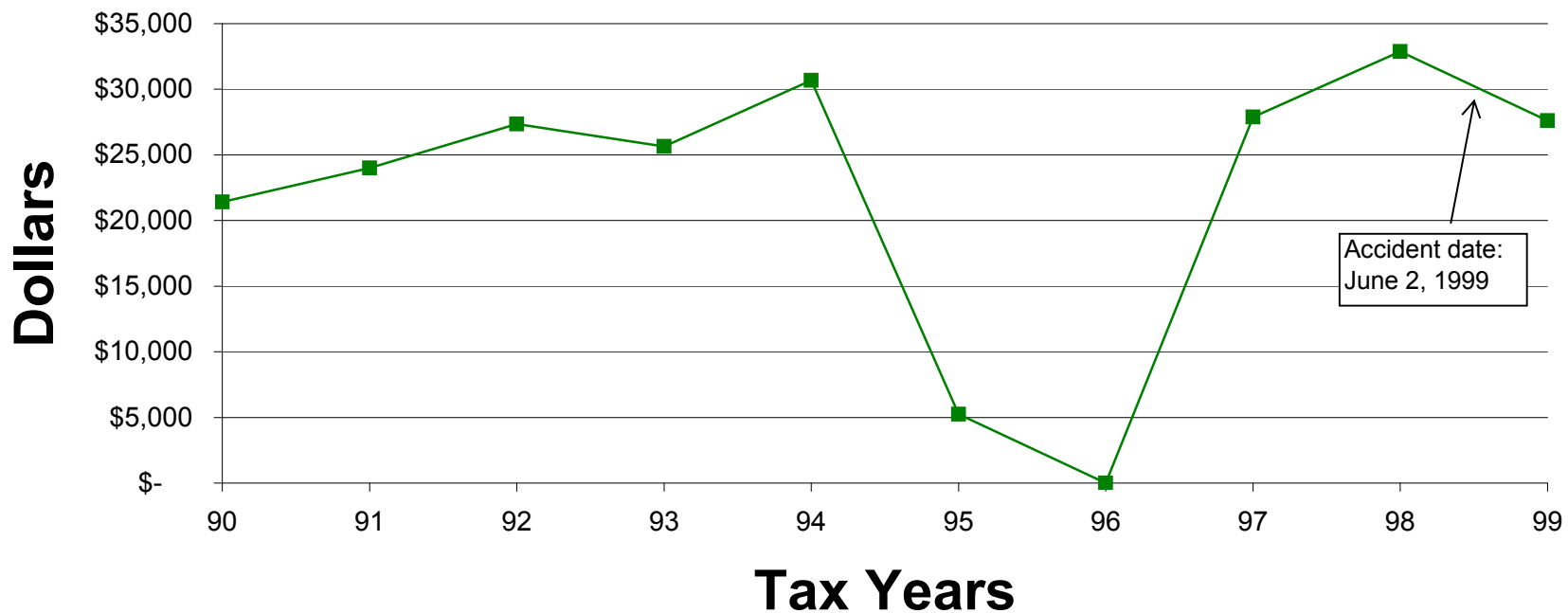
Per Tax Returns	
Year	Net Income
1994	\$ (4,339)
1995	\$ 4,938
1996	\$ 2,231
1997	\$ (7,761)

Per Tax Returns	
Year	Net Income
1998	\$ (4,087)
*1999	\$ (4,704)

\* Loss of \$1,960 annualized thru year end.

EXHIBIT B

## John Smith: Reported Wage Income 1990 thru 1999



Per Tax Returns	
Year	Wage Income
1990	\$ 21,411
1991	\$ 24,006
1992	\$ 27,360
1993	\$ 25,643

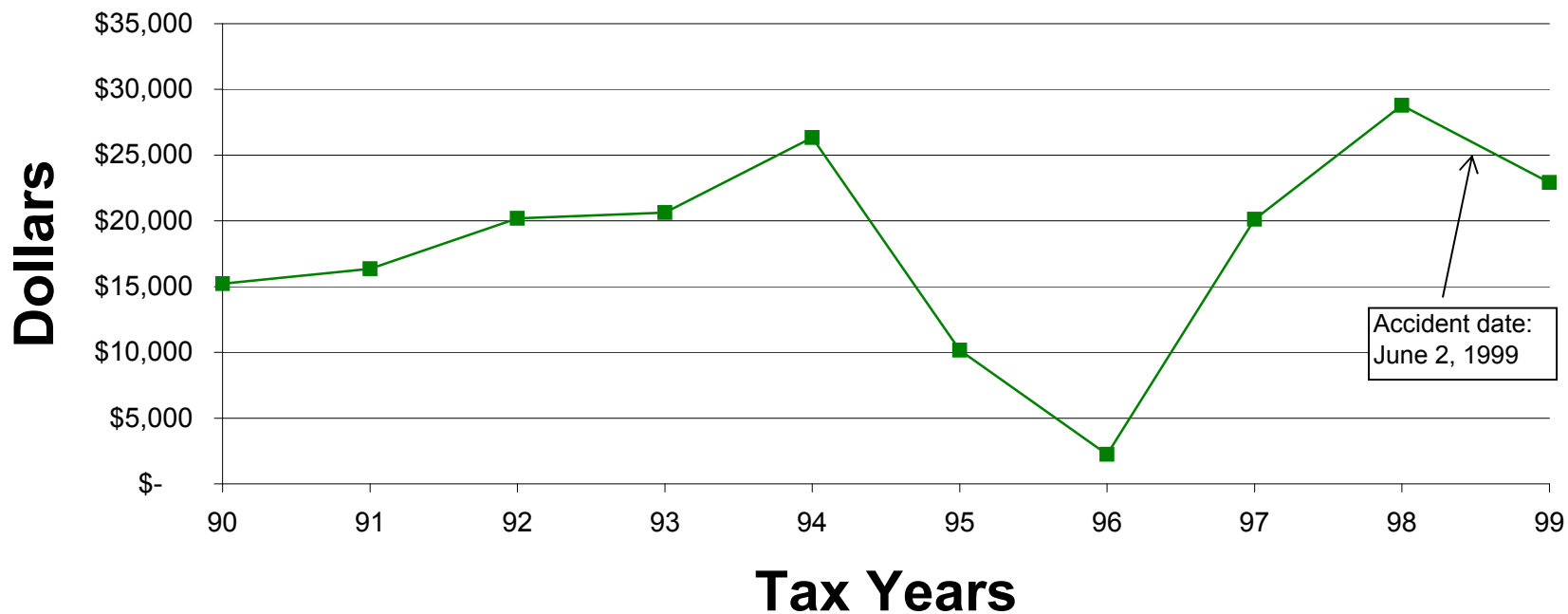
Per Tax Returns	
Year	Wage Income
1994	\$ 30,676
*1995	\$ 5,238
1996	\$ -
1997	\$ 27,882

Per Tax Returns	
Year	Wage Income
1998	\$ 32,878
**1999	\$ 27,614

\* Plus Unemployment Compensation of \$2,736  
 \*\* Wages of \$11,506 annualized thru year end.

EXHIBIT C

### John Smith: Reported Total Combined Earned Income 1990 thru 1999



Per Tax Returns	
Year	Earned Income
1990	\$ 15,224
1991	\$ 16,365
1992	\$ 20,201
1993	\$ 20,633

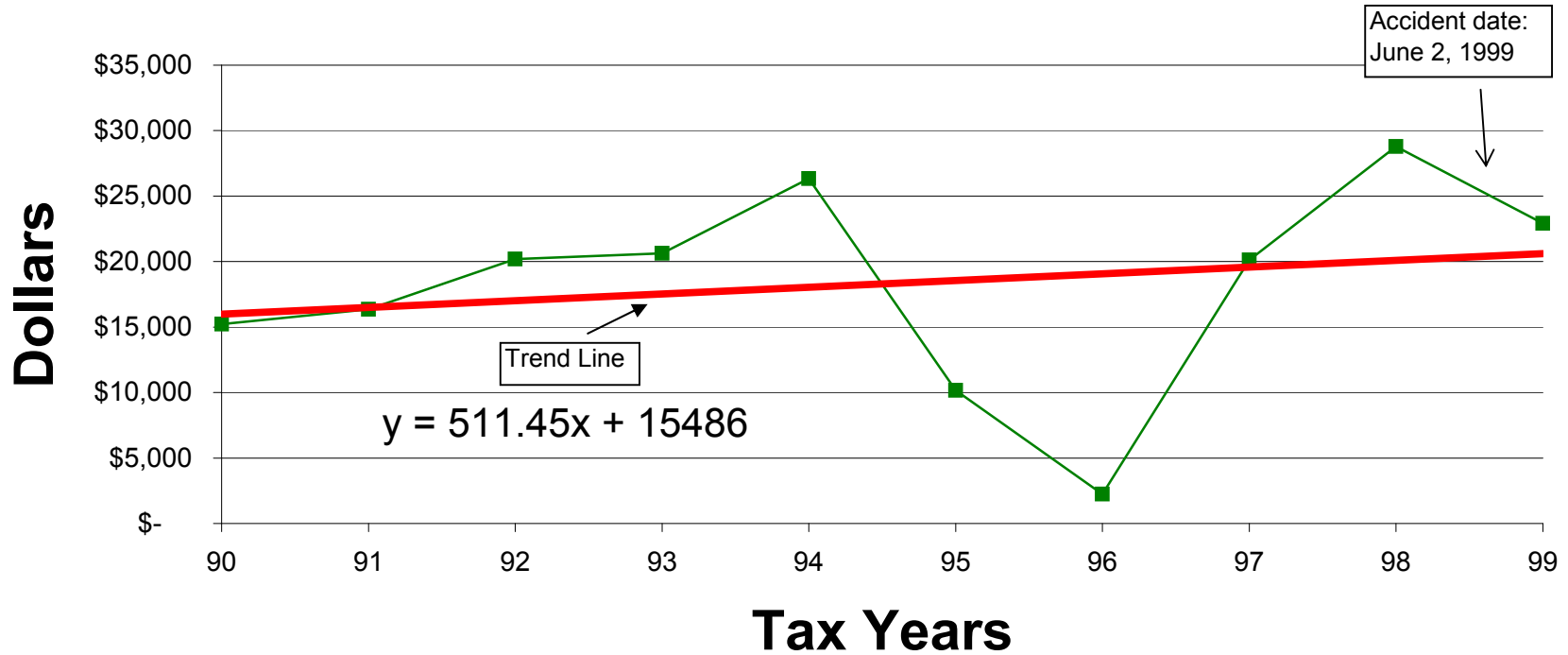
Per Tax Returns	
Year	Earned Income
1994	\$ 26,337
1995	\$ 10,176
1996	\$ 2,231
1997	\$ 20,121

Per Tax Returns	
Year	Earned Income
1998	\$ 28,791
*1999	\$ 22,910

\* Net Earnings of \$9,546 annualized thru year end

EXHIBIT D

## John Smith: Trend Analysis of Combined Earned Income 1990 thru 1999



Per Tax Returns	
Year	Earned Income
1990	\$ 15,224
1991	\$ 16,365
1992	\$ 20,201
1993	\$ 20,633

Per Tax Returns	
Year	Earned Income
1994	\$ 26,337
1995	\$ 10,176
1996	\$ 2,231
1997	\$ 20,121

Per Tax Returns	
Year	Earned Income
1998	\$ 28,791
*1999	\$ 22,910

\* Net Earnings of \$9,546 annualized thru year end

## EXHIBIT E

**John Smith: Accident Date - June 2, 1999**  
**Actual Earnings & Projected Earnings from age 49 up though age 65**

ACTUAL EARNINGS			Self Employed Earned Income	Wages Earned Income	Total Combined Earnings
Year No.	Age of Mr. Smith	Tax Year	Tax Reported 1990-1999	Tax Reported 1990-1999	
1	40	1990	\$ (6,187)	\$ 21,411	\$ 15,224
2	41	1991	\$ (7,641)	\$ 24,006	\$ 16,365
3	42	1992	\$ (7,159)	\$ 27,360	\$ 20,201
4	43	1993	\$ (5,010)	\$ 25,643	\$ 20,633
5	44	1994	\$ (4,339)	\$ 30,676	\$ 26,337
6	45	1995	\$ 4,938	\$ 5,238	\$ 10,176
7	46	1996	\$ 2,231	-	\$ 2,231
8	47	1997	\$ (7,761)	\$ 27,882	\$ 20,121
9	48	1998	\$ (4,087)	\$ 32,878	\$ 28,791
10	49	1999	\$ (4,704)	\$ 27,614	\$ 22,910

### Trend Analysis of combined Earned Income thru age 65

11	50	2000	\$ 21,112	Trend Formula from tax year 1990 forward $y = 511.45x + 15486$ see Exhibit D	
12	51	2001	\$ 21,623		
13	52	2002	\$ 22,135		
14	53	2003	\$ 22,646		
15	54	2004	\$ 23,158		
16	55	2005	\$ 23,669		
17	56	2006	\$ 24,181		
18	57	2007	\$ 24,692		
19	58	2008	\$ 25,204		
20	59	2009	\$ 25,715		
21	60	2010	\$ 26,226		
22	61	2011	\$ 26,738		
23	62	2012	\$ 27,249		
24	63	2013	\$ 27,761		
25	64	2014	\$ 28,272		
26	65	2015	\$ 28,784		
27	66	2016	\$ 4,883		Pro-rated up to month before 66th Birthday
			\$ 404,048		Sub-Total
			Plus \$ 13,364		1999 annualized amount of \$22,910 less \$9,546 of actual earnings.
<b>Grand Total</b>			<b>\$ 417,412</b>		

**Note:**

1 Highlighted area in yellow indicates tax year 1999, the year of the accident. The numbers for 1999 were based upon the wages reported of \$11,506 plus a loss of \$1,960 which equals \$9,546, then projected through year end.

2 No assumptions for future inflation rates or present value discount rates have been made. The above figures represent values in "real" terms before discounting.

3 John Smith was born on March 11, 1950. In 1999 he was in his 49th year.

**John Smith - Interest Earned & Present Value Discount Rates**

Calendar Year	Years	At Age	Amount	Interest/Discount Rates					
				2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
1999	-2	49	\$ 13,364	\$14,041	\$14,178	\$14,316	\$14,455	\$14,594	\$14,734
2000	-1	50	\$ 21,112	\$21,640	\$21,745	\$21,851	\$21,956	\$22,062	\$22,168
2001	0	51	\$ 21,623	\$21,623	\$21,623	\$21,623	\$21,623	\$21,623	\$21,623
2002	1	52	\$ 22,135	\$21,595	\$21,490	\$21,386	\$21,284	\$21,182	\$21,081
2003	2	53	\$ 22,646	\$21,555	\$21,346	\$21,141	\$20,938	\$20,738	\$20,541
2004	3	54	\$ 23,158	\$21,504	\$21,193	\$20,887	\$20,587	\$20,293	\$20,005
2005	4	55	\$ 23,669	\$21,443	\$21,030	\$20,626	\$20,233	\$19,848	\$19,473
2006	5	56	\$ 24,181	\$21,372	\$20,858	\$20,359	\$19,875	\$19,404	\$18,946
2007	6	57	\$ 24,692	\$21,292	\$20,679	\$20,087	\$19,515	\$18,961	\$18,426
2008	7	58	\$ 25,204	\$21,203	\$20,493	\$19,810	\$19,153	\$18,520	\$17,912
2009	8	59	\$ 25,715	\$21,105	\$20,300	\$19,528	\$18,790	\$18,082	\$17,405
2010	9	60	\$ 26,226	\$21,000	\$20,100	\$19,243	\$18,426	\$17,648	\$16,906
2011	10	61	\$ 26,738	\$20,888	\$19,896	\$18,955	\$18,063	\$17,217	\$16,415
2012	11	62	\$ 27,249	\$20,768	\$19,686	\$18,664	\$17,701	\$16,791	\$15,932
2013	12	63	\$ 27,761	\$20,642	\$19,471	\$18,372	\$17,339	\$16,370	\$15,458
2014	13	64	\$ 28,272	\$20,509	\$19,252	\$18,077	\$16,980	\$15,953	\$14,993
2015	14	65	\$ 28,784	\$20,371	\$19,029	\$17,782	\$16,622	\$15,542	\$14,538
2016	15	66	\$ 4,883	\$3,371	\$3,134	\$2,914	\$2,711	\$2,523	\$2,349
			\$ 417,412	\$355,923	\$345,503	\$335,623	\$326,249	\$317,352	\$308,903

**Notes:**

- 1) The first 2 calendar years have already passed since the date of death. We are half way thru calendar year 3, or 2001. Accordingly, those years should have interest earned.
- 2) The discounting starts in 2002, after the yellow highlighted year of 2001 (current year).
- 3) Reasonable interest/discount rates should take into account mid-range interest rates minus inflation assumptions.