

From Tax Preparer to Financial Planner: The Road Best Traveled

**Step 2: Moving from Tax Planning to Integrated
Financial Planning for Individuals, Families and
Business Owners**

**Expand Your Financial
Planning Practice through
Your Client's Tax Return**



About the Series

Build your financial planning knowledge with this learning series and discover the necessary steps to transition from tax preparer to personal financial planner.

Step 1

Understanding the Value of Personal Financial Planning

Step 2

Moving from Tax Planning to Integrated Financial Planning for Individuals, Families and Business Owners

Step 3

Implementing PFP Services: A Plan for Success

Learn more at aicpa.org/pfp/taxtopfp.

About the PFP Section & PFS Credential

- ▶ The **AICPA Personal Financial Planning (PFP) Section** is the premier provider of information, tools, advocacy and guidance for CPAs who specialize in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners. (Learn more at aicpa.org/PFP.)
- ▶ The **Personal Financial Specialist (PFS) program** allows CPAs to gain and demonstrate competence and confidence in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners through experience, education, examination, and a resulting credential. (Learn more at aicpa.org/PFS.)

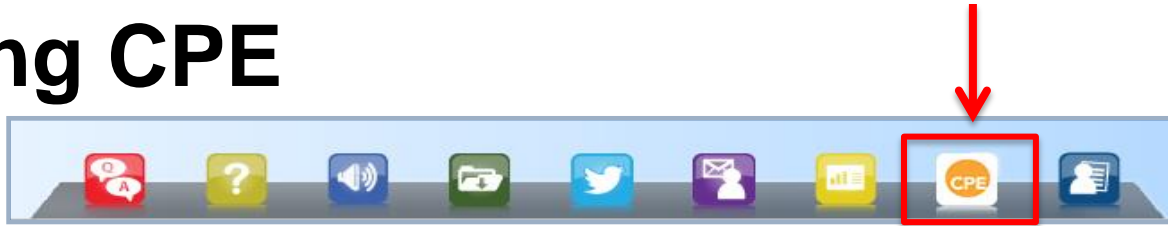
A CPA Financial Planner is a Trusted Advisor Who...

- ▶ Operates at the highest professional level when delivering PFP services to clients, acting in the clients' best interest.
- ▶ Adheres to high standards as required by the Code of Professional Conduct and the Statement on Standards in PFP Services through the application of objectivity, integrity, due care and competence required by CPAs.
- ▶ Is regulated by state boards of accountancy.
- ▶ Integrates advanced planning concepts, including tax and business considerations, with the entire financial plan.

Agenda

- ▶ Overview: Expand Your Financial Planning Practice through Your Client's Tax Return
- ▶ The Practical Side of **Investment Planning**
- ▶ The Practical Side of **Estate Planning**
- ▶ The Practical Side of **Retirement Planning**
- ▶ The Practical Side of **Risk Management & Insurance Planning**
- ▶ Comprehensive Personal Financial Planning Case Study

Earning CPE



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Speakers



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Learning Objectives

- ▶ **How to best use your tax preparation practice to develop personal financial planning engagements for your clients**
- ▶ **The key issues to consider as you prepare, review, and discuss individual tax returns with your clients**
- ▶ **How to implement a checklist developed by leading CPA financial planners to identify planning opportunities**

Pre-Tax Season Opportunities

- ▶ **Tax season as a springboard for financial planning**
 - Estate, retirement, investment, insurance/risk management, and income tax planning
- ▶ **Using the tax return as a planning tool**
- ▶ **Structuring a financial planning practice**
- ▶ **Benefits of providing PFP services**
 - Deepen existing client relationships
 - Higher-value work
 - Expanded services add to your firm's bottom line

Why Use Tax Returns to Develop Personal Financial Planning Engagements

- ▶ Overall picture of client's financial situation
- ▶ Uncover opportunities for planning that client has overlooked
- ▶ Details of cash flow/income situation
- ▶ Use in conjunction with client's personal balance sheet

Special Considerations in 2014

2014 Inflation Index Changes

▶ Income Tax

- Inflation index increase of 2014 Phase out threshold (applies to itemized deductions as well):
 - Married filing joint from \$300,000 to \$305,050
 - Head of Household from \$275,000 to \$279,650
 - Single from \$250,000 to \$254,200
 - Married filing separately from \$150,000 to \$152,525

▶ Estate Tax

- Inflation index increase of 2014 exemption from \$5.25 million to \$5.34 million
- Estate tax rate tops out at 40%

▶ Gift Tax

- Inflation index increase of 2014 exemption from \$5.25 million to \$5.34 million

Estate & Gift Tax Planning

▶ Clients who can benefit most from planning

- Elderly or ill - those who live in a state where state estate tax is decoupled from fed, clients who have asset protection needs, non-married same sex couples and wealthy

▶ Impediments towards getting your clients to take action

- No sense of urgency to take action NOW
- Complexity (setting up trusts, etc.), cost of advisors, appraisals, etc., disbelief that changes are going to take place, uncertainty
- Advisors need to help their clients understand the detriments to not planning ahead and taking action when necessary (run projections and show them the impact)
- Unaware of why trusts are needed to address issues like: wrong heirs, wasteful spending, worthless investments, privacy, probate costs, and Medicaid planning

Estate & Gift Tax Planning

- ▶ **Use up exemption in 2014 for large estates and use \$14,000 annual gift exclusion**
 - Some techniques take months to implement (GRATs, IDGTs, CRUTs, etc.)
 - Educate clients and draft documents
 - Prepare valuations, etc.
- ▶ **Review and update prior A/B trusts, ILITs and IDGTs established in previous years for tax law changes.**
- ▶ **Same Sex Marriages require increased scrutiny- be mindful of GRITs.**

Estate & Gift Tax Planning

▶ Discourage large outright gifts

- They are not protected from creditors claims and the remainder is not kept in the family

▶ Reasons to gift now:

- Save estate tax (federal and state)
- Asset protection (if via trust)
- Grandfather for GST
- Grandfather for grantor trust changes
- Lock in discounts
- Remove appreciation from estate

▶ Cash flow planning and projections are essential before taking action (create plan to ensure client is comfortable before triggering)

Analyze Benefits of Accelerating Income and Deductions in Year-End Planning

- ▶ Matching gains and losses
- ▶ 1411 NII tax planning – material participation rules
- ▶ Roth conversions – is Roth the right strategy?
- ▶ Acceleration of deductions???
- ▶ AMT planning

Itemized Deduction Planning

▶ Accelerate itemized deductions in 2014?

- Set up donor advised funds and fund future year's charitable contributions in 2014
- Accelerate miscellaneous itemized deductions by prepaying expenses to get above the 2% limit (beware AMT)
- State tax payments (beware AMT)
- Unreimbursed employee expenses for S corp. owner should not be paid personally

▶ Interest rates still low

- Look at the clients Form 1098 and mortgage statement
- Review all debt and discuss their refinancing strategy

Income – Understand the Sources

- ▶ **Wages, self employment income, partnership income, etc.**
- ▶ **Maximizing deferral opportunities**
 - 401(k), 457(b), 403(b)
- ▶ **Retirement plans from former employers**
- ▶ **Consolidate IRAs from multiple sources**
- ▶ **Social Security benefits**
 - SS maximization strategies
- ▶ **Does a Roth conversion still make sense?**

Expand Your Personal Financial Planning Practice Through Your Client's Tax Return

Regulation 7216

- ▶ **How does this impact you if you are a tax preparer?**
- ▶ **Obtain written consent from clients**
 - Disclosure of tax return information (general, specific, foreign)
 - Disclosure of use of tax return information
- ▶ **Criminal penalty for “knowingly and recklessly” disclosing or using tax return information**
- ▶ **More information at aicpa.org/pfp/advocacy**

Dependents and Marital Status

▶ Children

- Education planning
- Gifting
- Income shifting – remember kiddie tax rules
- Gift tax returns
- Schedule C business owners – employing children in business and set up Roth IRA

▶ Elderly parents

- Estate planning
- Dependency rules
- Future financial commitment
- Medicaid planning

▶ Same-sex couples

Interest - Schedule B

- ▶ **Source/alternatives/assets managed**
 - Taxable
 - Tax exempt
- ▶ **Critical to understand their investment strategies**
- ▶ **Bank accounts – FDIC limits**
- ▶ **Cash levels – emergency fund**
 - Is there too much in cash?

Dividends - Schedule B

▶ Source

- Funds
- Stocks

▶ Performance

▶ Consider alternatives to these investments

▶ How are assets titled? (estate planning issues)

▶ How are assets custodied?

▶ Tax efficiency of investments

▶ Impact of market downturn

▶ Too much concentration in one stock?

▶ Review tax impact and potential changes to tax law

▶ Review asset allocations for all accounts combined

Schedule D

- ▶ **Capital loss carryovers**
- ▶ **Trading activity – fees / expenses**
 - Portfolio churning?
- ▶ **Loss harvesting – part of ongoing wealth management**
- ▶ **Timing of gains/losses – especially if large income shifts**
- ▶ **Coordinated with tax plan?**
- ▶ **Core of investment strategy**

Schedule C

- ▶ **How does business fit into overall planning?**
- ▶ **Small business tax credit for health insurance premiums paid by employers**
- ▶ **Succession planning**
 - LLC manager-managed / Durable power of attorney
- ▶ **Retirement plans**
 - Maximize contributions for owner and family with least cost per employee
- ▶ **Determine income shifting opportunities among family members**
 - Employ spouse

Schedule C

▶ Choice of entity

- Should business be an S or C corporation?
- Risk management - discuss range of options to structure the business
 - Compare to LLC or corporation, etc.
 - Liability for personal negligence

▶ Home office – 2014 safe harbor planning

▶ Hobby loss rules – need for business plan & risk of audit

▶ When a loss, IRS audit probability is increased

▶ Medical reimbursement plan

▶ Start-up businesses

- Deducting organization costs & start-up expenses

Schedule E

- ▶ **LLCs, Subchapter S and Partnership Income?**
 - Passive losses? Manager/member managed LLC?
 - Self-employment income – documentation, hours and work done
- ▶ **Valuation issues**
- ▶ **IRS attack on family entities**
- ▶ **Investment partnerships**
 - Hedge funds
 - Venture capital
 - Other alternative investments
- ▶ **Any potential tax liabilities arising from negative basis?**
- ▶ **Passive groupings – 2013 “free look”**

Schedule E

▶ Real Estate

- Risk management
- Multiple owners
- Form of ownership
- Estate planning
- Passive activity loss rules
- Vacation home rules
- Like-kind exchanges

Schedule E

▶ **Trusts (1041)**

- How are assets being managed?
- Trustee adequacy
- What is the purpose of the trust arrangement?
- Is investment strategy appropriate?

▶ **Is trust income being reported properly?**

▶ **Distributing income or retaining?**

Retirement Plans/Distributions

- ▶ Required minimum distributions being taken?
- ▶ Net unrealized appreciation (NUA) from 401(k)
- ▶ Are we sure we don't have basis?
- ▶ Beneficiary elections
 - Use of trusts as beneficiaries – conduit or accumulation trust
- ▶ Where should client be taking money from?
- ▶ Has a Roth conversion been considered?
- ▶ Cash flow needs – sustainable withdrawal rate (spending as a % of assets)

Retirement Plan Choices: Simple, SEP, IRA, Solo 401(k)

- ▶ **Maximizing opportunity**
- ▶ **Investment choice**
- ▶ **What is the best choice for deferral opportunities?**
- ▶ **Consider qualified plan/defined benefit plan**
- ▶ **Consider hiring spouse**
- ▶ **Regular vs. Roth contributions**

Itemized Deductions

▶ Charitable contributions

- Appreciated securities
- Timing of Deductions
- CRUT, Charitable Lead Trust
- Private foundation
- Donor Advised Funds
- IRA distribution – direct to charity
- Contribution carryovers
- IRS documentation rules

▶ Understand your client's charitable intent

State Taxes

- ▶ **Growing importance**
- ▶ **Residency rules**
 - Statutory
 - Domiciliary
- ▶ **Multiple state residency**
 - Planning opportunities and pitfalls
- ▶ **Potential tax liability in other states**
 - Franchise, income, and sales tax issues
- ▶ **Timing of payments and AMT**
- ▶ **Business owners – Ohio Small Business Investors deduction**
- ▶ **Economic nexus / affiliated company nexus**

Medical Expenses

- ▶ Long term care insurance
- ▶ Health insurance
 - Self employed?
 - What is current coverage?
 - Potential health issues
 - COBRA if job loss
- ▶ Medicare rules
- ▶ Eldercare issues
- ▶ Impact of Obama health care act
- ▶ Corporate medical reimbursement plan
- ▶ Health savings accounts
- ▶ If employee obtains Healthcare Marketplace plan, then employer cannot reimburse health insurance premiums on a pre-tax basis – cafeteria plan, etc.

Miscellaneous Deductions

▶ Investment fees

- Reasonable or excessive?

▶ Other expenses

▶ 2% AGI

▶ Planning opportunities to avoid loss of deductions

- How to shift?
- “Bunching” deductions into one year
- Allocating deductions among Schedule A, Schedule C and Schedule E
- Accountable expense reimbursement program for employee 2106 expenses and IRS audits

Interest Expense

- ▶ **Mortgage interest expense rules**
 - Planning opportunities
 - Limitations (new \$1.1 million rule)
 - Refinancing opportunities – current rate environment
- ▶ **Investment interest expenses – carryover rules**
- ▶ **Other interest**
 - Tracking use of funds to deduct on Schedule A or Schedule C
- ▶ **Margin interest**

Partnership Tax Returns

- ▶ **Current partnership agreement**
- ▶ **Valuation**
- ▶ **Buy/Sell**
- ▶ **Retirement plans**
- ▶ **Employee benefit plans**
- ▶ **Partners**
- ▶ **Profit allocation**
 - Pro-rata
 - Special allocations
 - Guaranteed payments
- ▶ **Multi-state operations**

Corporate Tax Returns

- ▶ **Total assets**
- ▶ **Compensation of officers – reasonable?**
- ▶ **Rents – who owns the property?**
- ▶ **Pension and profit sharing**
- ▶ **Employee benefit plans**
- ▶ **Shareholder agreement**
- ▶ **Partners**
- ▶ **Succession plan**
- ▶ **Deferred compensation agreements**
- ▶ **Multi-state operations**
- ▶ **S-Corp vs. C Corp**
- ▶ **S-Corp – adequate basis for losses?**

Gift Tax Returns

- ▶ **Number of donees**
- ▶ **Previously filed 709**
- ▶ **Split gifts**
- ▶ **529 plans – special rules**
- ▶ **Valuation discounts**
- ▶ **Basis and date**
- ▶ **Generation skipping**
- ▶ **Exemption availability**
- ▶ **Life insurance trusts**
- ▶ **Gifting Strategy**

Alternative Minimum Tax

- ▶ **Impact on overall planning – need to compute AMT and regular tax owed**
- ▶ **Stock options**
 - Planning opportunities for ISO exercise
- ▶ **AMT credit carryover – potential loss of credit**
- ▶ **Avoid AMT with private activity bond interest planning**

Checklist to use in your practice

AICPA Personal Financial Planning Division (aicpa.org/PFP)		
Analysis of a Tax Return for Personal Financial Planning		
<p>The following checklist was developed by leading CPA financial planners to help you find personal financial planning opportunities in your tax practice. This checklist will help you analyze and identify key issues to consider as you prepare, review and discuss your individual tax returns with your clients. If you are looking to formalize your PFP services, download a free copy of the Bookkeeping, Taxation and Management of CPA Personal Financial Planning Practice. The Roadmap is your PFP atlas, with the information you need to plot a route to successfully add personal financial planning as another value-added service to your established practice. Members of the AICPA's Personal Financial Planning Section have access to these resources and more! Join Today and Save \$66 off membership. Enter promocode PFP/PALD at checkout.</p>		
Done	Dependencies and Filing Status	Notes
	<ul style="list-style-type: none"> Does the client have children? <ul style="list-style-type: none"> Understand any education planning opportunities. Discuss gifting opportunities with the client. Consider income splitting to take advantage of the children's low tax rates. Have gift tax returns been filed? Do the number and ages of dependents indicate that income continuation needs are likely to be high? Does the client have elderly parents whom they care for? <ul style="list-style-type: none"> Discuss estate planning with the client. Review the dependency rules to be sure the parents can be claimed. Discuss the future financial commitment of this care with the client. Is the client divorced? <ul style="list-style-type: none"> Consider filing status and dependency exemptions in divorce situations. 	
Done	Income	Notes
	<ul style="list-style-type: none"> What is the source of the client's income? <ul style="list-style-type: none"> Understand their sources of income - wages, self employment, partnership, etc. Are there any income deferral opportunities available given the client's investment income sources? <ul style="list-style-type: none"> Discuss the benefits of saving through 401(k), 457, 403(b), SEP, or IRA's. Does the client have income from a retirement plan still held with former employers? <ul style="list-style-type: none"> Discuss rollover of funds to an IRA or consolidating IRA's with the client. Does the client have social security income? <ul style="list-style-type: none"> Consider whether any of the social security income maximizing strategies might apply. Is the family income dependent on one wage earner? <ul style="list-style-type: none"> Are maximum 401(k) contributions being made? 	
Done	Schedule B	Notes
	<ul style="list-style-type: none"> What are the sources of the client's interest income? <ul style="list-style-type: none"> If it's taxable, does it come from bonds, CD's, savings accounts, etc? If it's tax exempt, understand the state tax impact. If the source is savings accounts, consider the FDIC limits. If the source is municipal bonds, consider the safety of the bond. Does investment income indicate a liquid fund has been established for emergency needs? What are the sources of the client's dividend income? <ul style="list-style-type: none"> Is it mostly from mutual funds or stocks? Consider if the client is too highly concentrated in one stock. Understand the types of stocks or funds generating the dividend income. Are there alternatives to the investments you see here? How are the assets custodied? Consider the tax efficiency of the investments. What would be the impact of a market downturn on these investments? Does the investment income indicate a concentration of investments? Has the dividend or interest income dramatically increased or decreased since last year? If so, why? Consider the amount of interest income compared to dividend income and how this represents the underlying portfolio. Review tax impact of investment income and the impact of potential legislation changes to the tax. 	

aicpa.org/pfp/pathway

Summary

You can learn a lot about someone through his or her tax return. Many financial planning opportunities can be uncovered with a thorough review of your client's tax return.

Questions?

AICPA PFP Section Member Resources

PFP Section members, inclusive of CPA/PFS credential holders, have access to resources on the latest planning strategies and trends in personal financial planning services so that they can practice competently and profitably. Visit aicpa.org/pfp/resources.



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Resources to Transition from Tax to PFP

▶ aicpa.org/pfp/pathway

- PFP Practice Center: a guide to adding or expanding PFP services in your practice
- Whitepapers and guides, including *Roadmap to Developing and Managing a CPA PFP Practice*
- Checklists, including *Analysis of a Tax Return for Personal Financial Planning* and *Personal Financial Outlook*

▶ [Member communications](#)

- [Financial Planning Digest](#) (twice a week e-digest summarizing PFP news, trends, legislation & more)
- [PFP News](#) (weekly e-newsletter featuring member-exclusive resources, news & events)
- [Bob Veres' Inside Information newsletter, e-columns & media reviews](#) (\$349 value for FREE)

▶ [Forefield Advisor](#) (\$469 value for FREE)

- Client education and communication tool
- Written by CPAs, attorneys and other subject matter experts
- More than 3,000 resources covering personal financial planning, including estate, tax, retirement, investment and risk management planning

▶ Visit joinpfp.org to become a member

Related Resources for PFP/PFS Members

▶ Tax Planning (aicpa.org/pfp/tax)

- Planning After ATRA and the Net Investment Income Tax Toolkit
- *The CPA's Guide to Financial & Estate Planning*
- Section 7216 Guidance
- Analysis of a Tax Return
- Resources to Save Time During Tax Season
- Planning for Same-Sex Couples
- Resources to Integrate Planning Into Your Tax Practice
- Listing of Tax Planning Learning Programs

PFP Learning Opportunities

▶ AICPA Conferences

- Advanced PFP Conference (January)
- Tax Strategies for High Income Individuals (May)
- Advanced Estate Planning Conference (July)
- Sophisticated Tax Planning for Your Wealthy Clients Conference (November)

▶ Webcasts and podcasts led by experts from around the country

CPA/PFS News and Events

▶ PFS Exam

- Register for Summer or Winter window
- Discounts, sponsorships and volume pricing available

▶ Education Opportunities

- In-depth technical courses in estate, retirement, tax, investments, insurance, and PFP process
- In-person and online PFP Boot Camp
- Self-study PFS exam review course

▶ Learn more at aicpa.org/pfs