AICPA Personal Financial Planning Division (aicpa.org/PFP)

Analysis of a Tax Return for Personal Financial Planning

The following checklist was developed by leading CPA financial planners to help you find personal financial planning (PFP) 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 *Roadmap to Developing and Managing a CPA Personal Financial Planning Practice*. The *Roadmap* is your PFP atlas, with the information you need to plot a route to successfully add PFP as another value-added service to your established practice. *The CPA's Guide to Financial and Estate Planning* (free to PFP/PFS members) and the CPA/PFS Education Program (for sale; discounted for PFP/PFS members) provide in-depth information to help you handle client questions and plan in the areas identified in this checklist. Members of the AICPA's Personal Financial Planning Section have access to these resources and more! Join today and save $50 off membership. Enter promocode CPALDPFP at checkout.

Done	Dependents and Filing Status		Notes
	What is the client's filing status?		
		Consider running Married Filing Jointly vs. Married Filing Separately analysis for possible lower tax result.	
		Is the client divorced? If so, consider filing status and dependency exemptions.	
	Does the client have dependents?		
		Review dependency rules if parents are being claimed to confirm eligibility.	
		Review dependency rules to consider if any children are eligible to claim themselves. Consider income shifting to take advantage of the children's lower tax rates.	
		Review current and future cash flow analyses with respect to expenses of children and elderly parents. Consider full analysis to include retirement and estate planning (see below).	
		Discuss the future financial commitment of this care with the client. Do the number and ages of dependents indicate that income continuation needs are likely to be high?	
	Has the client considered gift and estate planning opportunities for his or her dependents?		
		Discuss annual exclusion gifting (use it or lose it!). Have gift tax returns been filed?	
		Discuss potential for education planning, including Section 529 plans, gift exclusions, or both, for payments made directly to an institution for tuition.	
		Discuss potential for medical expense planning, including gift exclusion for payments made directly to a medical service provider.	
		Discuss overall estate planning with the client, including desire for trusts for future generations. Consider cash flow analyses to determine the amount the client may be comfortable giving away today.	

Done	Income (except for investment income, flow-through income, and Schedule C income, discussed later)		Notes
	What is the source of the client's income?		
		Understand sources of income—wages, self-employment, partnership, etc. and the client's entire earned income situation.	
		Review controllable and noncontrollable items of income (for example, wages, stock options, etc.) for use in income tax projection planning.	
	Are there any income deferral opportunities available given the client's income source?		
		Discuss the benefits of saving through 401(k), 457, 403(b), Simplified Employee Pension Plans (SEP), or IRAs (including Roth).	
		Are maximum 401(k) contributions being made? Assist client in discussions around benefit of maximization of contributions and deferrals and tax-deferred time value of money. Consider full projections to illustrate.	
		Discuss benefits of 83(b) elections, if applicable.	
		Discuss benefits of exercising stock options in one year or another (prepare income tax projections).	
		Consider retirement planning cash flow analyses to assist in determining if current deferral and savings will suffice.	
	Does the client have income from a retirement plan still held with former employers?		
		Discuss rollover of funds to an IRA or consolidating IRAs.	
	Does the client have Social Security income?		
		Consider whether any of the Social Security income-maximizing strategies might apply.	
	Consider other planning opportunities.		
		Review beneficiary designations on tax-deferred accounts.	

Done	Schedule B		Notes
	What are the sources of the client's interest income?		
		If taxable, does it come from bonds, CDs, savings accounts, etc.?	
		If 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 the client have any foreign bank accounts? Consider the boxes on Schedule B related to foreign accounts and consider whether Report of Foreign Bank and Financial Accounts (FBAR) or Form 8938 need to be completed.	
	What are the sources of the client's dividend income?		
		Understand the types of stocks or funds generating the dividend income.	

Done	Item	Notes
	Is it mostly from mutual funds or stocks?	
	Are there alternatives to the investments you see here?	
	Consider other planning opportunities.	
	How are assets custodied?	
	How are assets titled? Does titling line up with client's desires? Explain to the client various ownership options and impact of each.	
	Overall, does the client have investment strategy in place that guides decisions related to all investments held? If not, assist with this if desired.	
	Does the investment income indicate a concentration of certain investments? Discuss with client diversification strategies to mitigate market risk.	
	Has dividend or interest income dramatically increased or decreased since last year? If so, why? Does this represent a significant change to a client's income vs. growth strategy, and should asset allocation be revisited?	
	Consider the amount of interest income compared to dividend income and how this represents the underlying portfolio.	
	Consider the tax efficiency of the investments and review asset "location." Given the Affordable Care Act taxes, should the client move investments that create taxable income into tax-deferred accounts and vice versa, while still maintaining an appropriate allocation?	
	Has the client established an account for emergency funds? If so, where and how much? Assist client with revisiting liquidity needs, including reviewing cash flow analyses.	
Done	**Schedule C**	**Notes**
	Does the client have Schedule C income?	
	Determine what type of activity the business is and discuss hobby, investment, active trade, or business rules, including loss deductibility or limitation based on character.	
	Review groupings of activities under Internal Revenue Code (IRC) Section 469 to determine if elections should be made that would benefit the client (also see Schedule E).	
	Consider the use of different types of retirement plans for a self-employed individual.	
	Determine the income-shifting opportunities among family members via employment.	
	Discuss range of options to structure the business for risk management. Compare limited liability company (LLC), S corporation, C corporation, limited liability partnership (LLP), etc.	
	Discuss succession planning related to the business with the client.	
Done	**Schedule D**	**Notes**
	Does the client have capital gains and losses reported on Schedule D?	
	Does the client have loss carryforwards?	
	If there is substantial trading activity, discuss with the client the overall strategy and ensure the client is aware of fees associated with such activity.	
	Consider the benefits of loss harvesting as a part of ongoing wealth management and as part of planning around higher tax brackets and new taxes.	
Done	**Retirement Plans and Distributions**	**Notes**
	Does the client have any retirement plan distributions?	
	Were any required minimum distributions (RMDs) taken, if they are required?	
	Consider net unrealized appreciation (NUA) election from the 401(k) if the client has substantial employer stock—should there be distributions?	
	Discuss with the client his or her beneficiary designations to ensure they agree with the client's wishes.	
	Consider which retirement accounts the client should be taking distributions from to ensure highest tax efficiency.	
	Discuss Roth IRA conversions: depending on time horizon, may make sense for the client. Keep in mind AGI thresholds, however, that could be surpassed with income from a conversion in one year. Run projections on multiyear basis, as well as present cash flow analyses on converted amounts.	
	Prepare retirement planning cash flow analyses to assist in determining if current deferral and savings will suffice based on client's time horizon. Determine if current withdrawal rate is sustainable.	
Done	**Schedule E**	**Notes**
	Is there income flowing through from an LLC, S corporation, or partnership to Schedule E, page 2?	
	Consider whether the activities are passive or active for purposes of deducting losses. Consider impact of additional investment income tax of 3.8% on passive activities under IRC Section 1411. Consider whether a change in level of participation might be available based on client facts.	
	Consider whether activities should be grouped under IRC Section 469.	
	Consider whether income from LLCs should be considered self-employment income.	
	If alternative investments and hedge funds are owned, be sure proper reporting is done for nonpassive vs. active items of income, including publicly traded partnerships. Discuss compliance complexities with client in relation to return on investments.	
	Prepare tax basis and at-risk basis schedules for all flow-through entities to ensure any tax impact from negative basis has been accounted for. Be sure to include regular and alternative minimum tax (AMT) tax basis.	
	How do any hedge funds, venture capital, or other alternative investments fit into their overall investment allocation?	
	Are there rental real estate properties being reported on Schedule E, page 1?	
	Consider risk management with the client (for example, consider single member LLC ownership).	

		Discuss the ownership of the rental properties with the client.	
		Discuss the estate planning impacts of the properties with the client.	
		Consider the passive activity loss rules. Could your client be considered a real estate professional?	
		Does insurance expense appear reasonable in relationship to property characteristics?	
		Consider what type of rental activity is reported: farm, residential rental, commercial, etc.	
		If the client is considering buying or selling properties, discuss benefits of using like-kind exchanges (IRC Section 1231).	
	Is there income flowing through from a trust?		
		Understand what assets are being managed in this trust.	
		Discuss the trustee selection with the client.	
		Find out from the client what the purpose of the trust arrangement is.	
		Review trust agreement, if available, and be sure to integrate any trust planning into overall estate planning.	
		Trusts reach highest tax brackets (for income and new Medicare taxes) at much lower thresholds than individuals. Consider whether distributions to individual beneficiaries makes sense to mitigate overall tax impact, but be sure any distributions line up with the estate plan and the reason the trust was created.	
	Consider other planning opportunities.		
		Is the client open to using business entities for estate planning purposes? If so, discuss with the client opportunities and risks related to valuations and discounting.	
		If grantor trusts exist, consider overall estate plan and whether it makes sense at some point in time to exercise powers inside the trust to turn off grantor trust status.	
		Given higher tax rates on individuals, consider S corporation to C corporation conversion. Run full analyses and consider all advantages, disadvantages, and pitfalls.	
		Consider succession planning if any flow-through entities are family-owned businesses. If children have varying degrees of involvement in the business, discuss opportunities to equalize descendants through estate planning.	
Done	**Itemized Deductions**		**Notes**
	Does the client have substantial charitable contributions?		
		Discuss with client overall charitable intent, both long and short term, to assist with income and estate planning.	
		Consider the timing of contributions to decide how to maximize the benefit. Run income tax projections to demonstrate phase-out.	
		Discuss charitable remainder trusts (CRTs), private foundations, charitable lead trusts (CLTs), and donor advised funds.	
		Consider having the client make contributions with appreciated securities to avoid the capital gains tax.	
		Consider the use of an IRA distribution direct to charity if client is over 70 1/2.	
	Does the client have a significant state tax deduction?		
		Discuss opportunities to bunch deductions in one year or the next to perhaps lower multiyear tax liability and increase effectiveness of other deductions (like charitable deductions). Run projections and be sure to include opportunities related to AMT and how state tax payments can contribute to AMT.	
		Ensure that all state tax deductions have been reported, including state payments made on client's behalf via flow-through entities.	
		Determine if the client has any residency issues (multiple residences, etc.) or is changing residency. Discuss opportunities but also ensure client is following rules related to residency changes.	
		Discuss opportunity for credits in your particular state that may be available to your client.	
		Discuss potential tax liability in other states with the client, including risk associated with hedge fund and alternative investments that file in various states.	
	Are there substantial medical expenses being deducted?		
		If there is a deduction for long-term care insurance, discuss this policy with the client.	
		Discuss with the client his or her current health insurance coverage.	
		Understand the Medicare rules and their impact on the client.	
		Explain to the client the issues related to elder care.	
		Do the expenses indicate inadequate health insurance coverage or special needs?	
		Ensure client is only deducting expenses related to himself or herself, spouse, or dependents. Consider gift tax implications.	
	Does the client itemize miscellaneous deductions?		
		Determine if the investment fees are reasonable or excessive.	
		Ensure that any investment fees related to tax exempt income are being allocated and disallowed. Be sure to account for state impact of this disallowance on state returns.	
		What other expenses are being deducted, and is Schedule A the right location? Are any expenses related to a business or investment property and, therefore, could be deducted elsewhere or capitalized for future use?	
		Explain to the client the 2% of AGI limit.	
		Consider planning opportunities to avoid the loss of deductions.	
	Does the client have interest expense that is being deducted?		
		Explain the benefits of the mortgage interest deduction.	
		Consider planning and refinance opportunities related to mortgage interest.	
		Discuss with client opportunities with deductibility of home equity lines of credit interest expense.	
		Be sure that the client is not exceeding the limits on mortgage interest.	

		Understand the investment interest expense carryover rules and what qualifies as investment interest expense.	
		If the client consistently has investment interest expense carryovers, consider election to use long-term capital gains and qualified dividends to offset. Consider rate impact of doing so vs. current reduction of tax liability.	
		Consider the various types of loans for education.	
	When will the client's itemized deductions phase out? Does this affect your client's decisions on things like charitable contributions, when to pay state income taxes, how to manage interest expense on debt, etc.? Beginning in 2013, itemized deductions phase out at the threshold of $289,400 for single taxpayers and $311,300 for married filing jointly.		
Done	**AMT**		**Notes**
	Is the client in AMT or have they been in the past?		
		Understand why the client owed an AMT liability.	
		Consider any planning opportunities that can be used to minimize the AMT impact.	
		Explain to the client the rules of exercising incentive stock options (ISOs) and the planning opportunities available.	
		If there is a minimum tax credit carry forward, identify when it was generated and consider implications.	
		Is the client potentially losing the AMT credit carryover?	
Done	**Credits**		**Notes**
	Consider the education credit alternatives.		
	Consider the available energy credits.		
	If client has foreign tax credits that are carrying over, even if small, consider deductibility on Schedule A vs. Form 1116.		
Done	**Occupation**		**Notes**
	Does the occupation indicate special coverage needs (such as adequate disability insurance for a surgeon)?		
Done	**Other Considerations**		**Notes**
	Always consider multiyear planning opportunities and potential future tax rate changes. Discuss future income and deduction items within the client's control that may be able to be timed to result in a more favorable long-term tax liability.		
	Does the client live in a state where estate, gift, and generation-skipping transfer (GST) tax laws differ from federal law? Does the state have its own estate or inheritance tax? Review state law to ensure appropriate planning and consider transfers to minimize the impact of the state death tax.		

Special thanks to Sarah Hughes, CPA/PFS for her assistance in updating this checklist.

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