<table>
<thead>
<tr>
<th>Page</th>
<th>Section Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Executive Summary</td>
</tr>
<tr>
<td>3</td>
<td>Introduction</td>
</tr>
<tr>
<td>4</td>
<td>Should CPAs Expand Into Financial Planning Services?</td>
</tr>
<tr>
<td>6</td>
<td>The Main Types of PFP Services</td>
</tr>
<tr>
<td>6</td>
<td>Retirement Planning</td>
</tr>
<tr>
<td>7</td>
<td>Estate Planning</td>
</tr>
<tr>
<td>7</td>
<td>Investment Planning</td>
</tr>
<tr>
<td>7</td>
<td>Risk Management/Insurance Planning</td>
</tr>
<tr>
<td>8</td>
<td>Tax Returns, Fee Structures and Business Models</td>
</tr>
<tr>
<td>10</td>
<td>Conclusion</td>
</tr>
<tr>
<td>12</td>
<td>Appendix I: Questions to Answer Before Launching a PFP Business</td>
</tr>
<tr>
<td>13</td>
<td>Appendix II: PFP Opportunities Found on Form 1040</td>
</tr>
<tr>
<td>13</td>
<td>Dependents</td>
</tr>
<tr>
<td>13</td>
<td>Income</td>
</tr>
<tr>
<td>13</td>
<td>Schedule A, Itemized Deductions</td>
</tr>
<tr>
<td>14</td>
<td>Schedule B, Interest and Ordinary Dividends</td>
</tr>
<tr>
<td>14</td>
<td>Schedule C, Profit or Loss From Business</td>
</tr>
<tr>
<td>14</td>
<td>Schedule D, Capital Gains and Losses</td>
</tr>
<tr>
<td>14</td>
<td>Retirement Plans/Distributions</td>
</tr>
<tr>
<td>14</td>
<td>Schedule E, Supplemental Income and Loss</td>
</tr>
</tbody>
</table>
For some CPAs, the term personal financial planning (PFP) conjures images of recommending stock purchases or selling investment products. What many CPAs don’t realize is that they already provide their individual tax clients with informal PFP services such as developing funding plans for children’s education and retirement cash flow, or transferring wealth to younger generations. This fact makes PFP a potentially attractive option for CPAs contemplating the addition of new business lines to their tax practice.

PFP practices can provide CPAs with additional revenue streams, deeper relationships with clients and less dependence on the busy season. Perhaps more importantly, PFP practices can meet the growing need for experts capable of helping individuals develop and execute wealth-building strategies that account for volatile political, economic and market conditions, not to mention an increasingly complex tax code.

CPAs mulling a move into personal financial planning will increase their chances for success if they research, evaluate and make crucial business decisions before launching a PFP practice. This white paper explores the essential aspects of personal financial planning and examines factors CPAs should consider when deciding whether to add PFP services to a tax-focused practice.
INTRODUCTION

The result is a tax landscape that requires individuals to consider the tax impact of virtually all major financial decisions.

CPAs who prepare individual tax returns leverage their knowledge of federal, state and local tax codes to find the optimal mix of credits and deductions for their clients. This ability to guide clients through the swiftly shifting, increasingly complex maze of tax laws allows CPAs to provide great value in the form of lower overall tax bills. Many CPAs also offer advice on techniques that further limit the clients’ tax liabilities — such as accelerating or deferring income to take advantage of more favorable rates or shifting assets to charity in the most tax advantageous manner.

There also is increasing demand for multiyear planning to maximize tax efficiencies for clients, who are trying to build retirement funds in the most radically altered tax environment since the Tax Reform Act of 1986. The enactment of the American Taxpayer Relief Act of 2012 on Jan. 2, 2013, in conjunction with the enactment of the 3.8% Medicare surtax on net investment income, set in motion a series of changes to U.S. tax rules and rates. The result is a tax landscape that requires individuals and their closely held entities to consider the tax impact of virtually all major financial decisions. For example, the act established higher top-end tax rates on individual income and capital gains. As a result, individuals faced with income opportunities that could push them into the top tax bracket may consult with a CPA on strategies to avoid the jump.

This example illustrates how tax planning services intersect with another area of opportunity for CPAs: personal financial planning (PFP). CPAs who operate in the PFP space provide counsel to clients in a number of areas, including retirement, estate, risk management/insurance and investment planning, as well as tax planning. CPAs who prepare Form 1040 returns already are working with much of the information needed to provide valuable PFP services. In fact, the Form 1040 serves as a great springboard for launching a PFP practice, but only for CPAs who make the leap with a firm understanding of the opportunities and obligations of PFP.
Should CPAs Expand into Financial Planning Services?

Financial Planning is forecasted to grow 2X faster than the accounting industry through 2017.*

Tax-focused CPAs should learn as much as possible about the benefits and challenges of PFP before investing the time, energy and money required for a successful foray into the field (See Appendix I: Questions to Answer Before Launching a PFP Business). The topics at the top of the CPA’s need-to-know list are the different types of PFP services, the rules and regulations governing those services, and the additional revenue and costs associated with those services.

On the plus side, PFP services can bring value to a CPA practice in a number of ways:

- The addition of PFP offerings to a portfolio of tax services can create opportunities for CPAs to deepen their relationships with clients. It can enhance their status as the clients’ most trusted adviser on financial matters, especially during periods of heightened economic, market and political uncertainty, not to mention increasingly complex tax implications, like we have today. Increased loyalty breeds improved client retention, and an expanded suite of services can attract a wider base of clients.

- The establishment of PFP as a value-added service in a CPA practice can bring bottom-line benefits in the form of additional revenue, as existing and new clients pay for PFP support. Depending on the services offered, the revenue stream can flow more steadily over the course of a year, lessening the dependence on busy season.

- Expanding into PFP can open up more work opportunities and career paths in a CPA firm. This can lead to improved staff retention and talent acquisition.

- CPAs can derive great fulfillment from helping clients achieve major financial and life goals.

* Sources: IBISWorld 2012 and Deloitte
While the benefits can be great, CPAs who provide financial planning services need to be prepared to navigate the PFP regulatory environment and handle additional expenses associated with adding PFP services:

- CPAs should adhere to AICPA standards, including the AICPA Code of Professional Conduct, as they relate to providing financial planning services as outlined in the AICPA PFP Executive Committee’s Statement on Responsibilities in Personal Financial Planning Practice (SOR). In addition, CPAs who wish to provide investment advice need to understand the Investment Advisers Act of 1940, under which they may need to register as investment advisers with the SEC or their state (or both).

- Costs associated with a move into PFP may include, but are not limited to:
  - The hiring of employees with PFP expertise to build the firm’s knowledge base
  - The education of current staff in PFP through continuing professional education (CPE) and other avenues
  - Legal expenses for items such as regulatory compliance issues and paying attorneys to craft the language for new client-engagement letters
  - Fees for specialized exams such as the AICPA’s Personal Financial Specialist®
  - Additional professional liability insurance
  - Promotion and marketing for PFP services

- Specialized technology such as financial planning, client relationship management (CRM) and investment research and reporting software

In addition to evaluating whether PFP makes sense for their business, CPAs should honestly assess whether personal financial planning is a good fit for them personally. CPAs who provide PFP services must assist clients in assessing their financial situation, setting short- and long-term goals, and developing strategies to achieve those objectives. It takes good listening skills, empathy, patience and the ability to build rapport with clients for CPAs to help design and execute realistic plans to fund retirement, send children to college, provide care for elderly parents, support charitable organizations and achieve any number of other goals. This process often involves walking with clients through a wide range of experiences and emotions — from the anticipation and anxiety associated with major financial decisions to the joy and pain caused by major life events.

At the firm level, factors to consider include whether the partners would support such a move and whether PFP is a good match for the firm’s culture and the temperament of its professionals. Don’t make a decision based on a belief that either PFP or tax services is inherently better than the other, or that offering both tax and PFP always is better than focusing on one of the two. There is no one answer that fits all. Individual decisions must be made by each CPA and accounting practice. No one else can do it for them.

*Source: Late 2011 AICPA PFP Division Survey*
CPAs who opt to pursue the addition of PFP to their menu of business offerings must then determine which services to provide. Because it’s difficult to be an expert in all of these areas, CPA personal financial planners often work with other professionals who specialize or have great experience in various areas under the PFP umbrella. The following is an overview of the major types of PFP offerings:

**Retirement Planning**

Retirement planning flows naturally from the wellspring of tax services. To help clients build enough wealth to pay for retirement, CPAs must be able to deal with the one certainty of the U.S. tax system: constant change. The volatility of state and federal income tax rates, capital gains tax rates, and allowable credits and deductions has grown in recent years, and rapid change remains likely. Retirement planning should start with understanding the client’s current financial position. Among the items to consider include, but are not limited to:

- **Social Security.** What does the client expect from Social Security, and what financial strategies can be employed to maximize the client’s benefits? How does this correlate with retirement plan savings and other after-tax savings?

- **Sustainable withdrawal rate.** What is the client’s sustainable withdrawal rate from retirement savings, assuming the client has a minimum of 30 years remaining to live? Is the client on track to have enough money available to fund an acceptable sustainable withdrawal rate? Are clients in the best retirement accounts (IRA, 401(k), Roth IRA, etc.) for their needs, and is their portfolio properly diversified and allocated among appropriate asset classes? Consider uncertainties such as market volatility, economic factors, and fees and taxes.

- **Health insurance.** What health insurance options are available if the client retires before age 65, or at age 65, including long-term care, Medicare and supplemental coverage? What can be done to estimate long-term health care costs?

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Continued on Page 7
Estate Planning
Estate planning is a complicated, often emotional exercise. CPAs can help clients establish goals, determine strategies, identify opportunities and obstacles, and determine what types of legal documentation and professional representation would be required. A good way to start the process is by answering the following questions:

1. Who will the estate plan impact? (e.g., self, spouse, children, grandchildren, parents, business associates, friends or charities)
2. What assets and liabilities does the client have?
3. How are assets titled?
4. Are beneficiary designations in line with the client’s wishes?
5. What plans already exist? (e.g., contracts, wills, trusts and other documents)
6. How does the system work? (e.g., probate, federal and state transfer taxes)
7. Who is helping the client with the estate planning? (e.g., accountant, financial planner, attorney, life insurance adviser, insurance broker or trust officer)
8. What are the next steps?

In addition to discussing strategies to shift wealth to future generations, CPAs should address wills and living trusts with clients and plan for incapacity, considering durable powers of attorney, living wills and health care proxies, coordinating with legal representation as needed. Due to the legal complexities of estate planning, CPAs would be wise to establish working relationships with attorneys who specialize in estate planning. CPAs can then direct clients to the attorney, who can draft the legal documents needed.

In developing the estate plan, address the use of the unlimited marital deduction, the unified credit, and bypass trusts, including portability issues. If relevant, address lifetime gifting strategies.

Investment Planning
CPAs planning to offer investment advice or other services must decide on the investment advisory business and compensation model that best aligns with their practices. The vast majority of CPAs choose to register as investment advisers with the SEC, their state or both (depending on the facts and circumstances) when deciding to provide investment advice. This is because registered investment advisers (RIAs) are required to place their client’s interest first, upholding a fiduciary standard that is closely analogous to the standard of care to which they must adhere as a CPA. Some financial planners become RIAs even though they do not invest client funds or manage client portfolios. The rationale of these CPAs is that they prefer not taking the risk of crossing the fine line that separates providing advice solely incidental to their accounting practice (which non-RIAs are allowed to do) and providing investment advice that requires registration as an investment adviser.

CPA financial planners often play the role of overseeing investment portfolios, including assessing risk tolerance, ensuring assets are properly placed in tax, nontax or tax-deferred accounts, allocating assets among proper asset classes and diversifying assets, among other things, to ensure they are in line with the client’s overall financial circumstances. Many CPAs work with, or direct clients to, investment professionals or money managers who handle the actual investing and decisions on specific stocks, bonds, mutual funds, etc.


Risk Management/Insurance Planning
CPAs offering PFP services can expect to identify, assess and propose solutions for these types of insurance:

- Property and casualty, including automobile, homeowners’, umbrella and personal articles floater
- Health insurance, including health maintenance organizations, preferred provider organizations, point-of-service, high-deductible health plans and health savings accounts
- Disability insurance, including coverage through Social Security, employer provided and individual
- Long-term-care insurance and government programs
- Life insurance, including whole life, universal life and variable universal life vs. term

Because most CPAs aren’t insurance experts, they usually work with independent insurance brokers who can help steer clients into the products that work most effectively given the client’s fact pattern and goals.
FROM CLIENT TAX RETURNS TO VALUE-ADDED PLANNING

Form 1040 provides an excellent platform for assessing what types of PFP services a CPA’s tax clients might need. CPAs can literally go line by line (see Appendix II) on Form 1040 highlighting tax consequences for their client, prompting a more in-depth discussion of ways to realize tax savings and uncover other opportunities that the client might have overlooked. By using the details of the client’s cash flow and income situation, in conjunction with the client’s personal balance sheet, CPAs can begin to fashion financial planning ideas for the client.

It is important to note, however, that current law requires any person engaged in the business of preparing or providing services in connection with the preparation of tax returns to obtain the taxpayer’s written consent before the return or any information used to complete the return is used to solicit additional services. One way to seek that consent is to include the required disclosure authorization as part of the engagement letter process for tax services and referral fees. CPAs who opt to go this route should consult with their legal counsel to ensure complete and correct wording.

Good legal advice can be invaluable in helping CPAs avoid regulatory entanglements. Also important are insurance professionals who can help make sure the CPA and the firm have the proper malpractice and other coverage in place to cover PFP services.

Options for Setting Prices and Procuring Payments
CPAs who expand into PFP must decide how they are going to be paid. There are three major pricing structures: fees, commissions or a combination of the two. The vast majority of CPAs operate on a fee-only basis, meaning that they accept compensation only from their clients. No commissions or referral fees from third parties are accepted. Services can be billed by the hour, on a flat-fee or retainer basis by project, or as a percentage based on assets under management.

Continued on Page 9
Compensation issues fall under the AICPA Code of Professional Conduct (Code) (available at aicpa.org/Research/Standards/CodeofConduct/Pages/default.aspx). Third-party commissions and referral fees are prohibited in certain circumstances. For more information on these restrictions, refer to the Code, SOR (tinyurl.com/6arzgl7) or The CPA’s Guide to Investment Advisory Business Models (tinyurl.com/c3gbzle), which are all available to AICPA members. CPAs should also check with their state board of accountancy to determine whether they must comply with any state rules regarding commissions.

Options for Setting Up a PFP Practice

There are many ways to structure a financial planning business. Whatever the structure, financial planning practices usually are built by starting small and slowly extending the business as the practitioners and their clients became more comfortable with the new levels of service.

Most practitioners offer either segmented financial planning engagements, comprehensive financial planning engagements or both. Segmented financial planning services usually focus on one or two planning areas of concern to the client. Clients often seek estate planning assistance, but the request also could seek analysis and advice for an investment plan gone awry. Comprehensive financial planning addresses the client’s entire financial profile and the interrelationships among the client’s goals for retirement, estate planning, investing, tax and risk management/insurance planning.

Practitioners who focus on high-net-worth clients often follow the family-office model — a one-stop service designed to meet the financial planning needs of wealthy clients and their families. Financial concierge services — paying client bills, organizing tax documents and reconciling checking accounts — often are provided. Some firms offer corporate executive programs for executives seeking wealth management services. Other firms provide owners of closely held businesses with succession planning and exit strategies as part of their wealth management planning.

CPAs also can help organize teams of advisers — trust attorneys, estate attorneys, life insurance professionals, property-casualty professionals and mortgage bankers, among others — for their clients, provided the client has approved such a move. For more on this practice, see the April 2012 Journal of Accountancy article “A Wealth of Opportunity,” available at tinyurl.com/cdk57rb.

### TOP FINANCIAL CONCERNS FACED BY CLIENTS*

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<td>Uncertain long-term economic impact on financial goals</td>
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<tr>
<td>Running out of money</td>
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<tr>
<td>Lack of trust in stock market</td>
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<tr>
<td>Volatile markets</td>
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<tr>
<td>Lack of confidence in political process</td>
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<tr>
<td>Providing for education of children and/or grandchildren</td>
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<tr>
<td>Real estate values</td>
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<tr>
<td>Funding health care needs</td>
<td>0.32</td>
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<tr>
<td>Providing for surviving spouse</td>
<td>0.30</td>
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* Source: Late 2011 AICPA PFP Division Survey

All responses are shown as percentages of their relationship to the most-selected choice. Thus, the second choice received 79% as many rating points in the survey as the first choice and is therefore indexed as 0.79.
The Personal Financial Specialist (PFS) Program allows CPAs to demonstrate their knowledge and expertise in PFP. CPAs seeking to expand or diversify a tax-focused practice should look into adding PFP services. Tax planning is a common PFP service, and Form 1040 is a good place to find ideas for PFP services individual tax clients could use. PFP services can provide bottom-line and personal rewards for CPAs, but much research and many decisions are required to successfully launch PFP services. The AICPA’s PFP Section offers a wealth of resources. For a four-part, 18-session web seminar guide to adding PFP services to a tax practice, view the 2012 series “From Tax Preparer to Financial Planner: The Road Best Traveled” at tinyurl.com/blj32dq. For links to practice guides, technology recommendations, practice management advice and a host of other materials, visit the PFP Practice Center at tinyurl.com/cnuv4o3.

Resources
The following resources are made available by the AICPA’s Personal Financial Planning Section (aicpa.org/InterestAreas/PersonalFinancialPlanning/Pages/default.aspx), which includes dedicated PFP staff as well as two advisory panels made up of seasoned CPA financial planners, the Personal Financial Planning Executive Committee and CPA/PFS Credential Committee. The PFP Section was created in 1986 to support the CPA profession by providing resources to assist practitioners in practicing competently and profitably in the PFP discipline. AICPA members who wish to practice in PFP can join the PFP Membership Section (tinyurl.com/cgwu2q9) to access the full scope of resources and support. Members may also wish to attend the annual AICPA Advanced Personal Financial Planning Conference (tinyurl.com/ch nuewv), which has become known as the most technically advanced PFP conference inside and outside the CPA profession. A workshop “Implementing PFP Services: Step by Step Plans for Success” is available on the Saturday and Sunday before the conference each year.

Continued on Page 11
A. Emerging opportunities for specialization will allow CPAs to strengthen their expertise and provide additional value to clients.

B. The profession must continue to evaluate which services it offers locally and globally and how it will deliver these services to adapt to the needs of clients.

CPA HORIZONS 2025 REPORT*

PFP Practice Center
(tinyurl.com/cnuv4o3)
The PFP Practice Center will help you efficiently add or expand into PFP services, offer value-add services to existing clients, and aid you in communicating about PFP topics with your clients through education and guidance on practice development, practice management, technical education, regulatory issues and technology, among other areas. The practice center includes information on the CPA-customized version of Fox Financial Planning Network, a resource to help you systematize your financial planning practice through checklists, workflow processes, and more.

CPA/PFS Credential Educational Program
(tinyurl.com/666fbh4)
The Personal Financial Specialist (PFS) Program allows CPAs to demonstrate their knowledge and expertise in PFP. The educational pathway gets CPAs up to speed in the core financial planning disciplines including retirement, estate, investment, risk management/insurance and tax as well as the responsibilities of CPAs providing PFP services.

The CPA’s Guide to Financial and Estate Planning
(tinyurl.com/blplbcq)
This 1,000-page guidebook assists professionals who structure, tailor and administer financial and estate plans. In the clearest of language, the guide explains all the important planning concepts, and examines the most important techniques used to set and meet the financial goals of clients and their families.

Personal Finance Report
(tinyurl.com/dy77ge5 (Practitioner version)
tinyurl.com/cr6al2h (Consumer version)
This assessment represents a starting point that can be used to summarize a client’s financial situation. It was developed as an interview tool with new clients and as a way of periodically reviewing client progress. Not only does it help identify the important issues, but it also is a great motivational tool, encouraging the client to take actions that will raise the score at the next meeting. One of the most important points that this report card helps emphasize with clients is that a financial planner is much more than an investment adviser! Use the practitioner version during meetings with your clients or hand out the consumer version for clients to work with on their own before or after meeting with you.

CPA’s Guide to Developing and Managing a PFP Practice
(tinyurl.com/cvkcgpb)
This in-depth guide leads you through a range of issues most frequently encountered when developing and managing a CPA PFP practice, including: organizing your practice and developing procedures; assessing professional liability and managing risk; regulatory requirements; determining fees and costs; engagement documentation; and how to market your services and grow your practice.

* Source: 2011 CPA Horizons 2025 Report
APPENDIX I: QUESTIONS TO ANSWER BEFORE LAUNCHING A PFP BUSINESS

CPAs who opt to pursue the addition of PFP services have answered only the first of many questions to consider before launching a PFP practice.

Other questions to consider include:

► What is involved in planning, starting and operating a PFP practice?
► How would you structure your PFP operation?
► What would your business plan entail?
► Which PFP services would you provide?
► If you provide investment services or advice, would federal or state law require you to register as an investment adviser?
► What are the potential regulatory and legal implications?
► What fee structure would you use?
► How would your existing client base react to you offering PFP services?
► What is the market for PFP services and what competition might you face?
► Would you add a specialized credential, such as the AICPA’s Personal Financial Specialist℠ (CPA/PFS℠)?
► What additional costs would you incur with the addition of PFP services?
► How do you provide PFP advice and comply with the AICPA Code of Professional Conduct?
► What software and other technology would you need to buy?
► How would you market your business?
► Should you focus on certain niches such as retirees or doctors?

And that is only a partial list. For a deeper dive into what it takes to add personal financial planning to your menu of services, check out the AICPA® PFP Section’s Roadmap to Developing and Managing a CPA Personal Financial Planning Practice, available free to AICPA members at tinyurl.com/c4cdb92.
How do CPAs identify the opportunities buried in their clients’ tax returns? To begin, review key items on the clients’ Form 1040 for planning ideas. A full rundown is available in the Excel file “Analysis of a Tax Return for Personal Financial Planning,” but the following are a few highlights.

**Dependents**
For clients with young children, the focus will be on education planning, gifting and income shifting. Clients who are elderly or have elderly parents will likely need assistance with estate planning, dependency rules and future financial commitments.

**Income**
Understanding income sources is essential to identifying planning opportunities. Consider whether income is from wages, self-employment, partnerships and so on. Ensure the client is maximizing deferral opportunities afforded by qualified retirement plans. Lastly, inquire about retirement plans from former employers because IRAs from multiple sources should be consolidated.

**Schedule A, Itemized Deductions**
Charitable contributions offer insight into what causes the client cares about. This can lead into a discussion of those causes and the client’s long-term giving strategy as part of a comprehensive financial plan. Ask clients whether they have long-term-care insurance and health insurance coverage, and talk about issues relevant to them, such as Medicare rules, eldercare issues, health savings accounts, corporate medical reimbursement plans and the Affordable Care Act.

Mortgage interest expense rules can lead to planning opportunities and refinancing opportunities. Look at investment interest expenses under the carryover rules and margin interest, to identify opportunities.

Continued on Page 14
Schedule B, Interest and Ordinary Dividends
Line items related to interest can trigger questions about the source of the interest, assets managed (taxable and tax exempt), the client’s investment strategies, bank account balances and the amount of cash available for emergencies.

On the dividend side, ask about the source of funds and stocks, their performance, alternatives to these investments and how the assets are titled and custodied. Among other considerations is the tax efficiency of the investments, how the client would be affected by a market downturn, whether the client is too heavily concentrated in one stock, and how changes to tax law would affect the client’s tax picture.

Schedule C, Profit or Loss from Business
How does the client’s business fit into overall financial planning? Question the client about succession planning and retirement plans and whether there are income-shifting opportunities among family members. Discuss the various ways to structure the business. Find out whether the business is conducted from a home office and ensure the client understands what constitutes an activity engaged in for profit and the tax implications of treating hobbies as activities engaged in for profit (hobby loss rules).

Schedule D, Capital Gains and Losses
Important issues to review here are capital loss carryovers, if any; trading activity, including fees and expenses; and any hints of “portfolio churning” — the unethical practice of some brokers who trade excessively in a client’s account to increase commissions. Look for opportunities for tax-loss harvesting — using losses to reduce or eliminate taxes.

Retirement Plans/Distributions
These line items raise numerous questions. Has the client taken required minimum distributions? Is there net unrealized appreciation from 401(k)s? Are the retirement savings plans on track to meet the client’s cash flow needs during retirement?

Schedule E, Supplemental Income and Loss
Types of income and losses reported on Schedule E suggest various questions for the client. If the client is a partner or shareholder of an S corporation or LLC, for example, topics to address include passive losses and self-employment income. If relevant, valuation issues should be discussed. Inquire about investment partnerships involving hedge funds, venture capital or other alternative investments. Are there any potential tax liabilities arising from negative basis?

Real estate-related income, such as rental income, is common. This ought to stimulate conversation about risk management issues, whether there are multiple owners, the form of ownership, how the real estate plays into estate planning, how passive activity loss rules affect real estate rental activity and what the limitations are on vacation home rentals. If property has been traded, the client needs to understand the tax benefits if it is a like-kind exchange.

If there are trusts, discuss how the assets are being managed, whether the trustee is adequate, the purpose of the trust arrangement, and determine whether the current investment strategy is appropriate in meeting the trust’s objectives. Ensure trust income is being reported properly and determine whether income is being distributed or retained.

For a line-by-line guide to the PFP implications of the financial information in Form 1040, go to the resources listed under Step 2: “Moving from Tax Compliance to Tax Planning for Individuals,” and the overview of Step 3: “Expand Your Financial Planning through Your Client’s Tax Return: Moving from Tax Planning to Holistic Financial Planning,” which is available on the AICPA PFP Section webpage “From Tax Preparer to Financial Planner: the Road Best Traveled” at tinyurl.com/blj32dq.