AICPA® Personal Financial Planning Section

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

The Practical Side of Investment Planning

Personal Financial Planning
PFP
aicpa.org/PFP
TAX ESTATE RISK MANAGEMENT RETIREMENT INVESTMENT

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	Step 2	Step 3
Understanding the Value of Personal Financial Planning	**Moving from Tax Planning to Integrated Financial Planning for Individuals, Families and Business Owners**	**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…

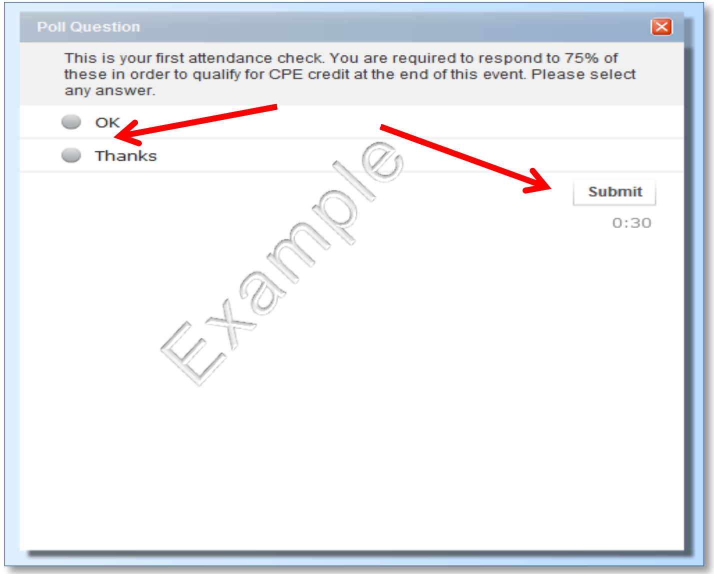
- **Operates at the highest professional level when delivering PFP services to clients, acting in the clients' best interest.**
- **Adheres to high standards as required by the Code of Professional Conduct and the Statement on Standards in PFP Services through the application of objectivity, integrity, 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

- Disable all pop up blockers
- Any answer counts towards CPE credit
- Earn credit by responding to 75% of these the pop-ups
- Click the orange CPE button at the end of this webcast



Disregard CPE information if you are viewing an archive without CPE.

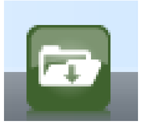
More Helpful Hints

Adjust your volume

- Be sure your computer’s sound is turned on as well.
- Click this blue button. Slide the control to the left or right to fit your needs.

Ask your questions

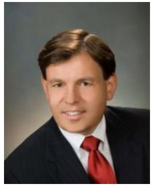
- Feel free to submit content related questions to the speaker by clicking this red button.
- Someone is available to assist with your technology and CPE related questions as well.



Download your materials

- Access today’s slides and learning materials by clicking this green ‘Resources’ button at any time during this presentation
- If you need help accessing these materials send a message through the Q&A application

Speakers

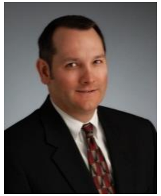


Robert S. Keebler, CPA/PFS, MST, AEP® (Distinguished)

Keebler & Associates, LLP

Ted Sarenski, CPA/PFS, CFP®, AEP®

Blue Ocean Strategic Capital, LLC



Scott Sprinkle, CPA/PFS, CGMA, CFP®

Sprinkle & Associates LLC

Sprinkle Financial Consultants LLC

Learning Objectives

- When have you crossed the line when providing investment advice such that you should register as an investment adviser
- How to choose the most appropriate investment business model that matches yours and your clients wants and needs
- How to work effectively with other advisors
- Active versus passive investing
- Assessing risk tolerance – tools
- Tax efficient investing
- Asset allocation and diversification
- Modeling various environments – Monte Carlo
- Education & communication

Understand What Constitutes Providing Investment Advice

Providing Investment Advice
Legal Basics

- **If you:**
  - Recommend asset allocation
  - Provide advice as to the selection or retention of an advisor
  - Provide advice concerning securities; not necessarily related to specific securities
  - Advise employee benefit plans on investing in securities
- **Then…**
  - You may be providing investment advice
- **And…**
  - May be subject to state, FINRA or SEC regulation

Providing Investment Advice
Legal Basics

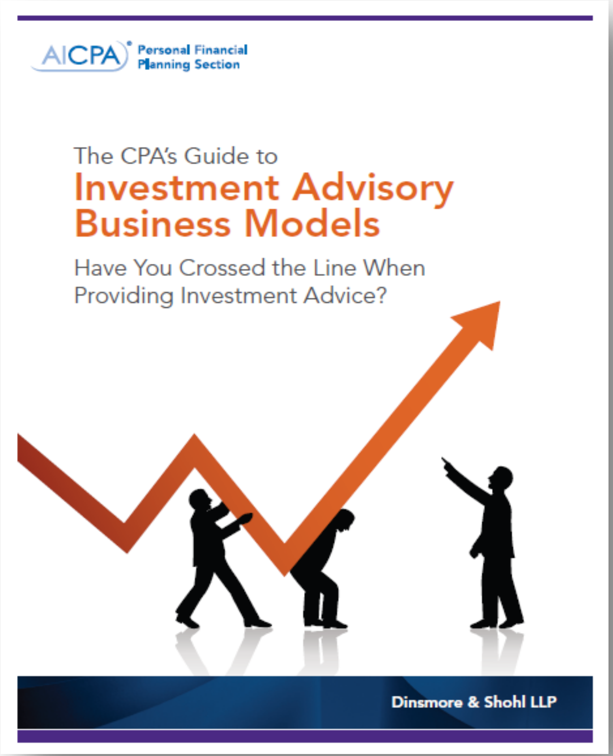
Accountant Exclusion

- **Advice solely incidental is excluded**
- **Factors:**
  - Fee structures
  - Holding out to public
  - Advice in connection with accounting services

The CPA’s Guide to Investment Advisory Business Models

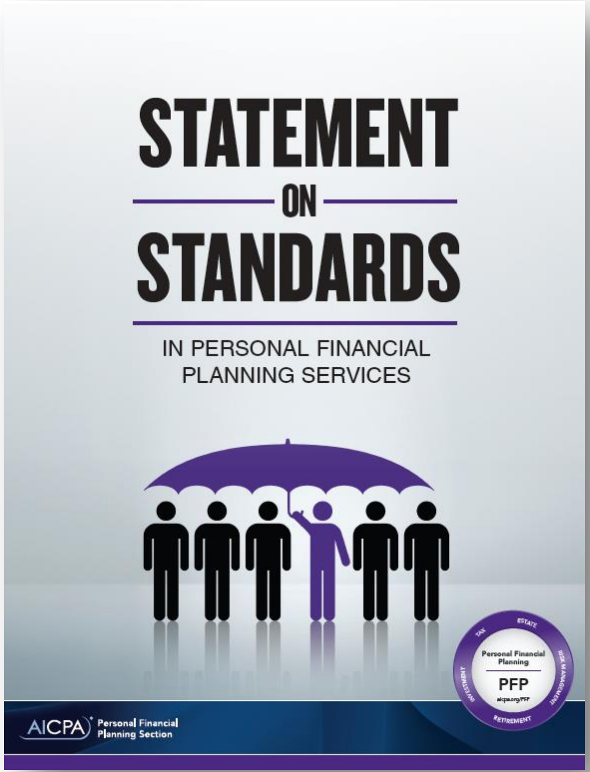
Free to AICPA members

aicpa.org/PFP/investment



Statement on Standards in PFP Services

- **SSPFPS became effective on July 1, 2014.**
- **Learn more about the new standard and the resources available to assist you with compliance:**
  - Compliance Toolkit
  - Archived webcasts recordings for PFP/PFS members at aicpa.org/pfp/webcasts
- **Visit aicpa.org/pfp/standards**



Investment Business Models

IA Business Models

- Refer out
- Solicitor
- Joint venture
- Broker/dealer
- Registered investment adviser (RIA)
- Dual registered
- Turnkey asset management programs (TAMPS)
- Outsource (degrees – all or none)
- Full service investment adviser
- Full service wealth manager

Business Models

Broker / Dealer		Registered Investment Adviser
Suitability		Fiduciary
Registered Representative		Investment Adviser Representative
Sell		Recommend
Employee	Independent Contractor	Independent Firm
Commissions and/or Fee-based		**Fee-only**

Compensation Mix

- Hourly and retainer fees
- Hourly, retainer & assets under management (AUM) fees
- Hourly, retainer, AUM fees and commissions
- AUM only
- AUM & commissions
- Commissions only
- Project-based

Risk Assessment and Modeling Portfolios

What Is Your Risk Tolerance?

Your risk tolerance is a unique balance among
your ability, willingness and need to accept market risk.
There is no right answer for everyone. There is one right answer for you.

	Ability	Willingness	Need
Higher Risk Tolerance	I have a long time to invest. I can recover if the market stumbles.	Severe markets don't scare me. I will stay the course no matter what.	My portfolio needs to grow significantly if I want to achieve my goals.
Lower Risk Tolerance	I have income needs now or in the near future. I cannot afford a big portfolio drop.	Market downturns might cause me to lose sleep and change my plans.	I have achieved financial independence. Growth is nice, but not essential.

02.29.12

Part 1: The Ability to Take Risk

Guidelines for Equity Allocations

Maximum Investment Horizon	Maximum Equity Allocation
0–3 years	0%
4 years	10%
5 years	20%
6 years	30%
7 years	40%
8 years	50%
9 years	60%
10 years	70%
11–14 years	80%
15–19 years	90%
20+ years	100%

These are not formulas, but rather guidelines for prudent asset allocation decisions.

Important Note: The Ability to Take Risk, Willingness to Take Risk and Need to Take Risk slides should be used in combination with one another to assist in determining an investor's equity allocation.

02.08.12

Part 2: The Willingness to Take Risk

Guidelines for Equity Allocations

Maximum Tolerable Loss	Maximum Equity Exposure
5%	20%
10%	30%
15%	40%
20%	50%
25%	60%
30%	70%
35%	80%
40%	90%
50%	100%

These are not formulas, but rather guidelines for prudent asset allocation decisions.

02.08.12

Important Note: The Ability to Take Risk, Willingness to Take Risk and Need to Take Risk slides should be used in combination with one another to assist in determining an investor's equity allocation.

Part 3: The Need to Take Risk

Guidelines for Equity Allocations

Financial Goal*	Equity Allocation*
3.25%	0%
4.25%	20%
5.25%	40%
6.50%	60%
7.50%	80%
8.50%	100%

These are not formulas, but rather guidelines for prudent asset allocation decisions.

*Financial goal expected returns are based on a portfolio that includes more value and small company stocks than the overall market (does not include advisor fees) … based on current valuations and expected inflation rate (2.60 percent) and, therefore, **subject to change**. The expected returns numbers were calculated based on current assumptions and then rounded.

Important Note: The Ability to Take Risk, Willingness to Take Risk and Need to Take Risk slides should be used in combination with one another to assist in determining an investor's equity allocation. Assumptions as of February 2013.

Example Approach

- **Information gathering & due diligence questionnaire**
- **Asset simulation model – Monte Carlo analysis**
  - Desired rate of return
  - Standard deviations/risk & volatility
  - Time horizon
  - Appropriate diversification
- **Investment policy statement (documents process)**
- **Implementation models**
- **Monitor, review & rebalance**

Other Approaches

- FinaMetrica Risk Profiling System
- Required rate of return (RROR)
- Time

Investment Implementation

Investment Implementation

- Due diligence process
- Individual securities
- Direct money management
- Mutual funds
- Active vs. passive
- Alternative investments and hedge funds

Income tax and investment planning strategies

Determining The Marginal Tax Rate For Various Types Of Income In 2014

Individual income above...	Couple's income above...	Income "type"	Ordinary Income	AMT rate	L/T gains & qual. dividends	Wage earned income	Self-employed earned income	Net inv. income	Itemized deduction phaseout (Pease)	Personal exemption phaseout (PEP)*	AMT exemption phaseout
$0	$0	Taxable	10%	26%	0%	7.65%	15.30%	0%	0%	0%	0%
$9,075	$18,150	Taxable	15%								
$36,900	$73,800	Taxable	25%		15%						
N/A	$117,000	Earned				7.65% / 1.45%	15.3% / 2.9%				
$89,350	$148,850	Taxable	28%								
$117,000	N/A	Earned				1.45%	2.90%				
$117,300	N/A	AMTI									6.5% / 0%
N/A	$156,500	AMTI									6.5%
$182,500	$182,500	AMTI		28%							7%
$186,350	$226,850	Taxable	33%								
$200,000	$250,000	Earned				2.35%	3.80%				
$200,000	$250,000	AGI						3.80%			
$254,200	$305,050	AGI							1%	1%	
$328,500	N/A	AMTI									0% / 7%
$376,700	N/A	AGI								0% / 1%	
$405,100	$405,100	Taxable	35%						1.05%	0% / 1.1%	
N/A	$427,550	AGI								0%	
$406,750	$457,600	Taxable	39.6%		20%				1.2%		
N/A	$487,700	AMTI									0%

Income thresholds based on estimated 2014 inflation adjustments (where applicable).
Where two rates are shown, the first applies to individuals, the second to married couples
* Phaseout *per exemption*

© 2014 This chart was originally created by Michael Kitces for the November/December 2012 issue of The Kitces Report.
www.kitces.com

Accelerated Tax Brackets for Wealthy Taxpayers

- **Above these thresholds, ordinary income is taxed at 39.6%, long-term capital gains and qualified dividends at 20%.**
- **Thresholds are indexed annually for inflation.**
- **2014 thresholds (same as for the 39.6% ordinary income tax bracket)**

Single	$406,750
Head of Households	$432,200
Married Filing Jointly or Surviving Spouse	$457,600
Married Filing Separately	$228,800

Phase-Out of Personal Exemptions & Return of the Pease Limitation

- **Phase-out of the personal exemption (PEP) ($3,950 in 2014) and itemized deductions (the “Pease limitation”) begin to occur at the thresholds of adjusted gross income indicated below.**
- **Thresholds are indexed for inflation.**
- **2014 thresholds**

Single	$254,200
Head of Households	$279,650
Married Filing Jointly or Surviving Spouse	$305,050
Married Filing Separately	$152,525

Phase-Out of Personal Exemptions & Return of the Pease Limitation

- PEP reduces the personal exemption by 2% for every $2,500 of income above the threshold amount for taxpayers other than those married filing separately, and by 2% for every $1,250 of income above the threshold amount for married taxpayers filing separately.
- Pease limitation reduces itemized deductions by 3% of AGI above the threshold amounts up to a maximum of 80%. Certain deductions are not included in the Pease limitation reduction, including: medical expenses, investment interest and casualty, theft and wagering losses.

Net Investment Income Tax

- **2014 thresholds of modified adjusted gross income**

Married Filing Jointly or Surviving Spouse	$250,000
Married Filing Separately	$125,000
All other individual taxpayers	$200,000

- **Thresholds are not indexed for inflation.**

0.9% Healthcare Tax on Earnings

An additional 0.9% surtax on higher income households.

The tax applies to wages and self-employment income in excess of threshold.

There is no employer match on the 0.9 percent tax.

THRESHOLDS

Single taxpayers	$200,000
Married taxpayers filing jointly	$250,000

Net Investment Income Tax Overview

Investment Income

- **Beginning with the 2013 tax year, a new 3.8% net investment income tax will apply to all taxpayers whose income exceeds a certain “threshold amount”. This new “surtax” will, in essence, raise the marginal income tax rate for affected taxpayers.**

- **Thus, a taxpayer in the 39.6% tax bracket (i.e. the highest marginal income tax rate in 2013) would have a marginal rate of 43.4%!**

Net Investment Income Tax Overview

APPLICATION TO INDIVIDUALS

NIIT is equal to:

3.8% X
the lesser of

1. Net Investment Income

   OR

2. The excess (if any) of –
   - “Modified Adjusted Gross Income (MAGI)”
   - “Threshold Amount”

Net Investment Income Tax Overview

APPLICATION TO ESTATES AND TRUSTS

NIIT is equal to:

3.8% X
the lesser of

1. Undistributed "net investment income" for such taxable year
   OR
2. The excess (if any) of –
   - "Adjusted Gross Income" (as defined in section 67) for such taxable year, over the dollar amount at which the highest tax bracket in section 1(e) begins for such a taxable year

Net Investment Income

Includes

- Interest
- Dividends
- Annuity distributions
- Rents
- Passive royalties
- Income derived from passive activity
- Net capital gain derived from disposition of property

Excludes

- Salary, wages, bonuses
- Distributions from IRAs or qualified plans and Social Security
- Self-employment income
- Active royalties
- Gain on the sale of active interest in partnership or S corp.
- Items otherwise excluded or exempt from income under the tax law (i.e., tax-exempt bond interest)

Comparison of 2012-2014 Rates

	2012	2013	2014	Adj	
Top Ordinary Income Rate - Salary	35%	39.6%	41.292%	*	
Top Ordinary Income Rate - Investment Income	35%	39.6%	44.192%	**	
Top Capital Gain Rate	15%	20%	24.592%	***	
Top Tax Rate on Dividends	15%	23.8%	24.592%	***	
Payroll Tax	10.40%	12.4%	12.4%		
Medicare Surtax on Investment Income	0%	3.8%	3.8%	****	
Payroll Surtax on Earned Income	0%	0.9%	0.9%		
Estate Tax Rate	35%	40%	40%		
*Includes phase-out of deductions and 0.9% healthcare wage tax					
**Includes 3.8% Surtax and phase-out of deductions					
***20% base rate plus 3.8% Surtax plus 0.792% adjustment for itemized dedcutions					
****Threshold amounts are $200,000 for single filers, $250,000 for joint returns,					
and $12,150 for Estates/Trusts for 2014					

robert.keebler@keeblerandassociates.com

General Income Tax Planning Strategies

- Rules of thumb like tax deferral no longer apply; planning is very individualized now based on client circumstances
- Multi-year/multi-scenario projections; spreading income over multiple years will now be important to mitigate the impact of the new laws
- If accelerating income into a time period makes sense, make use of capital gain harvesting, etc.
- Clients above the threshold - focus on tax exempt income, retirement account distributions from non-deductible IRAs
- Clients near the threshold - focus on year-to-year planning to accelerate income and stay below the threshold and monitor investment income

Investment & Retirement Planning Strategies

- **Asset placement**
  - Determine what to keep in tax deferred vs. taxable accounts
- **Roth conversions**
  - Use “free look” until tax return extension date to move income and assess impact
- **Annuities may once again become popular as a tax deferral vehicle**
- **Use of CRTs to manage gains and smooth income**
- **Life insurance and products in general are back in vogue with higher tax rates**
- **Defined benefit plans**

Roth IRA Conversion Strategies

Roth IRA benefits

- Lowers overall taxable income long-term
- Tax-free compounding
- No RMDs at age 70½
- Tax-free withdrawals for beneficiaries
- More effective funding of the “bypass trust”

Critical decision factors

- Tax rate differential (year of conversion vs. withdrawal years)
- Use of “outside funds” to pay the income tax liability
- Need for IRA funds to meet annual living expenses
- Time horizon

The key to successful Roth IRA conversions is to keep as much of the conversion income as possible in the current marginal tax bracket

- However, there are times when it may make sense to convert more and go into higher tax brackets

TAX ASSET CLASSES

Interest Income
- Taxable

- ✓ Money market
- ✓ Corporate bonds
- ✓ US Treasury bonds

Attributes
- ✓ Annual income tax on interest
- ✓ Taxed at highest marginal rates

Dividend Income

- ✓ Equity securities

Attributes
- ✓ Qualified dividends at LTCG rate
- ✓ Return of capital dividend
- ✓ Capital gain dividends

Capital Gain Income
-Preferential Rate
-Deferral until sale

- ✓ Equity Securities

Attributes
- ✓ Deferral until sale
- ✓ Reduced capital gains rate
- ✓ Step-up basis at death

Tax Exempt Interest

- ✓ Bonds issued by State and local Governmental entities

Attributes
- ✓ Federal tax exempt
- ✓ State tax exempt

Pension and IRA Income
- Tax Deferred

- ✓ Pension plans
- ✓ Profit sharing plans
- ✓ Annuities

Attributes
- ✓ Growth during lifetime
- ✓ RMD for IRA and qualified plans
- ✓ No step-up

Real Estate, Oil & Gas and Tax Exempt Bonds
- Tax Preferences

Real Estate
- ✓ Depreciation tax shield
- ✓ 1031 exchanges
- ✓ Deferral on growth until sale

Oil & Gas
- ✓ Large up front IDC deductions
- ✓ Depletion allowances

Roth IRA and Insurance
- Tax Free Growth/ Benefits

Roth IRA
- ✓ Tax-free growth during lifetime
- ✓ No 70½ RMD
- ✓ Tax-free distributions out to beneficiaries life expectancy

Life Insurance
- ✓ Tax-deferred growth
- ✓ Tax-exempt payout at death

Investment Policy Statements

Investment Policy Statements - Pros

- Often expected by clients
- Offers clients a better understanding and establishes reasonable expectations
- Sets forth an investment structure detailing permitted asset classes and desired allocation among asset classes
- Documents advisor’s understanding of clients circumstances and needs
- Protects portfolio from ad hoc revisions and helps assure rational analysis

Investment Policy Statements - Pros

- Encourages effective communication between advisor and investor
- Serves as a reference over time to provide long-term discipline for an established investment plan
- Describes constraints that the investor chooses to place on the investment strategy

Investment Policy Statements - Cons

- **Forced to rebalance in 2008/2009:**
  - Chasing clients to re-sign
- **Need a new IPS each time you add an asset class or take one away**
- **Is it flexible enough?**
- **Is it too flexible?**

Education & Communication

Learning Opportunities

- **AICPA Advanced Personal Financial Planning Conference (cpa2biz.com/PFP)**
  - 2-day sessions for those in earlier stages of PFP
    - Implementing PFP Services: Step by Step Plans for Success
- **Other Conferences**
- **Regional Opportunities**
  - Custodians
  - Funds
- **Study Groups**
- **Publications**

Client Communication

- Types of communications
- Frequency
- Events
- Seminars
- Meetings

Working with Other Advisors

- Create teams and embrace them
- Get client permission for communication
- Full communication
- Use other advisors to plan and strategize
- Tell your clients you have done so

Other Considerations for Getting Started

- Working with custodians
- Technology

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.

Estate	Tax	Retirement
Investment	Insurance & Risk Management	Practice Management
Legislative/ Regulatory	Professional Responsibilities	Consumer Content

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 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

- **Investment Planning (aicpa.org/pfp/investment)**
  - *The CPA's Guide to Investment Advisory Business Models*
  - *Prudent Practices for Investment Advisors*
  - *Prudent Practices for Investment Stewards*
  - Resources to Assist you in Effectively Assessing Your Clients' Risk Tolerance
  - Bob Veres' *Inside Information*
  - A Listing of Investment Planning Learning Events

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 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**