

# 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**

**Comprehensive Case Study**



# 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](https://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](https://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](https://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

A screenshot of a "Poll Question" window. The text inside reads: "This is your first attendance check. You are required to respond to 75% of these in order to qualify for CPE credit at the end of this event. Please select any answer." Below the text are two radio button options: "OK" and "Thanks". A "Submit" button is located to the right of the options. A red arrow points to the "OK" radio button, and another red arrow points to the "Submit" button. A large, light gray watermark "Example" is overlaid diagonally across the window.

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## **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



**Ted Sarenski, CPA/PFS, CFP®, AEP®**  
**Blue Ocean Strategic Capital, LLC**



**Susan M. Tillery, CPA/PFS, CFP®**  
**Paraklete® Financial, Inc.**



**Tom Tillery, CFP®, CLU®, ChFC®, LUTCF, CRPC®**  
**Paraklete® Financial, Inc.**



# Learning Objectives

- ▶ **Develop an understanding for the need for a rigorous discovery process in Integrated Personal Financial Planning**
- ▶ **Learn how to apply *Statement on Standards in Personal Financial Planning Services***
- ▶ **Understand how to create a “strategic” Financial Plan which enables clients to reach their financial goals**
- ▶ **Identify the basic elements of an Integrated Financial Plan**
- ▶ **Learn how strategic tax, estate, and charitable planning provide the client with asset protection**
- ▶ **Learn how to create strategies and opportunities to work with the client’s other advisers**

# Client

# Initial Consultation

- ▶ **A referral from their son, who is an attorney**
- ▶ **The client's concern: they no longer trusted their Investment adviser**
- ▶ **Upon review**
  - Investment Adviser's annual income from this client over past three years: \$200,000 (fees & commissions)
  - Several attorneys over the past several years – no coordination
- ▶ **Ages 65 & 67; married; MD & DDS**

# Initial Consultation

- ▶ **Net Worth: \$7,000,000**
- ▶ **Investable Assets: \$5,000,000**
- ▶ **Taxable Income: \$600,000**
- ▶ **Income Tax: \$200,000 (no state income tax)**
- ▶ **Existing taxable investments are in an LLC (previously in a partnership)**

# Elements of an Integrated Financial Plan

# Elements of an Integrated Financial Plan

- ▶ *Content Specification Outline* topics are addressed
- ▶ Fundamentals of Financial Planning
- ▶ Investment Planning
- ▶ Income Tax Planning
- ▶ Insurance Planning | Risk Management
- ▶ Financial Independence | Retirement Planning
- ▶ Estate | Charitable Planning
- ▶ Triage
  - The process of determining the priority of patients' treatments based on the severity of their condition.

# Triage - Prioritizing the Engagement

- ▶ Investment Planning
- ▶ Income Tax Planning
- ▶ Risk Management | Insurance Planning
- ▶ Financial Independence | Retirement Planning
- ▶ Estate | Charitable Planning



# Statement on Standards in Personal Financial Planning Services



# ***Statement on Standards in Personal Financial Planning Services***

- ▶ **Statement establishes applicable standards for members with regard to PFP engagements**
  
- ▶ **Applicability**
  - PFP Services
  - Investment adviser activity (IAR or RIA)
  - Sells a product
  
- ▶ **“Disclose in writing ‘all’ compensation”**
  - Member
  - Member’s firm and affiliates

# ***Statement on Standards in Personal Financial Planning Services***

- ▶ **Compensation disclosure should include:**
  - Method: direct and indirect
  - Amount
  - Timing of compensation
  - Noncash benefits for referrals to other providers
  - Compensation alternatives must be disclosed
- ▶ **‘Document and communicate’ . . . “the scope and nature of services to be provided”**
- ▶ **Engagement letter in addition to RIA’s engagement agreement (if not covered in engagement agreement)**

# Investment Planning

# Investment Planning

## ▶ Discovery

- Clients hopes, dreams & goals
- Client data is gathered
- FinaMetrica®

## ▶ True North for Investment Policy

## ▶ The Execution/Facilitation

## ▶ The Client



# Discovery

- ▶ **Clients hopes, dreams & goals**
  - Qualitative
  - Our software allows for weighting of goals
- ▶ **Client data is gathered**
  - Quantitative
  - Long process to identify all assets – 24 lbs. of g
- ▶ **FinaMetrica®**
  - Used to create asset allocation
  - Indifference curve



# True North for Investment Policy

- ▶ **Modern Portfolio Theory**
- ▶ **What is the lowest rate of return, at the least amount of risk, to achieve the goals of the client's financial plan**
- ▶ **"Determinants of Portfolio Performance"**
- ▶ **Ninety-five percent of the benefits of diversification are captured with a 30-stock portfolio.**

# Execution/Facilitation

## ▶ Selection of adviser

- Background check
- Personality
- Credentials

## ▶ Amount to be invested

- < \$250,000
- \$250,000 - \$500,000
- > \$500,000

## ▶ Investment Policy Statement

# For the Client

- ▶ **Identify separate “pools” of investments**
  - Taxable
  - Tax Qualified
- ▶ **Investment Policy Statement for each**
- ▶ **Investment management fees / expenses reduced from \$69,000 to \$42,000**
- ▶ **Standard deviation reduced from 20.5 to 8.15**



# Income Tax Planning

# Income Tax Planning

- ▶ **Integrating Tax Planning into Financial Decisions**
- ▶ **Business Entity**
- ▶ **Intentionally Defective Grantor Trusts**
- ▶ **Charitable Contributions**

# Integrating Tax Planning into Financial Decisions

- ▶ **It had not previously been accomplished**
- ▶ **CPA was not consulted by the Investment Adviser**
- ▶ **“Tax tail” wagged the dog and too many assets were tax qualified**
- ▶ **Corporate veil had been pierced**
  - Comingling of funds between entities
  - Comingling of funds between businesses and personal accounts
  - Rent not paid to gift trusts

# Business Entity

- ▶ **LLCs were created to hold each piece of real estate**
- ▶ **A 'master LLC' was created to act as a Management Company**
  - One Form 1065
  - Discounts for lack of marketability and control
  - Genuine reason for an entity to manage and control
- ▶ **Income was 'shifted' to gift trusts**
- ▶ **Personal intra-family loans were codified**

# Intentionally Defective Grantor Trusts

- ▶ **A “Intentionally Defective Grantor Trust” is a trust that runs “afoul” of the rules contained in Sections 671 through 679 of the Internal Revenue Code (the “Grantor Trust Rules”).**
  - Apply trust income to make premium payments on the life of the grantor
  - Crummey powers
- ▶ **“Toggle Switch” for income tax purposes**
- ▶ **Asset is removed from taxable estate**
- ▶ **Important!**
  - Since the Grantor is treated as the owner of the assets in an IDGT for income tax purposes, the sale of an asset by a Grantor to his IDGT will not trigger gain

# Charitable Contributions

- ▶ Existing charitable carryover
- ▶ Surplus assets were discovered
- ▶ Created a foundation
  - \$2,000,000+ of surplus
  - Donative intent was already present
  - After tax activities are now paid for by the foundation
  - Legacy for children (foundation board members)

# Risk Management | Insurance Planning

# Risk Management | Insurance Planning

- ▶ **The Risk Management Process**
- ▶ **Property and Casualty Insurance**
- ▶ **Life Insurance**
- ▶ **Long-term Care Insurance**



# The Risk Management Process

## ▶ Identify insurable risks

- Eliminate
- Retain
- Reduce
- Transfer

## ▶ Identify Insurable interest

- Many insurers do not recognize an entity
- Name additional insureds
- Trusts as additional insureds

# Risk Management

High Risk   Low Frequency  Transfer Risk - insurance	High Risk   High Frequency  Avoidance Control Losses
Low Risk   Low frequency  Captive insurance company Higher deductibles	Low Risk   High Frequency  Prevention Reduction

# Property and Casualty Insurance

- ▶ **Vacant lot was not insured**
- ▶ **Attractive nuisance**
  - Main road in town
  - Used as an additional parking lot for the city jail
  - Used as a Christmas tree lot during the holiday
- ▶ **Gifted to local charity (historical society)**
  - Risk was eliminated
  - Charitable deduction was obtained



# Life Insurance

- ▶ **There was no need for life insurance**
  - Financially independent
  - \$8,000,000 of life insurance in force
  - Life insurance is not an investment – especially for a 65 year old!
  
- ▶ **\$5,000,000 of death benefit was retained**
  - Transferred into a trust
  - Switched to premium offset
  
- ▶ **\$3,000,000 life insurance policy was dropped – premium savings of \$90,000 per year for 10 years**

# Long-term Care Insurance

## ▶ The analysis

- Three years of benefit
- \$150 per day
- 6% inflation rate
- Enter the facility at age 80
- Used the plan's assumed rate of return

## ▶ Three carriers were selected

## ▶ Self funding was the solution

## ▶ Followed rule of thumb; \$500,000 - \$5,000,000

# Financial Independence | Retirement Planning

# Financial Independence | Retirement Planning

## ▶ Qualified plans were out of compliance

- No annual updates
- No distributions for a retired employee

## ▶ Too many qualified plans

- Two 401(k)s for each practice
- One defined benefit plan for each practice
- A cash balance plan for one of the practices

## ▶ A 412(i) was being proposed

# Retirement – Solutions

- ▶ **Two qualified plans – one 401(k) for each practice**
- ▶ **Corporate resolutions to remove spouses from any management decisions in each other's practices**
- ▶ **Negotiated fee with new third party administrator – reduced fees from \$3,000 to \$2,000**
- ▶ **Plans brought into ERISA compliance**
- ▶ **Annuities eliminated as the funding vehicles**



# Estate | Charitable Planning

# Estate | Charitable Planning

- ▶ **Basic Estate Planning Process**
- ▶ **Basic Estate Planning Strategies**
- ▶ **Gifting Strategies**
- ▶ **Advanced Estate Planning Strategies**

# Basic Estate Planning Process

- ▶ **Gather “all” existing documents**
- ▶ **Quantify distributive intent**
- ▶ **Educate**
  - Will based
  - Trust based
- ▶ **Keep/improve/eliminate**

# Basic Estate Planning Strategies

- ▶ **Privacy**
- ▶ **Control**
- ▶ **Asset Protection**
- ▶ **Tax Planning**
  - Income
  - Estate
  - Gift
  - GSTT

# Giftng Strategies

- ▶ **Children’s irrevocable gift trusts were a “mess”**
  - Outright distribution at age 35
  - In-laws / outlaws & predators / creditors
  - No distribution trustees
  - No trust protectors
- ▶ **New gift trusts were created with a sale of assets from the old trusts to the new trusts**
- ▶ **New gift trusts became members of the Management LLC – asset protection!**

# Advanced Estate Planning Strategies

- ▶ **Family Foundation**
- ▶ **Promissory Notes**
- ▶ **Leases**
- ▶ **Standalone IRA Trusts**
- ▶ **Irrevocable trusts as members in the master LLC**
  - Life insurance trust
  - Gift trusts

# Assessment

# Let's see how everyone is doing . . .

- ▶ **The Queens College London: Diagnostic tool**
- ▶ **The tool was first used with corporate executives and professionals**
- ▶ **Rationale: if the amount of stress could be accurately measured for an individual then a measured and purposeful stimulus could counteract the stress and the subsequent health issues (weight gain, sleeplessness, headaches, fatigue) that accompany it.**



# The Tool:

- ▶ **In the next slide you will see a photograph of two dolphins. The dolphins are identical in every respect. Your stress is directly related to the number of perceived differences you see between these two marvelous mammals.**
- ▶ **One to two differences - you are experiencing the normal amount of stress for someone in personal financial planning.**
- ▶ **Three to six differences - you are in a critical period in your life and intervention is necessary.**
- ▶ **Seven or more differences - you should reconsider your career choice.**



# 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](https://aicpa.org/pfp/resources).



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# Resources to Transition from Tax to PFP

## ▶ [aicpa.org/pfp/pathway](https://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](https://joinpfp.org) to become a member

# Related Resources for PFP/PFS Members

- ▶ Tax Planning ([aicpa.org/pfp/tax](https://aicpa.org/pfp/tax))
- ▶ Estate Planning ([aicpa.org/pfp/estate](https://aicpa.org/pfp/estate))
- ▶ Retirement Planning ([aicpa.org/pfp/retirement](https://aicpa.org/pfp/retirement))
- ▶ Risk Management/Insurance Planning ([aicpa.org/pfp/insurance](https://aicpa.org/pfp/insurance))
- ▶ Investment Planning ([aicpa.org/pfp/investment](https://aicpa.org/pfp/investment))

# 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](https://aicpa.org/pfs)