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

Analysis of a Tax Return for Financial Planning Opportunities

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 Adviser'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!

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 (taking into account kiddie tax implications).	
	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 (note that under the TCJA, distributions are allowed for secondary school tuition) , 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.	
	Consider the impact of the higher estate tax exemption under the TCJA and the sunset of the higher exemption in 2025.	

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 distributions from multiple IRA's?	
	Consider consolidating multiple accounts but be mindful of the IRS rules allowing just one rollover from an IRA per year.	
	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 Net Investment Income surtax, 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. Given the higher rates available in some online banks, consider using a high yield savings bank to hold the cash reserve.	
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.	
	Determine whether the business generates qualified business income (QBI) as defined under IRC Section 199A to be able to potentially take advantage of the 20% pass-through business deduction. Consider phase-out limitations ($415,000 MFJ and $207,500 for other filing statuses). Are there changes in the business structure that could allow the client to receive a larger deduction?	
	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 and tax consequences. Compare limited liability company (LLC), S corporation, C corporation, limited liability partnership (LLP), etc. Take into consideration reduction of corporate tax rate to a flat 21% and the IRC Section 199A deduction.	
	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 so, ask client if there is any rebalancing that could be done in their taxable accounts to generate gains to be offset by the 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.	
	If the client is in the 0% capital gains tax bracket, discuss realizing gains to use up that tax bracket.	
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. Be sure the client is aware of the elimination of the Roth recharacterization option.	
	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.	
	Consider the impact of Section 199A 20% pass-through deduction under the TCJA	

	Is the client's pass-through business income considered qualified business income for the deduction?	
	Would restructuring the client's business change the amount of deduction available (separating out service business from sale of productions for example)?	
	If they are over the income phase-out limitations, consider income shifting strategies (including retirement plan contributions) so they are able to maximize their deduction.	
	If alternative investments and hedge funds are owned, be sure proper reporting is done for non-passive 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. Be mindful of the new, lower corporate tax rate (continuing to note the double taxation of C corporations) and the qualified business income deduction under the TCJA.	
	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. Given the higher standard deduction and limitations on itemized deductions under the TCJA, discuss with the client strategies like "bunching" charitable deductions in alternating years. Run projections to show the potential benefits.	
	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 ½, which could be used to satisfy required minimum distributions and reduce their taxable income, if the client doesn't need the income to cover cash flow needs.	
	Does the client have a significant state tax deduction?	
	Consider whether the client will meet the maximum $10,000 state tax deduction under TCJA and if they will exceed the standard deduction of $12,000 for singles and $24,000 for married couples. If possible, consider delaying or accelerating state tax deductions to maximize the client's deductions in any single year.	
	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.	

Done		Notes
	Did the client previously itemize investment fees?	
	Consider having the client pay IRA-related investment management fees instead of out of their taxable account to reduce future RMD's.	
	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.	
	Consider the new rules disallowing home equity indebtedness if the proceeds are not used to acquire, build or substantially improve the primary residence.	
	Be sure that the client is not exceeding the new lower limits on mortgage interest under the TCJA (for new home purchases or for refinancing in the future).	
	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.	
Done	**AMT**	**Notes**
	Is the client in AMT or have they been in the past?	
	Consider the new, higher exemption limits under the TCJA and determine how they will impact the client.	
	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. This is especially important under the new tax environment created by the TCJA starting in 2018. With more limited itemized deductions and a higher standard deduction, it is especially important to help clients plan multiple years in advance to maximize their tax benefit.	
	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.

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