Ace Cloud Hosting
Powered by Real Time Cloud Services, LLC

How CPAs Can Take Up Personalized Financial Planning ?

www.acecloudhosting.com

CONTENT

Ace Cloud Hosting
Powered by Real Time Cloud Services, LLC

Executive Summary

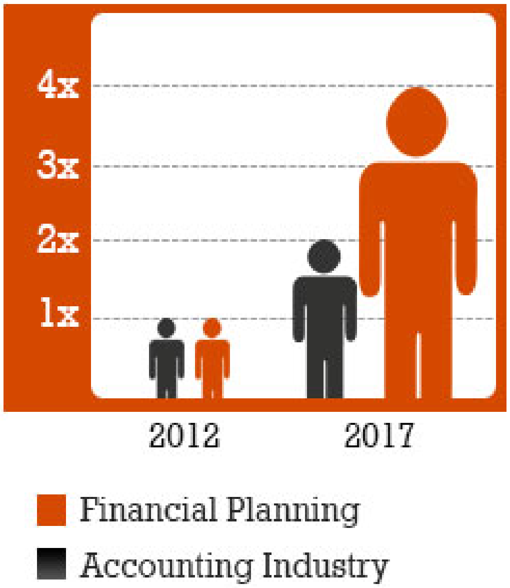
A CPA has many roles to play. From managing financial data, analyzing and advising, to external business affiliations, they can be employed in various roles to help their clients establish financial stability and to find areas to grow more. CPAs dealing with client tax returns should understand that they can play a more versatile role for their clients, helping them in personal financial planning (PFP) as well.

Most CPAs are already helping out their individual tax clients by providing PFP services (such as developing funding plans for the college tuition of their children, processing cash flow for retirement), albeit in an informal way. This gives them the option of easily adding a new businesses line in their pre-existing tax practices which would help in generating more revenue while adding to the brand reputation as well.

By adapting PFP practices, CPAs can benefit from extra revenue streams, a better relationship with their clients and can move away from their dependency on the busy season. What is even more important is that PFP services can help fulfill the ever growing demand of expert help catered towards developing and executing an individual's wealth building strategies.

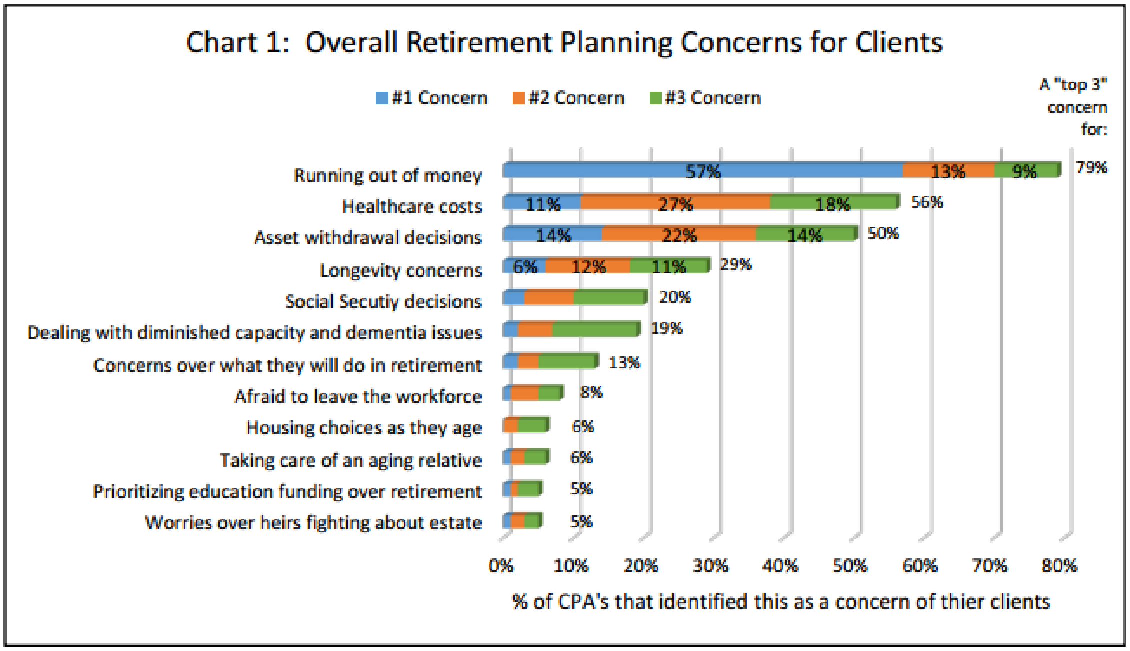
Any CPA who wants to dive in the PFP market must ensure that he is equipped with the knowledge about how to research, evaluate and execute business decisions for an individual. This white paper covers all the issues pertaining to personalized financial planning and explores the key deciding factors that CPAs should keep in mind before adding PFP services to their list of expertise.

Introduction



Any CPA involved in preparing individual tax returns for their clients use their expertise and understanding of federal, state and local tax codes in order to devise the best way of mixing credits and deductions. This way they are able to provide huge benefits by lowering overall tax bills by advising their clients to swiftly maneuver through a complex maze of tax laws. Proficient CPAs also offer other techniques that can further limit their client's tax liabilities such as helping them accelerate or postpone their income in order to utilize better rates or making them move their assets to a charity in the best manner for maximum tax advantages.

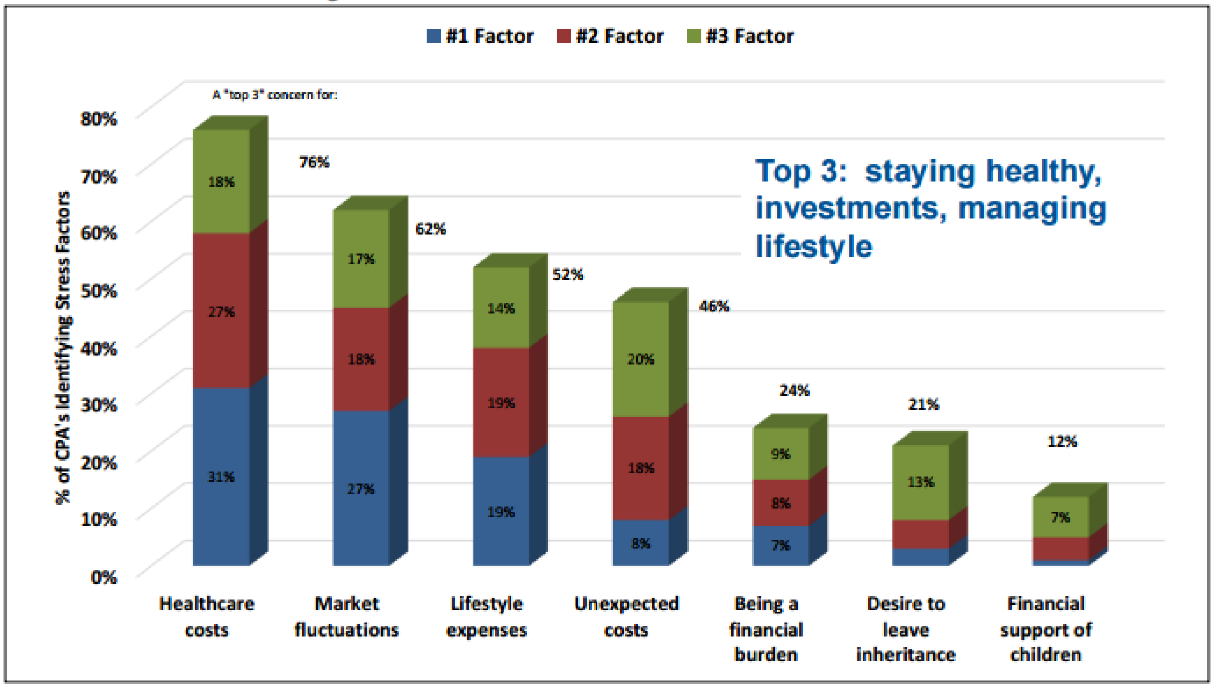
The need for expertise on long-term planning is also increasing as clients are more aware of the benefits of maximizing tax efficiencies. The Tax scenario has been radically altered with the enactment of the American Taxpayer Relief Act of 2012[1] (June 2, 2013) combined with the enactment of the 3.8% Medicare surtax on the net investment income. The resulting tax landscape has made it a must for everyone to closely examine the tax repercussion on of their major decisions pertaining to finance. For example, higher top end tax rates on individual incomes and capital gains have been established. Due to this, individuals who have found income opportunities, that might push them on the top tax range, should consult with their CPA to formulate plans and strategies that can prevent this transition.



The current tax environment as evident by the above example has enabled CPAs who provide tax planning services with the opportunity to indulge in other fields that intersect with their expertise, the most prominent being PFPs. CPAs who provide PFP services can advise their clients in a number of areas, from retirement, estate, risk insurance to investment planning. Those accountants who are preparing form 1040 returns are already privy with a lot of information that can help them in providing highly valuable PFP services. However, not everything is as simple and easy as it sounds, CPAs who would want to dive in the field of PFP services must go in with a strong understanding of the obligations that come along with the benefits.

Why Getting Into Personalized Financial Planning Services Will Benefit CPAs?

Factors Causing Client Stress About Running Out of Money



It is advisable that tax focused CPAs understand all the advantages as well as problems that concern PFP before they delve into it. The main points they should go through include the different types of PFP services, the rules, and protocols related to these services and the overhead costs associated with these services. It is important that CPAs put considerable effort in getting to know all these things before they spend time, energy and money into this new field.

However, if they find that moving on to PFP is feasible for them they will find that these new services are highly lucrative. They will help in bringing value to the CPA’s practice in various ways:

1. **Enhanced Relationship with Clients:**
   By offering their clients PFP services, in addition to the tax planning they are already doing for them, CPAs are liable to gain more trust with their clients

2. **Garner Additional Revenue:**
   PFP as a value added service allows CPAs to open up additional revenue streams. This helps CPAs to have a steady income flow all through the year thus effectively decreasing their dependency on the busy season.

3. **More Work opportunities:**
   PFP services open more doors and career paths for CPA firms thus improving both talent acquisition as well as staff retention. It also helps in increasing the brand value of the firm as another new market opens up for them.

4. **Achievement of Financial Goals:**
   A new stream of revenue, as well as decreased dependency on the tax season, allows CPAs to achieve their financial goals effortlessly. This additional capital that they earn allows them to expand their budgets in other fields like advertising, branding and talent acquisition.

At the same time, CPAs should not be swayed by the benefits before they have understood the increased expenses and the additional rules regarding the regulatory environment as well.

The AICPA standards, especially the AICPA *Code of Professional Conduct*[2] should always be adhered to by CPAs because they are related to financial planning services as mentioned in the ACIPA PFP executive committee’s *Statement on Responsibilities in Personal Financial Planning Practice* [3]. Moreover, the Investment Advisers Act of 1940[4] should be noted by all CPAs wishing to provide investment advice to their clients as they may need to register as investment advisers with the SEC or their state (or both).

CPAs starting up PFP practices have to consider the overhead costs associated with the practice as well, which include (but are not limited to):

1. Hiring new employees having PFP expertise in order to establish a knowledge base for the firm.
2. Educating the current staff regarding PFP services via continuing professional education (CPE) courses.
3. The Fees for the PFP related specialized exams like ACIPA's Personal Financial Specialist.
4. Marketing and promotion of these new PFP services.
5. Up gradation to newer technology (financial planning software, Client Relationship Management Software, Research Software and Reporting Software).

Besides the regulatory measures and cost evaluation, the most important thing that a CPA should check before starting PFP services is whether personalized planning is a good fit for them or not. PFP services are all about getting to know the clients and helping them achieve maximum success. This requires not only sound financial skills but a high degree of empathy. CPAs will have to understand the client's personal situations and make decisions on what would we best for them not only financially but also emotionally.

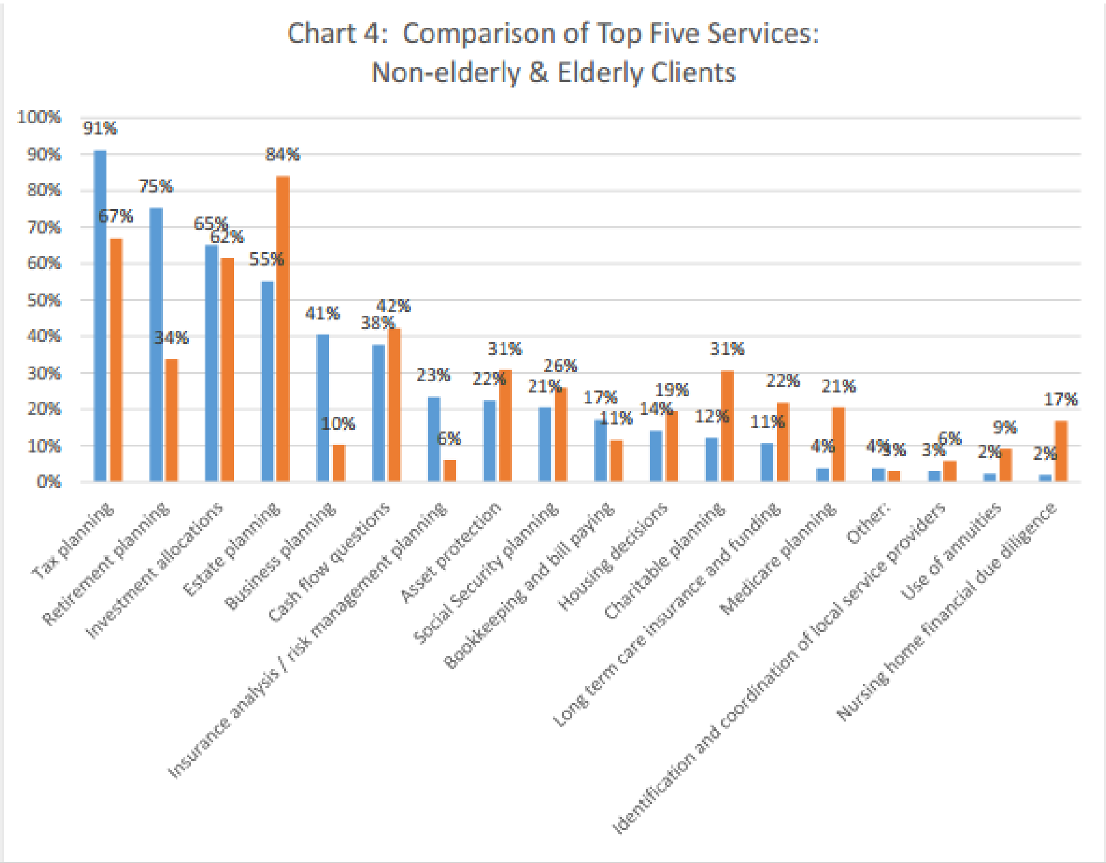
The Main Types of PFP Services

PFP services include all of the following fields:

- Cash flow planning
- Retirement Planning
- Investment Planning
- Estate Planning
- Risk Management/ Insurance Planning
- Elder Planning
- Charitable Planning
- Education Planning
- Tax Planning

Before they start offering PFP services, CPA should understand the list of services PFP entails and choose which amongst them suit their expertise and client base in the best manner. It is very hard to specialize in all the fields so it is advisable to work with professionals who are experts in each of the individual fields that constitute PFP. The following is a list of the various activities that PFP constitutes:

1. **Retirement Planning:** Retirement planning involves advising clients on how to amass enough wealth that they are well off when they retire. However, to perform adequately enough in this field, CPAs should ensure that they are well-versed in the ever-changing US tax system. The fickle nature of state and federal income tax rates, capital gain tax rates, and allowable credits and deductions force CPAs to adapt their strategy with the ongoing trends. The chief factors involved are:



Q2 2015 AICPA CPA Personal Financial Planning Trends Survey

Social Security: Getting to know the clients' expectations from social security and devising strategies that can be deployed to maximize the clients' benefits. Understanding the Co-relation between this strategy with retirement plan savings and after-tax savings is also essential.

Sustainable Withdrawal Rate: Each client's sustainable withdrawal rate from retirement savings is different so it is important to devise customizable plans for each of them. Other questions that should be considered include whether the client is on the right path of having enough money available to fund a sustainable withdrawal rate that is acceptable? Is the client in the best retirement accounts (IRA, 401(k), Roth IRA, etc.) for his/her requirements? Is the client's portfolio suitably diversified and distributed among the appropriate asset classes?

Health Insurance: Understanding the options available for the client's health insurance depending on the retirement age is highly important. Other issues that a CPA need to be concerned about includes checking up on the status of long-term care, Medicare, and supplemental coverage.

Annual health care costs study in 2013 $

Percentile	Ages 65 to 79	Ages 80 to 89	Over age 90
25th percentile	$1,285	$1,452	$858
Median	$3,210	$3,417	$3,255
75th percentile	$6,219	$6,429	$6,706
90th percentile	$10,456	$11,229	$15,976
95th percentile	$13,918	$15,492	$28,339

Includes out of pocket **uninsured costs** including Medigap supplemental insurance premiums, out of pocket costs for medical supplies, drugs, hospital care, doctor services, lab tests, eye, dental and nursing home care.

Source: Employee Benefits Research Institute – September 2014

2. **Estate Planning:** Estate planning is a highly extensive practice for any CPA. Helping clients establish goals, define strategies, finding opportunities, avoiding obstacles and dealing with legalities is a long term commitment. A CPA who wishes to commit to estate planning must have detailed answers to the following questions:

- **What plans already exist?**
- **How does the tax system (probate, federal and state) work?**
- **Who else is advising the client with estate planning?**
- **What are the clients' assets and liabilities?**
- **Who else (spouse, children, grandkids, parents, business partners, etc.) will be affected by the estate plan?**
- **What are the next steps to take after making a plan?**

Besides the basic plans, CPAs should also be equipped with the knowledge about the clients' wills, living trusts and plans for incapacity, the power of attorney, health care proxies, and other legal matters. It is advisable that CPAs work associatively with legal advisors with an expertise and estate planning. This way CPAs can have their clients consult these attorneys to help them draft the required legal documents.

Other important factors that CPAs should address for each client would include:

- **Use of Marital Deduction**
- **Unified Credit**
- **Bypass Trust**
- **Portability Issues**
- **Lifetime Gifting Strategies**

3. **Investment Planning:** CPAs should choose the investment advisory fields and compensation models that best compliment their existing practices if they plan on offering investment planning services. Most CPAs register as investment advisers with the SEC, their state (depending on individual circumstances they choose to register with both). This is because of the fact that RIAs (registered investment advisers) are supposed to put the interests of their clients in the front, so that they can uphold a trustworthy standard (quite similar to the one they adhere to as a CPA). Some RIAs get registered even if they are involved in investing the clients' funds or managing the portfolio of their clients.

The reason behind this is that they don't want to risk providing accounting related advice (which non-registered individuals are allowed to do) which might be confused with providing investment advice that needs the professional to be registered.

CPA financial planners have to concern themselves with the following tasks:

- Overseeing Investment Portfolios
- Assessing Risk Tolerance
- Proper tax placement of assets
- Defining nontax and tax-deferred accounts
- Identifying and allocating assets in proper asset classes

Directing clients to money managers on investment professionals is also advisable as they are the ones who are directly responsible for handling the actual investing and are the ones making decisions on specific bonds, mutual funds, stocks, etc.

Get more information about the ups and downs of investment advisory business models by going through: *The CPA's Guide to Investment Advisory Business Models on the PFP Practice Guide page* [5]

4. Risk Management/ Insurance Planning

CPAs providing PFP solutions should be able to identify, analyze and devise strategies for the following types of insurances:

- **Property and casualty Insurances:** These include automobile, homeowners' umbrella, and personal articles floaters
- **Disability Insurances:** Employer provided as well as an individual as well as social security.
- **Life Insurance:** Covers whole life, universal life as well as variable universal life vs. term
- **Health Insurances:** Includes choosing provider organizations, point-of-service, health maintenance organizations, high- deductible health plans as well as health savings accounts.
- **Long term care Plans:** Covers both personal as well as governmental programs.

Most CPAs are not experts on insurance related topics so they often work together with industry experts to help their clients choose the services that act most efficiently and fit best with the client's individual fact pattern and goals.

Fee Structures, Business Models, and Tax Returns: An Overview

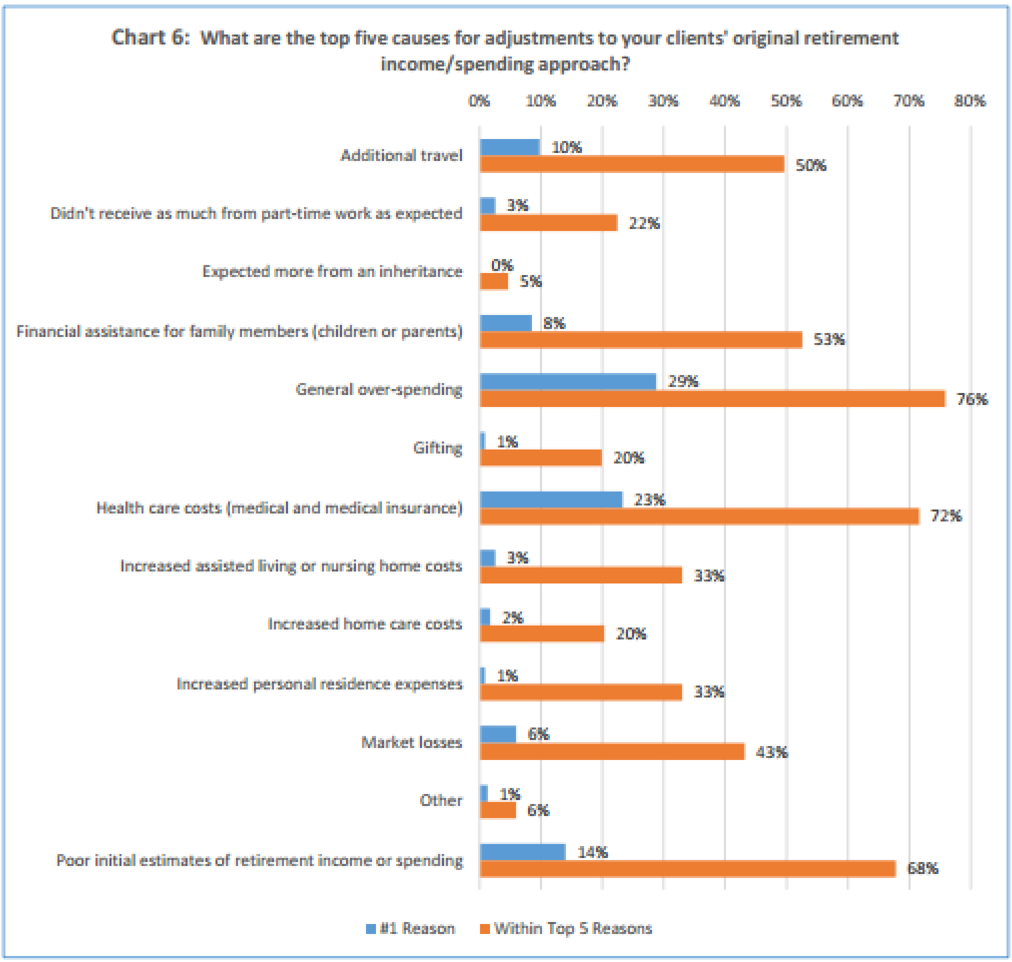
To assess the types of PFP services a CPA's clients might want, Form 1040 is the best solution. This form highlights all the tax consequences for the clients thus enabling a better understanding of the ways for tax savings and opening up new opportunities that could have been overlooked. Having knowledge about the cash flow of the client, the clients' income situation along with his/ her personal balance sheet allows CPAs to start creating efficient financial planning ideas.

However, CPAs should know that they are required by law to obtain the taxpayer's (that is their client's) written consent in order to engage in the practice of preparing plans for tax returns. An effective way of doing this is to include the required disclosure authorization along with the CPA's engagement letter for tax services and referral fees. It is advisable to consult a legal expert to formulate the correct agreement in accordance with the law. Consultations from a good legal expert are invaluable in avoiding regulatory hassles. Moreover, consulting with insurance professionals is also highly recommended as it allows the CPA as well as the firm to have insurance against malpractice related to the PFP services.

Choosing Services Charges and Procuring Payments

CPAs should define who they are going to get paid when expanding into PFP services. There are three models they can choose: Fees, Commissions and an amalgam of the two. Most CPAs work with a fee-only architecture (this equates to taking compensations only from their clients; no payments from third parties are accepted). They can choose to get billed per hour or a flat retainer based fee (based on projects or as a percentage of the monetary value of the asset they are handling). The AICPA Code of Professional Conduct (Code) [2] deals with the compensation issues that need to be handled.

It is noteworthy that third party commissions and referral fees are prohibited in many cases (Go through AICPA's commissions and referral fees [6] or The CPA's Guide to Investment Advisory Business Models [7] for more details on these prohibitions). It is also recommended to check with the state board to understand other restrictions CPAs need to comply with regarding compensations.



Q3 2015 AICPA CPA Personal Financial Planning Trends Survey

How to structure a PFP Practice

A CPA can choose from various structures when starting a financial planning practice. However, irrespective of the chosen structure they should start small and slowly build their business as both the practitioners as well as the clients get more comfortable with the new services.

There are two ways of financial planning engagements CPAs can adopt:

1. **Segmented Financial Planning Engagement:** By choosing segmented financial planning, CPAs can focus one or two fields that are more relevant to their clientele. This way they can specialize in areas they already have experience on.

2. **Comprehensive Financial Planning Engagement:** A comprehensive plan covers the entire financial profile of a client. These plans provide a co-related strategy that covers everything: estate planning, retirement, investments, taxes as well as risk management.

   CPAs that deals with clients having a higher net worth can also structure their practice in a family office model. This provides their clients with a one-stop solution that can meet all their financial planning needs of their own as well as their family members. This model also consists of a financial concierge service (paying bills, reconciling checking accounts and preparing tax documents).

   It is also highly efficient to organize a team of specialists as an advisory measure - estate attorney, trust attorneys, insurance experts, mortgage bankers and property professionals. This enables CPAs to make informed decisions at each step. The April 2012 *Journal of Accountancy article "A Wealth of Opportunity,"* [9] provides more details about this.

Conclusion

Any CPA that wishes to grow or wants to diversify the existing tax-based practice should consider expanding into PFP services. Form 1040 is quite helpful in finding effective PFP ideas that individual tax clients will benefit from. CPAs can start with reviewing the key items on the clients' form 1040 for planning ideas. The following are a few highlights:

1. **Dependents**
2. **Income**
3. **Schedule A, Itemized Deductions**
4. **Schedule B, Interest and Ordinary Dividends**
5. **Schedule C, Profit or Loss from Business**
6. **Schedule D, Capital Gains, and Losses**
7. **Retirement Plans/ Distributions**
8. **Schedule E, Supplemental Income and Loss**

It is important to know that although the rewards are great (both personal as well as professional), a successful PFP practice requires considerable research and many critical decisions. AICPA's PFP section is a great place to get started because of the wealth of resources it offers.

A field of innumerable opportunities, CPAs should definitely look into expanding into PFP. However, they should be prepared for a rocky journey.

Questions to answer before launching a PFP business

1. What constitutes planning, starting and operating a PFP practice?
2. How is a PFP operation structured?
3. What is your business plan?
4. Which PFP services are you going to provide?
5. Which federal or state laws are you supposed to comply?
6. Which regulatory and legal implications are to be considered?
7. How would you structure your fees?
8. How would your clients react to you offering PFP services?
9. How would the market favor PFP services?
10. What will be the additional costs?
11. What technologies can be employed?
12. How will the marketing be handled?
13. What clientele can you focus on?

References

1. **American Taxpayer Relief Act of 2012[1]**
   https://en.wikipedia.org/wiki/American_Taxpayer_Relief_Act_of_2012
2. **AICPA Code of Professional Conduct[2]**
   http://www.aicpa.org/research/standards/codeofconduct/Pages/default.aspx
3. **Statement on Responsibilities in Personal Financial Planning Practice [3]**
   http://www.aicpa.org/interestareas/personalfinancialplanning/resources/practicecenter/professionalresponsibilities/pages/pfpexposuredraft.aspx
4. **Investment Advisers Act of 1940[4]**
   https://en.wikipedia.org/wiki/Investment_Advisers_Act_of_1940
5. **The CPA's Guide to Investment Advisory Business Models on the PFP Practice Guide page[5]**
   http://www.tinyurl.com/75kkwbf
6. **AICPA's commissions and referral fees [6]**
   http://www.aicpa.org/interestareas/personalfinancialplanning/resources/practicecenter/professionalresponsibilities/pages/commissionsreferralfees.aspx
7. **The CPA's Guide to Investment Advisory Business Models [7]**
   http://www.aicpa.org/interestareas/personalfinancialplanning/resources/pfppracticemanagement/pfppracticeguides/downloadabledocuments/cpa-guide-investment.pdf
8. **April 2012 Journal of Accountancy article "A Wealth of Opportunity," [8]**
   http://www.journalofaccountancy.com/issues/2012/apr/20114497.html
9. **AICPA PFP Section web page "From Tax Preparer to Financial Planner: the Road Best Traveled"[9]**
   http://blog.aicpa.org/2012/05/from-tax-preparer-to-financial-planner.html#sthash.2hwesxau.dpbs

Learn More

www.acecloudhosting.com/resources

Call: +1-855-219-0431

Concept and Design by:
Ace Cloud Hosting, powered by Real Time Cloud Service LLC, United States. We acknowledge the proprietary rights in the product names, service names and Trademarks of other companies used in this paper

www.acecloudhosting.com

Ace Cloud Hosting
Powered by Real Time Cloud Services, LLC