TAX ALPHA: HOW TO ADD MEASURABLE VALUE WITH TAX-FOCUSED FINANCIAL PLANNING

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INTRODUCTION

Mary and Paul had been married only a few years. Having filed their tax returns separately for years, they continued doing so after they were married. Their CPA did not try to change their minds. They began working with a financial planner who reviewed their returns at their first meeting, and inquired about the rationale behind their choice of filing status. On the basis of their planner's education and advice, they filed amended returns for three tax years, recouping more than the planner's retainer fee for the entire first year of their professional relationship.

Marshall was a consultant who had long been in the habit of taking a traditional IRA deduction. Since he and his wife Susan were more than 50 years old, they were able to save a combined $13,000 per year in their IRAs. After engaging a financial planner, Marshall learned he could set up a solo 401(k) plan for his consulting business. This allowed him to nearly quadruple his own retirement contributions, and to add his business's contribution of up to 20% of profits. In the first year, their planner's strategy saved Marshall and Susan more than $5000 in taxes.

Sandy, a retired entrepreneur, paid more than $70,000 in taxes on an annuity withdrawal. Her nephew learned of a possible problem. Her investment portfolio was composed of variable annuities that were rolled over every few years and the cost basis information was being lost. At her nephew's urging, Sandy met with a financial planner who thoroughly reviewed the paper trail from one annuity to the next. This review allowed Sandy to obtain a corrected Form 1099, showing the proper basis related to the annuity withdrawal. The result: her amended return netted Sandy a refund of the full $70,000, and allowed her to build a needed emergency cash reserve. With her planner's ongoing help, she set up a balanced portfolio and managed her tax planning to maintain federal income tax in the 10% and 15% tax brackets going forward.

What was special about the financial situation of these different taxpayers? Like countless others, they paid far more in income tax liability than they needed to. Their common ground wasn't in their tax situations. The similarity was in the type of professional they eventually consulted: a tax-focused financial planner.

We believe overpaying income tax results from a short-sighted view of tax as a once-a-year preparation task, rather than of tax planning as a pervasive feature of clients' financial lives. The greatest impact on their ultimate tax liability is not filling out their annual return. Rather it is their day-to-day financial decision making, of which their tax professionals are far too often ignorant and, worse, uninterested. Many of these professionals view their role as one of completing forms and, under the pressure of filing hundreds of returns for clients in a short window of time, attempt to make the best of the past year's information provided. They simply don't have the time to actually improve their clients' future tax situations.

When Emily sold her business, her CPA, a lifelong friend who was responsible for Emily's personal and business returns, advised her that the sale would mean she'd owe several hundred thousand dollars of tax to the state in which her business was located. The CPA was adamant that these taxes were owed, despite that fact that Emily was not a state resident. Resigned to this large tax outlay, Emily nonetheless mentioned the issue to her new tax-focused financial planner, who came to the conclusion that no state taxes were owed due to the sale. After lengthy deliberations, the CPA finally agreed with her financial advisor, saving Emily a substantial six-figure payment.

It is our experience that ongoing tax-focused financial planning helps many different kinds of clients properly limit their tax liabilities. This paper explores why the majority of traditional tax preparers fail to achieve the best tax savings for their clients, and how a tax-focused financial planner, with a deeper client relationship than that of the typical tax preparer, can add substantial value to their clients' financial lives.

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We consider the benefits of fee-only financial planners playing an active role not just in investment, estate planning, insurance, retirement planning, goal setting, education planning, and the like, but also tax planning and tax preparation, which are a powerful combination when incorporated into the financial planning process. Ongoing tax planning and preparation can actually hasten clients' financial independence by helping them keep much more of their hard-earned money. Additional examples from our practices appear in the sidebars.

These cases illustrate typical benefits of ongoing tax planning as part of the financial planning process.

Steven self-prepared his tax returns for several years. His financial planner reviewed Steven's returns at their first meeting. Noting that the returns showed capital gains but not losses, the planner asked about potential realized investment losses that arose from the 2008-09 market downturn. Steven had not utilized his realized capital losses to offset gains. His tax-focused planner amended two years' returns, netting the client enough to pay a significant portion of the planner's fee.

Our view is undoubtedly influenced by our experience as members of the Alliance of Comprehensive Planners (ACP), the community of tax-focused financial planners operating under the retainer model. We do not believe this is the only way to put the client's interest first in fee-only financial planning. However, the tax focus we learn and practice as ACP members substantially enhances our clients' financial lives in ways we believe are overlooked in more traditional models of financial planning.

WITH OR WITHOUT PROFESSIONAL HELP, WHY IS OVERPAYING INCOME TAX A PERVASIVE PROBLEM?

The confusing tax code and the scary IRS

The income tax return preparation industry has come a long way from the era of paper returns. In those days, *Money* magazine created an annual tax return challenge in which dozens of tax preparers were given identical information to prepare a tax return. The magazine then published their judgment on which of the dozens of different answers were the most accurate.

In many cases, preparers' differing results using identical data were caused by simple arithmetic oversights. While tax return preparation software has dramatically reduced arithmetic error, the complexity of the US income tax code remains a major problem. The US tax code is one of the longest and most complicated documents known to man. The code's reported total size increased from 26,300 pages in 1984 to 74,608 in 2015. That's the equivalent of 149 reams of paper—in hard copy, the 2015 tax code would stack nearly 25 feet tall.

The risk of inaccurate completion of tax returns has only increased over the years as new provisions continue to be added to the tax code. Most recently, provisions of the Affordable Care Act (ACA) have further exacerbated the complexities of the tax code. For instance, taxpayers with incomes above $250,000 may be surprised to learn that their effective tax rate on capital gains is closer to 25% than to the 15% they previously paid. The ACA, along with revenue raising surtaxes, multiple phase-outs, alternative taxes and the like, have made return preparation no longer the straight math it used to be. Taxpayers now follow a complicated recipe, add ingredients of their financial life to a cauldron of uncertainty, and hope that when the timer goes off and they dish out the stew, they don't have a disaster to show for all their careful effort.

Tax code complexity is part of what makes paying taxes, including income tax return preparation and filing—that necessary part of financial life—arguably one of Americans' least favorite activities. Understandably, tax time is often frustrating and frightening, especially given the risk of a surprise which leads to writing a large and unexpected check. The growing complexity of the tax code has done little to reduce taxpayers' fear of the Internal Revenue Service. In our experience, receiving a letter from the IRS, however innocuous, is enough to start anyone's heart beating a bit faster; the word audit can induce panic.

The inadequacy of mere preparation: emphasizing completion, not understanding

Accurate tax preparation can save a client from being contacted by the IRS. Most taxpayers who use professional preparers would probably agree that minimizing the risk of an IRS audit is one of the reasons they don't prepare their returns themselves. They view self-preparing their tax return as too complicated and error prone, so they hand off the task to a professional.

Other taxpayers feel more confident using personal tax preparation software. These systems do a decent job of systematizing individual tax preparation into a question-and-answer type format that some taxpayers prefer. This format works well for many, especially when returns are relatively uncomplicated. Software can make the process simpler and provide taxpayers a greater sense of security that their returns are completed correctly.

Still, mysteries remain in what could be a much more proactive process than most consumers experience. Many Americans view the annual tax filing ritual as a crapshoot. It is merely a once-a-year accounting task for which they pay tax preparers, or use inexpensive off-the-shelf software to fill in the right boxes with the right numbers on Form 1040 and the applicable schedules. Taxpayers hope for a refund, and quietly dread an eventual correspondence audit from the IRS.

Prior planning done during the tax year is exceptionally rare. It's as if all of the inputs—income, interest, dividends, deductions—magically appear on December 31, leaving the taxpayer to hope they've had enough withheld in order for it to all even out. Or better yet, as many taxpayers naively hope, perhaps they've somehow had too much withheld, and will end up with a refund.

And whether the taxpayer has a check to write or a refund on the way, this end result too often is a surprise. The complexities of the tax code make the calculation of income tax liability for most taxpayers an enormous black box with completion of the return the primary goal. In contrast, thorough tax planning, combined with skillful tax preparation performed by the same professional, can yield substantial ongoing benefits for the client. Without planning done prior to year-end, few ways remain at tax filing time for the taxpayer to reduce their tax liability.

Focusing only on history is as bad as ignoring it

Taxpayers are, for the most part, entirely unfamiliar even with the concept of tax planning. Proper tax planning helps provide the positive outcome virtually every taxpayer desires; at the least, it alleviates the worst surprises by giving advance warning of upcoming tax liability.

The problem is that the near-universal view of the income tax obligation rests on an important but rarely-considered distinction: tax preparation and tax planning are not the same thing. Tax preparation is a backward-looking, reactive, static event. It builds upon facts from the previous year when it is too late to take advantage of most opportunities in the tax code.

This is not to minimize the importance of tax return preparation, or the skill and education necessary to do it correctly. Far from merely typing numbers into a computer program, proper return preparation typically involves many more professional judgment calls than the taxpayer may imagine.

A focus on tax preparation, not the client's holistic situation

The fault for this lack of tax planning lies with both taxpayers and their preparers, whether human or automated. The typical taxpayer will not engage in tax planning without prompting by a professional preparer. The majority of taxpayers encounter their preparers only once a year, during their busiest season, when the preparer's focus typically is not on gaining a comprehensive view of the client's financial life and goals.

In this highly fragmented industry, it has been estimated that there are about 300,000 employees engaged in the tax preparation business at some 109,000 firms.[1] As those numbers suggest, the industry is composed primarily of small businesses, including 37% solo practitioners. Another 53% of firms employ fewer than 10 people.[2]

Sam exercised Incentive Stock Options on December 28. (Had he waited until January 2 he could have pushed the tax liability to the following year, and given himself alternatives if the stock price dropped). The option exercise created an Alternative Minimum Tax gain of more than $200,000, increasing his AMT liability by $56,000. He then held the stock for a few years before he sold it, recognizing long term capital gains. However, Sam's tax preparer failed to calculate the AMT gain and tax advantage of the ATM tax already paid. A review of prior returns by a tax-focused financial planner allowed Sam to amend his previous tax return, netting Sam a refund of about $50,000.

According to the Internal Revenue Service, as of August 1, 2016, there were 721,110 individuals that held Preparer Tax Identification Numbers (PTIN), 212,881 licensed as Certified Public Accountants (CPA), and 51,677 designated as Enrolled Agents (EA). (See the Appendix for qualifications of various types of preparers.)

[1] Matt Sena, "Tax Preparation Industry in 2016 at a Glance", https://www.franchisehelp.com/industry-reports/tax-preparation-industry-report/
[2] Sena, "Tax Preparation Industry in 2016 at a Glance", https://www.franchisehelp.com/industry-reports/tax-preparation-industry-report/

A survey conducted by GoBankingRates.com underscores the fragmentation of approaches to return preparation. A survey of 5,028 Americans inquired about their 2016 tax return filing plans. Of the respondents surveyed, 43% planned to prepare and file their own tax returns. Off-the-shelf tax preparation software and electronic filing programs would be used by an estimated 34.5%. Another 8.5% of filers, it was estimated, planned on filling out and filing paper returns by hand. (Interestingly, 10.9% of respondents planned on having their returns prepared by a friend or family member.)[3]

Our experience suggests that while off-the-shelf software may calculate the math correctly, numerous deductions and tax strategies can easily be overlooked. One contributor to this problem may be that the process of self-preparation is frequently the equivalent of not reading the college textbook over the semester and cramming for the final exam the night before. The news on tax day invariably includes stories from the steps of the post office highlighting last-minute filing. By this time, of course, it is far too late to take action to reduce income tax liability. (If only the media would highlight January 1, the beginning of a new tax year, as a starting point for all the potential opportunities for tax planning.)

Most self-preparers, rushing to complete their own returns, will never achieve the depth of knowledge necessary to file the most lawfully advantageous returns that they can. Tax preparation requires not only a great deal of knowledge, but also the ongoing pursuit of continuing education. Tax codes are not static, and, in fact, can change significantly from year to year. For example, the implementation of ACA brought an array of new forms and regulations that in some way affect most taxpayers, even those who don't have health insurance coverage under the act.

Significant changes in the individual taxpayer's own situation as they go through life, from student to retiree, compound the lack of up-to-date tax knowledge. Taxpayers may believe their situation is still comparable to when they were much younger, like the schoolteacher who took the standard deduction throughout her career, realizing only at her retirement that she would have paid less in most tax years if she had itemized.

Still, professional tax preparation alone is no guarantee of the taxpayer filing an optimal return. Preparers' levels of professional expertise and associated professional designations vary greatly. (See the Appendix.) While professional tax preparation software substantially improves the preparation process, the tax code itself is still ambiguous in many situations.

The complexity and uncertainty leave even tax professionals disagreeing about the proper way to report certain items of income, deduction, or credit.

Stan, a doctor, earned a high salary from the hospital where he worked, along with more than $100,000 from consulting work. His wife Stacy did substantial work for Stan, preparing reports, planning for conferences and handling other administrative duties. They had their returns prepared and filed each April, were happy when they received a refund, and disappointed when they had to write a check. Their tax preparer, busy every year with the press of returns for many clients, told the couple not to put Stacy on the payroll because they would pay more FICA taxes. And with no record keeping system to keep track of simple arithmetical oversights, they had been afraid to take the home office deduction. At their first meeting with a tax-focused financial planner, they learned they were overpaying taxes by $20,000 per year. Their tax-focused planner helped them set up a record keeping system, and developed a projection that showed business deductions could save more than $8,000 in taxes. In addition, setting up a 401(k) plan allowed Stacy to save $18,000 plus a $5,000 profit sharing match. The couple did pay $3,000 more in FICA taxes, but saved more than $10,000 in income taxes.

TAX PLANNING

Unlike the passive process of tax preparation, tax planning is an anticipatory, active process. Tax preparation happens after the fact: a once-a-year event that involves sometimes painstaking data gathering efforts, with the objective of meeting the April 15 filing deadline. Tax planning, on the other hand, is forward-looking. It is, at its best, an ongoing process, beginning on January 1 of each year and continuing for the next twelve months. Combining tax preparation with ongoing and diligent tax planning can have a great impact on a client's financial life.

Most individual taxpayers never consider tax planning. If they are aware of the concept at all, they likely associate it with corporations and the one percent who benefit from the efforts of family offices or armies of lawyers and tax professionals.

Taxpayers often believe that only corporations and the wealthy take advantage of what they see as tax loop-

[3] Elyssa Kirkham, "43% of Americans File Taxes From the Comfort of Their Home, Survey Finds", https://www.gobankingrates.com/personal-finance/43-percent-americans-file-taxes-comfort-home-survey-finds/

holes. However, these “loopholes” are nothing more than IRS regulations that savvy taxpayers take advantage of every day. Those who don’t know about them, or lack a connection with a professional who does, often pay a great deal more in income tax than is necessary.

Many more taxpayers could receive a similar benefit by using a financial planner who both prepares their taxes and conducts thorough tax planning. Like hiring a professional driver instead of driving themselves, clients who work with such professionals can get where they want to be with less effort, greater safety, and with a reduced commitment of their own time.

With proper planning, the amount a taxpayer owes, or their refund, should not be much of a surprise. In fact, with time and education, even the most refund-oriented taxpayer can learn that it is not the size of the check they write or receive that is as important as the total tax liability, most of which is usually withheld from their pay before they ever see it.

THE OPTIMAL EFFICIENCY OF TAX-FOCUSED FINANCIAL PLANNING

The worlds of income tax and investing significantly overlap in their effect on the client’s financial objectives. Decisions about when to sell investments, how to take distributions from retirement accounts, and which investments are best in which types of accounts all involve both income tax and investment expertise.

The financial life of the typical taxpayer finds them seeking sometimes-contradictory advice from different professionals. They may receive insurance advice from agents selling a new policy, lending advice from the bank that stands to profit from the transaction, cash flow guidance from the library or the internet, estate planning from their lawyer, career counseling from a recruiter, and goal setting from a motivational speaker. And, while their tax guidance comes once a year from their CPA in the rush to sign their electronic filing documents, their investment advice comes from a financial planner—or worse, from an investment salesperson masquerading as a disinterested advisor. In many cases, these “advisors” may tout the tax advantages of the products they are recommending while simultaneously providing fine print disclosures suggesting the client consult a tax professional to determine what, if any, tax benefits (or consequences) might actually occur based on the product being sold. In contrast, the client who is fortunate enough to have a comprehensive financial planner has a professional guiding them in all aspects of their financial lives.

It will come as no surprise that the authors, as experienced and qualified tax-focused financial advisors, see the financial planner as the ideal person to provide tax planning to the client. It is the comprehensive or holistic financial advisor—not the specialized investment advisor, tax preparer, or product salesperson—who has the detailed knowledge of the client’s life as well as the expertise to carry out the forward-looking tax plan. If the advisor is a CFP® certificant or has one of a number of other designations or memberships, they also have a duty to act as a fiduciary for their client, that is, to act in the client’s best interest.

Joe and Nancy ran a small business that experienced a tough time in 2008. They were forced to close the business with a loss of more than $250,000 on their personal return. Their preparer processed the return as normal, leaving Joe and Nancy happy that they received a refund and owed no tax. But with no taxable income, all their itemized deductions were lost. A financial planning review with a tax-focused advisor included an examination of the previous three years’ tax returns (as well as analyzing net worth, investment allocations, cash flow, goals, financial independence projections, insurance and estate planning). Seeing a loss of $200,000 carrying forward to the current year, their financial planner advised them of the opportunity to convert their IRAs to Roth IRAs. Joe and Nancy converted more than $350,000 to Roth IRAs and paid less than $2,000 in federal taxes. In addition, they were able to fund their Roths for the current year. These strategies will easily save Joe and Nancy tens of thousands of dollars over their lifetime in future tax free growth.

Comprehensive planning uniquely positions the client’s tax-focused financial planner to have at his or her disposal all the relevant information needed to provide ongoing tax planning. That tax planning can save the client many thousands of dollars.

THE PROCESS OF TAX-FOCUSED FINANCIAL PLANNING

It has been said that a tax return is the window into a client's financial soul. One of the first steps a tax-focused financial planner takes when meeting a potential client is to review their tax returns. This process can reveal not only pertinent details about a client's financial situation, but also opportunities for tax savings. Return reviews provide insights often overlooked by advisors that do not do tax planning.

Those potential opportunities relate not only to steps that can be taken in a future year to minimize taxes, but also to what has taken place in the prior three years. Mistakes, omissions, and oversights of beneficial moves are common. Clients may not realize that they can file amended returns for up to three years after the original filing deadline. A tax-focused planner with a trained eye spots potential opportunities, and knows the right questions to ask a client to determine whether money has been left on the table.

Mistakes can be found not just in a client's self-prepared returns, but also in those prepared by a paid professional for a variety of reasons. Preparers may lack understanding about current law, or the client may not provide the preparer all of the relevant data. Examples include incorrect basic information, filing status issues, overlooked or incorrect deductions, as well as very conservative interpretation of tax law.

Mistakes and omissions on the client's return are just the tip of the iceberg. The goal of tax planning is to make the best use of a client's resources and opportunities as it relates to legally minimizing the taxes that they pay. This touches nearly all areas of the client's financial life: investments, investment distributions, asset sales, estate planning, and retirement and education funding for example. Tax planning should be an ongoing process, and involves not just the current year, but future years as well.

Nor is tax planning limited to the client's tax return. As a first step, tax planning calls for a review of a client's paystubs. Paystub review represents some of the lowest-hanging fruit for the tax-focused financial planner. A review of the client's withholding status and allowances, and management of payroll deductions are a basic annual tax-planning effort, often ignored to a client's detriment. In addition, the paystub review yields useful financial planning information such as whether and how much is being contributed to any employer 401(k) or other tax-deferred retirement savings.

The client whose withholdings are not sufficient to cover tax liabilities at the federal, state, and local level (if applicable) will often get an unpleasant surprise at tax-time. Clients do not like negative year-end tax surprises, but may have become accustomed to them as simply the norm. They may not realize that there are tax-planning steps that can be taken to alleviate this burden. Their tax-only preparers, who usually have a once-a-year relationship with the client, may not be inclined to get involved. The financial planner's review of the situation represents a significant value-add to the client.

Deborah and Eric recently retired and hired a tax-focused financial planner to build a plan to use an inheritance to fund the income gap between their retirement income and annual living expenses. Having never reviewed their portfolio since inheriting the funds more than 15 years ago, the portfolio was invested in a risky allocation of high-cost mutual funds with substantial unrealized capital gains.

Through proactive tax planning, the advisor helped Deborah and Eric liquidate their appreciated investments over a period of two years. By doing so, they were able to recognize a majority of the gains while in the 15% marginal tax bracket and qualify for a special 0% capital gains rate. Spreading the gain over two years instead of all in one year meant an additional $50,000 of gains qualified for the lower rate, saving an additional $7,500 in federal income tax.

Paystub review and tax projection of the future tax year(s) also applies to those receiving ample refunds. Proper tax planning will attempt to bring a client as close as possible to owing no tax and receiving no refund at filing time. This frees up cash that could be used for investment, retiring debt, or other purposes of greater benefit to the client than their prior interest-free loan to the government.

Clients with business income face unique challenges that are also ripe for tax planning intervention. Newly self-employed clients in particular may be unaware of their obligation to pay self-employment tax—an additional 15.3% of income (with limitations)—until it is too late to avoid thousands of dollars of unexpected tax liabilities, including underpayment penalties. While the traditional tax return preparation process reveals underpayment only when it is too late to prevent it, tax

CLUES TO TAX RETURN ERRORS AND OMISSIONS

A change of address may indicate that a home was sold, prompting an inquiry about whether the sale was handled properly for tax purposes. (This can also raise additional financial planning issues regarding insurance coverage, estate planning issues, etc.) Or the home may now be a rental property. If so, Schedule E should be reviewed for errors and missing deductions. Considering the client's entire financial picture, owning a rental may not even make sense for the client.

Large capital gains beg the question whether the taxpayer failed to offset the gains with realized losses, possibly prompting an amendment. If there were no realized losses, there may be unrealized losses that can be used in future years.

If a married couple has filed separately in the past, it is important to find out why they chose this filing status. If there was not a legitimate reason, amending the returns as joint filings may yield a substantial windfall.

Missing deductions are common for taxpayers who self-prepare returns, sometimes due to unfamiliarity with the tax code. But even professional preparers miss pertinent deductions. The typical tax preparer, rushing to meet the April 15 deadline, will not know or inquire about the intimate details of a client's financial life, leading to missed opportunities in return preparation.

Mistakes in return preparation are common. While the IRS is likely to catch errors that, when corrected, will result in more taxes to be paid by the taxpayer (for instance when some capital gains transactions are not reported), they are unlikely to reward the taxpayer who missed a digit on their mortgage interest or charitable deductions, or who understated the amount of real estate taxes paid.

planning can minimize, or altogether eliminate, these types of surprises, through ongoing intervention. Many business owner clients benefit from very brief quarterly reviews of their income and expense data, which may cause adjustments to their quarterly estimated tax payments. A tax focus for business owners can yield additional tax savings when combined with optimal selection and use of tax-deferred
retirement plans to meet goals for retirement.

Because the tax-focused financial planner makes tax planning an ongoing focus in his practice, decisions that affect a client's tax situation are, in the ordinary course of the planner's work, more carefully considered than they are in a tax preparation only relationship. Opportunities for tax efficiency, when appropriate, are an integral part of the client-planner relationship. The tax focused-financial planner is able to bring a level of oversight to a client's financial situation that is not possible using the filing-focused approach of an outside tax professional who may or may not engage in tax planning.

The tax-focused planner's more intimate knowledge of many details of the client's financial life gives him or her more opportunities to discover benefits legally available within the tax code for the client. The planner is routinely available to work with the client to implement proactive tax saving strategies, avoid costly mistakes, and alleviate negative tax-time surprises. Taxes, no longer a once-a-year discussion, are woven throughout the framework of the financial planning relationship. Coincidentally, tax planning and the commensurate tax savings can help solidify the client-planner relationship, potentially increasing client retention rates.

CONCLUSIONS

The financial planner has the ability to see all aspects of a client's financial life, providing a unique perspective and serving in a valuable role. The planner doesn't provide a role, he/she serves in it. He may also prepare the client's tax returns, but views that task as a small part of the comprehensive planning process. Electronically filing a client's tax return by April 15 does not mark the end until next year, but rather an important clerical step in an ongoing process.

For the tax-focused financial planner, filing is, of course, an opportunity to see the plan in action, communicating its benefits to the client. But unlike professionals who only prepare tax returns, for the tax-focused planner, any sigh of relief that is breathed once tax filing season has ended tends to be brief. Tax planning never ends. In fact it starts in late December and early January as the clock resets for another tax year. While this can sound like a disincentive for the professional to engage in tax planning, it emphasizes to the client the constancy of income tax liability in their lives and, by extension, the value of the advisor in helping to manage that liability.

Our experience following the model of the Alliance of

Comprehensive Planners has convinced us that tax-focused financial planning adds significant value to the client. An ongoing focus on tax planning enhances the benefits clients derive not just from investment advice, but from guidance on insurance, cash flow, estate planning, and life planning as well. Tax planning liberates the subject of income tax from the traditional once-a-year reporting task to which it is too often relegated. We have found it also tends to foster deep loyalty among the majority of clients, who appreciate the relative rarity of this professional approach and its deeply client-centric nature.

It is to the client's benefit to take tax out of the box of once-a-year events. When the client recognizes the income tax obligation for what it truly is—an ongoing set of liabilities that has ties to virtually all aspects of their financial lives—the value of the tax planning effort becomes clear. The tax-focused financial planner can most effectively oversee all areas of planning integrated with taxes, provide better outcomes for the client's financial life and, in the process, underscore the planner's own value to the client.

APPENDIX

Types of Professional Tax Preparers

Enrolled Agent (EA): An EA has earned the privilege of representing taxpayers before the Internal Revenue Service by either passing a three-part comprehensive IRS test covering individual and business tax returns or through experience as a former IRS employee. Enrolled Agent status is the highest credential the IRS awards. Individuals who obtain this elite status must adhere to ethical standards and complete 72 hours of continuing education courses every three years.[4] This designation is sometimes also held by Certified Financial Planners, primarily fee-only planners who are actively engaged in tax planning and tax preparation.

Certified Public Accountant (CPA): CPAs are accounting and tax professionals who have successfully passed the Uniform Certified Public Accountant Examination. In addition, they are required to meet requisite experience and education requirements in their state. They must also engage in ongoing continuing education.

Certified Financial Planner™ (CFP®): The CFP® designation is awarded to financial professionals who complete the certification requirements of the CFP® Board of Standards. Educational requirements cover all common areas of financial planning including financial planning principles, investments, income taxes, estate planning, insurance, retirement planning, communication, fiduciary reponsibility, and other related subjects. Certificants must pass a comprehensive examination, and complete continuing education (30 hours every two years).

Tax Preparers: Supervised tax preparers are required to have a tax compliance check, and a Preparer Tax Identification Number (PTIN) from the IRS (as is anyone who, for compensation, prepares or assists in the preparation of federal tax returns). However, there are currently no continuing education requirements. Efforts to require continuing education by the IRS have been stalled due to legal action.

[4] IRS Enrolled Agent Information, https://www.irs.gov/tax-professionals/enrolled-agents/enrolled-agent-information

ABOUT ACP

The Alliance of Comprehensive Planners (ACP) is the community of tax-focused financial planners operating under the retainer model.

ACP has been helping its members build successful practices since 1995. ACP trains its members in the ACP System™, an extensive program based on the highest ethical standards and most innovative practices in the financial planning industry. As fee-only fiduciary financial planners using the retainer model of compensation, ACP members provide their clients financial plans that are comprehensive, considering not only investments but also the tax consequences related to investment and other financial strategies. ACP member advisors optimize the use of assets for tax efficiency, growth, and security to support their clients' goals and maintain their CFP® or CPA/PFS (or equivalent) designation and/or licenses. Most of all, as a not-for-profit organization, members benefit from a vibrant nationwide community of mutually supportive, like-minded colleagues dedicated to putting their clients' interests first.

For more information, visit **www.acplanners.org**.

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ABOUT THE AUTHORS

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Formerly manager of Bloomberg's Equity Research Department, and Equity Fundamental Research Group, Heller spent 17 years with Bloomberg Financial Markets. In 2001, he left the management ranks to become senior markets editor with Bloomberg Personal Finance magazine, and associate editor for Bloomberg Markets magazine. In 2005, he joined SEI's Investment Management Unit as director of investment communications, a position he held until 2008, when he launched KEJ Financial Advisors, LLC.

He has published dozens of investment-related articles, and is currently a columnist with RealMoney.com. He has spoken several times in front of various regional financial planning association chapters including Houston, Pittsburgh, Long Island, and New Jersey, has appeared on Bloomberg's WBBR radio station, and presented at the New Orleans Investment Conference.

A chartered financial analyst, and CERTIFIED FINANCIAL PLANNER ™ practitioner, he holds an MBA from Rider University, where he has also been an adjunct faculty member, and a BA in Financial Planning and Economics from Grove City College. He is also a member of NAPFA, the CFA Institute, and Financial Analysts of Philadelphia.

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Robert Walsh started Lighthouse Financial Advisors (LFA) in May of 1999, after discovering all the flaws, conflicts of interest, non-fiduciary standards and overall lack of integration in traditional wealth management. The safe, caring place he envisioned did not exist, so he set about building a firm that addressed these issues. Lighthouse Financial Advisors has been fee-only and fiduciary since day one with the goal of delivering the highest quality comprehensive, tax focused and objective wealth management advice. Robert holds the designations of Certified Public Accountant (CPA), CERTIFIED FINANCIAL PLANNER, (CFP®) and Personal Financial Specialist (PFS).

Robert was a founding member of the Alliance of Cambridge Advisors, now known as Alliance of Comprehensive Planners (ACP), a community of tax focused financial planners operating under the retainer model. Robert served a three-year term on ACP's Board of Directors from July 1, 2004 until June 30, 2007, serving as the chairman for 2005/2006. He continues to be a mentor for new advisors and actively participates in the continuing education curriculum of ACP.

Robert is a member of the American Institute of Certified Public Accountants (AICPA), the National Association of Personal Financial Advisors (NAPFA), and the New Jersey State Society of CPAs (NJSCPA). Robert Walsh is a Chartered Retirement Planning Counselor (CRPC®) and a Certified Divorce Financial Analyst (CDFA®).

Robert resides in Fair Haven, New Jersey with his wife Nancy, a human resources consultant, and his son Robert B. Walsh III. During his leisure time Robert enjoys reading, traveling, fishing, golfing and spending time with his family.

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