

Research:



LAST MINUTE TAX TIPS

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April 15th is right around the corner. No doubt, a client or two will call (or even walk through the door) with that glazed-over look that hits when the realities of procrastination and denial set in. As a trusted advisor who proactively reminds (and even prods) your clients to do the right things, you may have nudged and nudged to no avail. Perhaps a new client appears seeking your services and advice, having finally woken up to the tax implications of his financial situation. Maybe the client comes to you with a nagging feeling that they (or their tax preparer) may have missed out on some important tax moves that could have saved them a bundle.

Proper planning throughout the year can save your client headaches and money. There is a huge difference between preparing a tax return and implementing a tax efficient strategy. The first difference is that tax preparation is done on a year-to-year basis whereas tax strategies are normally built around several tax years to reduce the overall rate or amount of tax.

While it's too late to do much of the meaningful tax planning that could have occurred by year-end, it's not too early to start coaching your clients on their tax strategy for 2006 – and there may be a few last minute things that can be put in place.

SETTING THE STAGE FOR THE COMING YEAR

1. Start by reminding the client that insanity is doing what you have always done and expecting different results. If they have been dumping everything into a box and lugging it to a tax preparer right before the filing deadline, all the tax preparer can do is the simple math to arrive at what they owe or what will be refunded. In essence, they are using the tax preparer (and, sadly, that person could be you) as a scorekeeper, not as an advisor. Help your clients by providing or recommending a system to capture essential information all year long. If you do not have a preferred or proprietary system, there are several good ones that you and/or your clients

can purchase. Check out www.homfile.net, www.prosperityforlife.org, www.mvelopes.com, www.quicken.com and www.advisorproducts.com. You can also give the client instructions on how to set up a family financial binder using standard materials from the office supply store.

2. A skillful tax *planner* can add tremendous value particularly when the client has income from sources other than a regular paycheck, such as investments, self-employment, stock options, rental income, or business interests. Good tax planning is also crucial if the client has experienced a major event such as a divorce, a lawsuit settlement, the birth of a child, or a death in their family. All of these situations have important financial and tax consequences that must be properly handled.

If you, personally, are not in the business of serving as a tax advisor, help your client look for a smart, progressive tax consultant to assist in developing and implementing a plan. Of course good tax planning is never done in a vacuum. Good communication among the client's entire financial team – the tax planner, the estate attorney and you as financial advisor – is absolutely essential. Many areas are connected and what may look like a good tax reduction strategy might produce undesirable consequences for the client's investments or estate planning.

A skillful planning team considers the client's whole financial life, not just one aspect or the current year. Whether you serve as the tax planner or that role is fulfilled by another professional, the client's financial team will want to look for what can be done not only for this tax year but also for future years. For instance, if the client needs to change an existing retirement plan within the current tax year, as a knowledgeable financial planner, you can point that out.

CAPTURING LAST MINUTE TAX SAVINGS

Here are five tax reduction strategies that you may be able to implement on a just-in-time basis:

1. Convert taxable income to non-taxable income. Some investment vehicles allow the client to set aside a portion of his income for the future, while minimizing the tax burden now. You might suggest tax-free investments that simply net out a higher return than the after tax return on other investments and/or recommend that the client contribute to traditional IRA accounts. Roth IRA's are a great way to accumulate wealth on a tax-free basis and pull out future income tax free as well.

2. Defer taxes to a subsequent year. Several outstanding investment vehicles allow the client to save money pre-tax. Investing in the employer's retirement plan (401(k), Thrift Savings Plan or 403(b)) all make investment and tax sense. Self-employed people could elect a SEP or SIMPLE investment structure. A defined benefit plan can work wonders in the right situation. All these investments will keep you focused on the future while managing current taxes.

3. Shift income to someone in a lower bracket. Giving some of the client's income to children or grandchildren over age 13 through investment assets can help reduce the tax burden as well. Examples include gifting income producing securities as well as real estate.

4. Deduct all allowed expenses. Many people simply overlook or are unaware of deductible expenses. Alimony, business expenses, state and local income taxes, and mortgage interest are all great examples. Charitable contributions and financial advisory fees can be deducted subject to IRS guidelines.

5. Time income and expenses. Take a look into the next several years, projecting income and expenses. This can help identify opportunities to pay the lowest taxes over that time. Selling assets for a gain when income is lower or increasing charitable contributions when the client's income is higher are simple but effective strategies.

6. Above all, keep good records. As the client's financial situation changes, so will his tax situation. By keeping good records the client will simplify yearly tax preparation – and you'll be able to better review and revise the tax plan for the future.

Remind your client that tax planning is an ongoing process – not an annual event. As a competent advisor, you will ask the right questions at the right times to help the client identify how to pay no more than is required by law – if they will give you the chance.

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