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TAX ALPHA: YOUR PRIME PROSPECTS

By Chad Smith

Having a window into the financial lives of your tax clients gives you the opportunity to identify needs that you can address in your capacity as a financial advisor, observes Chad Smith, a wealth management strategist at HD Vest Financial Services. The following four client categories are the ones you should look to first as you build your financial services business:

1. Business owners. If you have a tax client with a Subchapter S corporation, you are already familiar with the basic financial profile of the business. But those who start their own businesses, particularly when they are young, typically are more focused on its immediate demands than their own retirement. Yet in most cases it would be unwise for them to assume that someday their business by itself will fund their retirement. Therefore, it's important to help these clients analyze the pros and cons of establishing a qualified retirement plan, and if it makes sense, what kind.

No business is too small for a retirement plan. A business owner with no full-time employees can establish a solo 401(k) plan or a solo defined-benefit plan, and gain the opportunity for substantial tax-deferred retirement savings — funds you can invest and manage on their behalf. Other options include Simple IRAs and SEPs.

If a client's business has employees with sufficient earnings and savings to warrant investment services support, "You have a natural opportunity to connect with that group," Smith said. If you are overseeing the retirement plan, the participants' monthly statements will bear your name. You can be introduced to employees by conducting an educational seminar, and wrap it up with an invitation to provide assistance on an individual basis. (Note: If you are serving in a fiduciary capacity for a standard defined-contribution plan, your options might be more limited due to regulations dealing with potential conflict of interest. Be sure to consult with an attorney.)

2. Clients on the verge of retirement. "If you are doing tax returns for people at this stage, they often will ask you about their Social Security options, and when they should initiate it," said Smith. "This is the opportunity to take them into the wealth planning process." Naturally, such clients will have many important decisions to make about whether to roll over funds in their employer's retirement plan and, more fundamentally, whether they can actually afford to retire. A goals-based cash flow analysis may be the place to start.

3. Clients in transition. A myriad of financial issues arise when people change jobs, have a child, get married or divorced. All of these will be evident through the tax planning process. A job change will raise such questions as what to do with assets remaining in the former employer's retirement plan, and how to invest funds going into the new employer's plan. Also, if the new job comes with a raise in pay, as it generally does, how those incremental dollars should be spent or invested must be addressed.

The birth of a new child raises the prospect of funding a future college education. Marriage and divorce, of course, have monumental and numerous implications for both parties, including division and re-investment of financial assets.

4. Clients in the highest tax brackets. Needless to say, the wealthier the client, the more complex their financial challenges and opportunities. Chances are that wealthy clients already have well-established relationships with a financial advisor. "Your ace in the hole is your expertise and sensitivity toward these clients' tax situations," according to Smith.

Suppose, for example, you observe from reviewing a wealthy client's return that they could have a substantially lower tax liability with a more tax-efficient investing strategy. Pointing that out to the client opens the door to a discussion of your investment services, and the added value you can provide. "If you can demonstrate how you can improve a client's after-tax return without adding any risk to the portfolio, and possibly even lowering risk, a tax client will sit up and take notice," Smith said.

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