FA News

A *Financial Advisor* Magazine E-Newsletter

Tax Season Has Become A Four Season Issue:

Recommendations For Tax Professionals And Financial Advisors

By Chad Smith

NOT VERY LONG AGO, A TAX PROFESSIONAL'S year had a recognizable rhythm, with predictable peaks and valleys. In January, tax advisors would finish the taxes of their corporate clients and then, in February, when individuals' 1099s started to come in, they would work at a fevered pitch until April 15, when the vast majority of Form 1040s were completed and out the door. Usually, only a relative handful of individual returns required extensions, due to various unforeseen delays arising from extenuating circumstances.

That isn't the case anymore. Today, every season is tax season. With tax law changes and increased complexity of tax laws, extensions have become the norm rather than the exception, and this keeps tax season humming all the way until October 15, at which time planning for the next year's April 15 filing "deadline" kicks in.

The result is that not only has tax season become a year-round activity, but also it has led to a variety of important dynamics that tax professionals—and the financial advisors who work with them—need to take into consideration.

Increased Complexity And Last-Minute Legislation

But first, what is driving these changes? To a large extent, this new state of affairs stems from changes in the tax code and legislative behavior. These include:

• **Increased complexity in the tax code.** With a raft of new legislation, taxes are simply becoming more complex. New laws—such as the Affordable Care Act, the American Taxpayer Relief Act and new small business regulations—all combine to make an individual's taxes far more complicated and individualized. Overall, taxes today are more complicated than at any time since Ronald Reagan's Tax Reform Act of 1986, almost 30 years ago.

• **Legislative disjuncture and delay.** Increasingly, and usually due to political wrangling, legislation at both the federal and state level is being enacted at the eleventh hour, as late as December 31. In some cases, federal regulations passed at the last minute have a knock-on effect that carries over to a delay in state laws that respond, and attempt to conform to, the new federal laws.

Worse, as new laws are enacted at the federal level, there is often a disjuncture with state laws. This can result in tax rules being different at the state level than at the federal level. And, with tax laws passing at such a late date, states often do not have their tax forms ready and available until later in the year. These added complexities and delays further conspire to push out tax preparation.

• **Delay at financial institutions.** As a direct outcome of these legislative delays and complexities, financial institutions are obliged to delay or amend their 1099 reporting, often having to reprogram their computer systems to accommodate new rules.

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Instead of sending out 1099s in early February, they are being issued in late March, often in corrected versions. As accountants expect that their clients will receive amended 1099s, they often prefer to defer the Form 1040's preparation and file for an extension rather than to have to go back and file an amended return.

• **Client unpreparedness.** Despite their best intentions, clients are increasingly coming to their accountants at tax time with incomplete documentation. Often, as a result of all these new and complex rules, they have undertaken a transaction or find themselves in a situation that had tax implications of which they were unaware. This often results in a postponement of the client-accountant tax meeting until a later date, to when the accountant's otherwise packed schedule has some time available, and the necessary documents are finally gathered. As a result, an extension is often inevitable.

Coping With The New Environment

In turn, this *de facto* new tax-reporting timetable has significant ramifications for both tax professionals as well as financial advisors. Aside from working more hours or pulling their hair out, here are some recommendations that these professionals might consider:

• **Hold a fourth-quarter tax planning session.** Rather than waiting until after the first of the year, tax professionals—as well as financial advisors—should at the very least consider meeting with their clients during the fourth quarter, to make tax-savvy moves before the year is over, in order to take full advantage of available tax benefits. For accountants, this means becoming a tax *planner* rather than tax *preparer*—a role that actively and holistically engages with the client's financial life, rather than passively responding to actions of a year that has already passed.

Although this strategy may not prevent all the delays that may arise from legislative changes, it can help to anticipate what may be needed from the client, as well as helping the client to save money.

• **Add more services, not more clients.** For professionals seeking to grow their business and their revenues, simply taking on more clients may end up becoming too great of a strain on an already busy schedule. Instead, they should consider adding more services to the same base of clients who they know and whose financial lives they already understand. As in the fourth-quarter meetings mentioned above, when a professional clearly demonstrates that greater involvement saves the client money, the client is rarely unhappy about the additional fees that may accompany it.

• **Establish a close collaboration between the tax advisor and the financial advisor.** With taxes an ongoing consideration, clients should be working closely with both their tax professional and financial advisor whenever undertaking important transactions or life changes. By making the engagement a year-round activity, clients need not be rushed into implementing tax-advantaged moves at the last minute, whether these be making capital improvements in a self-owned business, paying into a college savings plan or looking at estate and gifting issues. And for financial advisors, working closely with the client's accountant can make sure you are on the same page—and that the accountant will not find fault with your recommendations at tax time or disparage your decisions behind your back.

Today's tax environment is constantly changing, placing additional burdens and responsibilities on all parties in the equation. New patterns of doing business are emerging, as are new opportunities. And as they do, we see the role of the tax planner and the financial planner inevitably moving closer together. FA

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