

Financial Planning

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7 CLIENT SECRETS REVEALED BY A 1040 FORM

While virtually every advisor has a baseline understanding of the IRS code and how it impacts the financial decisions their clients make, very few are bona fide tax experts. And, quite frankly, that's fine — they don't need to be.

But as yet another tax season ramps up, it's never a bad idea to review what every advisor should be looking for on their clients' Form 1040s and what potential opportunities it may reveal.

Perhaps nothing provides a clearer line of sight into a client's full financial picture — and, by extension, gives the advisor better understanding of clients' needs and how to address them.

1. MISSED IRA OPPORTUNITIES

It may sound simplistic, but always look to see whether clients are taking IRA deductions (line 32). As advisors know, setting up, maintaining and fully taking advantage of the benefits provided by an IRA is a basic — though crucial — part of the investment planning process.

Still, advisors frequently report meeting clients who do not have one — and sometimes it's the clients they least expect. Don't assume anything: Always make sure your clients have IRAs and, perhaps more importantly, are making the maximum allowable contributions.

2. WITHDRAWAL PROBLEMS

For clients in the distribution phase, the task for advisors is a bit different. Understand whether the IRA distributions (line 15) that clients are making are appropriate given their profile.

Based on cash flow projections and long-term goals, you may conclude that they are not taking enough money from

their IRA each year. It's also possible that they are taking too much. One of the biggest concerns Americans have is outliving their money, and excessive IRA distributions could deplete their assets too quickly.

3. RETIREMENT PLAN OPPORTUNITIES

Many small business owners wrongly believe that setting up a business retirement plan is too expensive and burdensome. Others are simply unaware that such an option exists.

Schedule C (line 12) or Schedule E (line 17 with an active business) will let an advisor know whether a client is eligible for a small business retirement plan, like a Simplified Employee Pension (SEP) IRA or other qualified plan option. Such options could not only help business owners better prepare for retirement but also significantly lower their yearly tax bills.

If business owners already have a retirement plan, the deduction is on line 28 — and that could be an opportunity for a review.

4. OVERLY CONSERVATIVE ALLOCATIONS

Clients with taxable interest (line 8a), which is generally derived from CDs or saving accounts, present an ideal opportunity for advisor to gain a better appreciation of the overall financial picture.

Given the current low interest-rate environment for deposit instruments — unlikely to change dramatically in the near future — line 8 provides an opening to have a conversation about

placing these assets in investment vehicles that may offer greater returns.

5. POTENTIAL FOR TAX ALPHA

Individuals making more than \$200,000, and married couples filing jointly that make over \$250,000, are required to pay a 3.8% Medicare surtax on dividends (line 9), capital gains (line 13) and taxable interest (line 8a).

By utilizing investments with low turnover rates, implementing more aggressive tax-loss harvesting strategies to minimize capital gains, or selecting tax-deferred vehicles, advisors may be able to help clients in the above income brackets achieve greater tax efficiency.

6. COMPETITIVE CHALLENGES

If a client reports dividends (line 9) and/or capital gains (line 13) that were generated by another financial advisor, then it's clear that you have competition.

Don't look at this as a threat. Rather, consider it an opportunity to talk to the client about consolidating those assets with you.

7. INSURANCE SHORTFALLS

This may seem obvious, but: Advisors should always know if their clients have dependents (line 6c), particularly if they are children. Such information creates a stronger relationship and bolsters the financial plan, of course — but advisors may also want to suggest additional life insurance coverage or assistance with college planning to any clients with dependent children.

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