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retirement plans to insurance.

Brian Tankersley • Dec. 01, 2008

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Tax practitioners such as CPAs and EAs have begun to take a more active role in offering financial services to tax clients from personal financial planning to retirement plans to insurance. These service offerings are a natural extension to the “trusted advisor” brand accorded to practitioners, and they can provide a year-round income stream during non-peak times. As with most opportunities, poorly implemented or managed financial services offerings can result in lost clients and, worse yet, malpractice claims. Most advisors use a wide array of technology tools to effectively manage the additional risk and provide clients with information on their assets.

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While tax preparers may be comfortable answering the standard questions associated with personal financial planning, accountants will need to be prepared to answer a whole new series of questions if they plan to offer financial services. Such questions (which may be more familiar to those who have served as fortunetellers) include the following:

- When will I die (actuarially)?
- Which assets best match my risk tolerances with my desire to maximize investment returns?

- Should I purchase insurance coverage for this risk or would it be better

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What are the basic categories of risk (e.g., liquidity, solvency)?

- What is the answer to life, the universe and everything? (This isn't really required, but many clients will want you to answer this one, as well.)

Technology tools can assist with additional risks associated with investment and risk management, and many leading financial advisory firms have Help desks to support CPA advisors on complex topics such as the following:

- Valuation and balancing portfolios;
- Technical assistance with the underwriting and sale of insurance products;
- Assistance with implementing complex tax and estate planning strategies;
- Analytical review of returns and periodic evaluation of assets for underperforming positions;
- Licensing requirements to sell products in various jurisdictions;
- Compliance with federal and state securities laws; and
- Ethical issues, including compliance with professional standards.

Software vendors like SunGard, CCH and Thomson have embedded features such as automatic data transfer into many planning products to form application suites. These suites are designed to transfer information from financial plans to portfolios management to trade accounting, and finally into an export file or paper report for use in preparing tax returns. Other stand-alone applications have extended their import and export capabilities to help tax preparers, as well. For example, TradeAccountant (www.tradeaccountant.com)

is an independent application that allows practitioners to electronically import, reconcile and export securities transactions into Form 1040's Schedule D in professional tax preparation applications TaxWise and UltraTax CS. Application integration and data exchange makes it easier for CPAs and EAs to spread time-consuming tasks like entering capital gains information across the entire year. They also

makes it easier to calculate estimated tax liabilities since the information

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are constantly revising and enhancing the tools we provide to our advisors through our proprietary portal, HDVLink.” Through web portals like HDVLink, broker/dealers provide trade accounting; online access to statements, planning and analysis tools; product information; and other services to both our advisors and their clients.

Another group that helps CPAs expand their practices to include financial services is 1st Global, which boasts affiliation with over 600 firms across the United States. Like H.D. Vest, 1st Global is also affiliated with law firms and other financial professionals in addition to tax practitioners. According to 1st Global President Tony Batman, “Consumers trust their CPA or EA, and think these individuals are best equipped to provide them with tax-oriented risk management and investment advice.” And like H.D. Vest, 1st Global provides its advisors with information primarily through a web portal making numerous resources available to accountants as they begin their foray into the world of investments and insurance. “Our organization has consistently invested in the support structure for our advisors, with a ratio of one employee for each five registered advisors,” 1st Global’s Batman noted. “And we provide training and infrastructure to support the technical needs of tax and accounting professionals.”

Diversification into financial services can also help firms that want to implement document management processes for all engagements. Since client records must be accessible to the broker-dealer, many broker-dealers have procedures in place for tracking documents needed for compliance with laws and regulations. In many cases, these workflow and management procedures just need to be modified and enabled for the firm’s other engagements. H.D. Vest President Roger Ochs reports that his firm is working on systems to manage all documents and workflows with his CPA advisors. “Document management is a logical extension of

the paper files CPAs and investment advisors have kept for years, and we are

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been so good that some of our advisors have requested that we manage the documents

from their tax and accounting practice in addition to those related to their financial services work,” said 1st Global’s Tony Batman.

H.D. Vest’s Ochs adds, “Web portals make it possible to leverage the combined knowledge of people across the world and make it possible for the smallest firm to utilize the resources of a global financial services company for their clients.” H.D. Vest has also expanded its operations to enable advisors to offer banking products such as loans to clients through its parent company, Wells Fargo & Company.

The Thomas Financial Group has supplemented the resources provided by its broker/dealer with tax research from CCH, Sungard’s Planning Solutions, and other applications. President David Thomas estimates that he spends over \$50,000 on annual subscriptions for research and analysis tools to enable his team to monitor and manage client assets. “My web subscriptions let me have just as much information in my Birmingham office as most brokerage firm salespersons,” he said. “I can meet the needs of my clients more efficiently from my office in Birmingham than they could ever be served from a boiler room in New York or Boston.”

While many investment advisors choose to accept compensation from customers based on commissions from product sales, others prefer to work with clients without accepting commissions. John Smartt, a Knoxville, Tennessee CPA and investment

advisor, is an active member of the National Association of Professional Financial Advisors (NAPFA), a professional organization for financial advisors who charge fees for services in lieu of commission or product-based compensation. “Since

I am compensated through fees only, I am compelled to pick the investment vehicles

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as possible. Consumers should have the ability to choose from fully disclosed compensation alternatives.”

While firms can choose to retain more of their income if directly registered as a broker/dealer with the SEC, almost all firms with fewer than 10 advisors partner with a larger organization to help them reduce the costs of regulatory compliance. “The compliance is simply too much for the average small practitioner”, says H.D. Vest’s Roger Ochs. According to Ochs and other industry experts, the legal and personnel costs associated with routine compliance examinations and SEC inquiries can easily surpass financial services earnings in all but the largest firms.

David Thomas of the Thomas Financial Group echoes the need for small firms to affiliate with a larger organization: “Our small firm simply couldn’t exist if we had to deal with all of the compliance issues by ourselves. We’re in the business first and foremost to help our clients reduce taxes and increase their personal net worth, and that’s hard enough without trying to create our own systems and procedures to comply with literally thousands of federal and state regulations.” Thomas is very happy working as a registered investment advisors affiliated with a third-party broker-dealer. “This relationship lets me focus on client service instead of getting bogged down in policies and procedures to comply with securities laws and regulations,” he said. □

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