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The Best Ways for CPAs and Tax Specialists to Offer Investment Advice

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Offering clients investment advice is inherently challenging and somewhat risky. Though financial planners and investment advisors are expected to provide such guidance, CPAs and tax professionals are specialists in niches outside of investing, meaning their advice pertaining to securities is outside of the scope of their services. If you work in either of these professions and your clients seek investment advice, consider the suggestions detailed below.

Recognize Clients' Need for Investing Guidance

Even though your specialty is accounting or tax preparation, your clients are likely to pick your brain in the context of investing. Proactively acknowledge the fact that you are not an investing guru and relinquish all legal liability for potential losses. Make it clear that your advice might lead to significant losses before making a single comment about a prospective investment.

Refusing to provide even the slightest bit of information pertaining to investing is not in your interest as doing so might steer your valued clients toward a CPA or tax professional willing to delve outside of the traditional boundaries of his or her niche. Have your attorney write up an agreement that eliminates the prospect of being sued for negligence in a professional liability claim stemming from investment advice.

Once you are completely confident providing investment advice will not lead to a potentially financially ruinous lawsuit, the stage is set to strategically address client questions and concerns pertaining to potential investments as well as those they currently hold. Above all, make it clear that investing is not your forte and your clients should consult with experienced investment advisors before buying or selling specific security.

Be General Rather Than Specific

It is a mistake to invest your limited time at work delving into the subtleties of prospective investments on behalf of your clients. Instead of providing highly specific advice pertaining to the nuances of individual stocks, mutual funds, ETFs, and other securities, speak in general terms. In short, it is a mistake to instruct your client to buy or sell specific security as doing so is simply not worth the risk.

If you were to suggest buying certain security and its price decreased thereafter, your client would lose trust in you and segue over to another CPA or tax professional deemed more trustworthy. Furthermore, providing highly specific investing advice also presents an opportunity for an overly-litigious client to file a negligence lawsuit in an attempt to obtain financial compensation, even if you had him or her sign documents designed to prevent such a lawsuit.

Document all Client Interactions

If your client asks you to review an investment, document every piece of correspondence and information that changes hands and is discussed, be it verbally, in writing, or through email. All questions you pose to your clients pertaining to investments should be made in writing in order to provide you and your firm with the necessary legal protection. Documenting the exchange of information pertaining to client investments ensures an ensuing IRS audit will not conclude you or your firm have legal liability for the client's legal violations such as the use of an impermissible tax shelter.

Keep in mind, if your client is found guilty of breaking the law, he or she will be subjected to financial penalties, interest on unpaid money, attorney fees, and possibly even a significant financial loss in the form of the investment itself. Such a client is much more likely to pin the blame on you in the form of a lawsuit unless you prepare accordingly by fully documenting the interaction as stated above.

Tailor Your Advice in the Context of Your Specialty

If your client asks for specific investment advice, you do not have to provide it. Instead, slant the language used in your response so it is applicable to your unique industry niche or over-generalize the response in a manner that will help the client better understand. When in doubt, go out of your way to warn your clients of the potential risks of a proposed investment rather than highlighting the potential rewards. Document your communications throughout the exchange of information and you won't lose any sleep worrying about potential legal liability that would negatively impact your bottom line and steer other prospective clients toward the competition.

Refer to the Engagement Letter

CPAs and tax professionals often transmit engagement letters at the outset of providing services to a client. These letters are provided for the purposes of providing services in compliance with tax law. The language of the letter should state-specific services such as investment planning do not fall within the scope of the services rendered.

Reference this letter when your client requests investment advice and you will make it perfectly clear the scope of your services is limited to accounting or tax preparation. Though tax professionals can provide advice pertaining to the potential tax consequences of certain investments, it is not in their legal or financial interest to provide investment advice as doing so falls outside of the scope of the services the client pays for.

About the Author: Lyle Solomon has considerable litigation experience as well as substantial hands-on knowledge and expertise in legal analysis and writing. Since 2003, he has been a member of the State Bar of California. In 1998, he graduated from the University of the Pacific's McGeorge School of Law in Sacramento, California, and now serves as a principal attorney for the Oak View Law Group in California. He has contributed to publications such as Entrepreneur, All Business, US Chamber, Finance Magnates, Next Avenue, and many more.

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