DAILY BUSINESS REVIEW

June 9, 2016 Circulation: 25,128/ UMV: 72,366

Building the Best Team to Properly Manage Wealth

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When it comes to managing wealth, it takes a team of financial professionals to properly advise and counsel clients.

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Certified public accountants are the first line of defense because typically they are the first people to review year-end statements, 1099 tax forms and other pertinent financial information for a client. But a CPA alone is not enough.

CPAs must work in concert with estate attorneys and financial advisers to ensure that each client's needs are being sufficiently met.

A CPA can identify when a client has not done any estate planning, often just by looking at how a client's 1099s are titled. Many clients fail to realize that estate planning is an integral part of wealth management, even if they don't have a taxable estate. By connecting a client with an estate attorney, the CPA can help that client avoid and/or mitigate probate assets.

When a client's economic status changes, a CPA can work with the estate attorney and financial adviser to help translate that improved position into potential income tax and estate tax opportunities. Often, when clients experience financial success in the stock market, their financial adviser can become so consumed with maintaining status quo, they don't realize that the client has locked in enough gains that changed their income tax and estate tax status. That's where a CPA can prove invaluable. As the annual overseer of the client's entire financial package, the CPA should communicate with the client's estate attorney about these economic changes and whether any additional planning should be considered. Similarly, if the economics affected the income tax bracket of the client, the CPA should communicate with the financial adviser to discuss whether a change in investment allocation is needed.

The partnership between a CPA and an estate attorney hinges on the CPA and the attorney working together to compile and share a host of invaluable data — liquid assets, real property, retirement assets and tangible property, as well as identifying relevant information such as title of ownership and state of ownership.

Armed with this information, both the estate attorney and financial adviser can better formulate plans to best serve the client.

Every estate plan, however, must be respected by the client and be properly supervised by his or her entire financial team. Often, clients inadvertently move money from the wrong entity, which can create a problem that the team must then work to fix.

AVOIDING MISTAKES

I recently observed a situation where a partnership funded with gifts had transactions made to it that effectively reversed the gift transaction. The clients in question no longer owned their interest individually; instead they owned the partnership through various dynasty trusts. This is a very common technique with straightforward protocols for managing the partnership.

Because of a successful run in the stock market, gains taken in the partnership resulted in a $1 million extraordinary tax burden, which prompted the client to call their financial adviser and instruct them to wire $1 million from the partnership to their personal account to pay the tax.

Further complicating matters, the CPA reflected that payment on the tax return as a distribution to each of the partners of the partnership pro rata to ownership.

Those two decisions — taking money from the trust and recording the transfer as a distribution to each of the trusts — were mistakes that could have been avoided by talking first to a CPA who fully understood the mechanics of the plan.

In this specific example, I knew the drafting attorney. We scheduled a meeting with the client and the estate attorney that not only resolved the matter effectively but also engaged the client in exploring additional estate planning. The client's plan was updated.

While these types of mistakes are not common, they do occur.

By virtue of working closely on an annual basis with clients, CPAs can ensure plans for moving assets have been executed as planned. This can prevent a situation where some assets fail to convert as intended. By knowing the history, those misdirected assets can get redirected to where they were intended.

Wealth management and proper estate planning rely on communication, cooperation and experience. A CPA, properly trained in estate and gift tax compliance, can be an estate attorney's best advocate.

In order to best serve their clients, CPAs must realize they are more than simply income tax preparers. By integrating the financial information they receive each year while preparing a client's tax return and relaying pertinent data to estate attorneys, financial advisers as well as any other professionals the client employs, the CPA becomes the linchpin in the successful management of all his or her client's assets.

Cliff Gelber is a partner at Gerson Preston in Boca Raton. He is responsible for advising clients on issues ranging from personal income, estate, gift and trust taxation as well as consulting on business succession planning.