Integrating income *tax* into your financial planning practice

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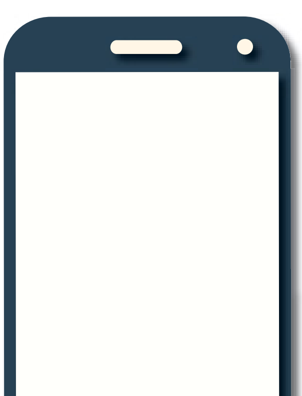

The impact of income tax on a client's financial planning and the impact of financial planning on the client's income tax, are two aspects that many financial planners and advisors do not pay sufficient attention to. Income tax is a golden thread that runs through all areas of financial planning and therefore is not a standalone planning area.

Income tax offers an array of opportunities for financial planners and advisors. These opportunities can be split into business (money-making) opportunities and value-adding opportunities. This is a powerful tool to help you grow your business and, at the same time, make a tangible difference in your client's life.

Business opportunities

Business opportunities you can identify, will differ from client to client. Some of the opportunities that can be identified, include:

- Discuss the client's current retirement provision and investigate if retirement fund contributions can be increased;
- Determine high-level needs for death, disability and retirement based on the client's net after-tax income. These needs can be compared to the client's current cover amounts;
- Large domestic and foreign interest amounts may indicate capital invested in bank products or money market type investments. You can engage the client in a conversation if you are not aware of the investment;
- Child dependents on medical aid can open the conversation on education provision or child critical illness protection;
- Large refunds can be reinvested (if you have the conversation early enough);
- If the client does not claim for medical aid, then there is an opportunity to discuss medical aid options and gap cover;

Can you think of any other opportunities?

Value-adding opportunities

As with business opportunities, identifying value-adding opportunities will be different for each client. Some opportunities include:

- Restructuring the client's remuneration package. A properly structured package may lead to higher disposable income, which the client can employ for their lifestyle or towards their financial planning;
- Advise clients on possible deductions they may qualify for and that they do not utilise currently, e.g. home office expenses, etc.

These business and value-adding opportunities are only from an individual tax payer's point of view. We haven't even touched on businesses and trusts.

It is clear from the above that including tax as a part of your financial planning process on a more formal basis, can be to your (and your client's) advantage. In a big way.
Apart from these opportunities, offering tax services as part of your financial planning practice, can attract new clients as well.

How can you incorporate tax services in your practice?

There are mainly three ways that you can incorporate tax services in your financial planning practice:

1. Register as a tax practitioner

A tax practitioner is an individual who completes and submits tax returns on behalf of tax payers for a fee.

To practice as a tax practitioner, you must be registered. Section 240A of the Tax Administration Act (2011) requires that all tax practitioners register with a recognised controlling body. It is a criminal offence not to register with both a recognised controlling body and the South African Revenue Service (SARS). All recognised controlling bodies have minimum academic qualification and experience in basic taxation law and accounting requirements you must meet, to be registered as a tax practitioner.

SARS laid down criteria for continued professional development (CPD) that all tax practitioners must adhere to every year. The recognised controlling body is responsible for verifying the CPD undertaken by the tax practitioner and to ensure the minimum requirements are met. The CPD undertaken must be tax related.

The Financial Planning Institute of Southern Africa (FPI) was recently approved as a recognised controlling body and members of FPI, who are also registered tax practitioners, can now register with FPI. This is another value-added benefit for members, because no additional fee is payable. It is included in your current annual membership fee.

2. Appoint a registered tax practitioner

If you do not want to go through the effort to register and comply with the requirements every year, then you can appoint a registered tax practitioner.

This person will have to comply with the requirements. You can employ this person or enter into some sort of a partnership arrangement if you want.

The benefit is that you do not have to worry about additional compliance requirements to remain registered and you can focus on what you are good at and enjoy most. This person will focus on tax and ensure they stay up to date and they take the responsibility for the work they do.

The risk with this model is that the tax practitioner builds relationships with your clients and when they leave, it might lead to some challenges. However, this is part of business and you must decide what model works for you.

3. Outsource to a non-competing registered tax practitioner

If you are not comfortable to employ a tax practitioner, you can consider outsourcing to a registered tax practitioner.

The secret here is to outsource to a tax practitioner with a good track record and who does not compete with you. In other words, do not partner with another financial planner or advisor who is registered as a tax practitioner.

Such an outsourced arrangement can be highly beneficial for both parties.

In summary

Providing tax return preparation and submission services for your clients can be highly beneficial to your practice. You gain more insights about your clients, attract new clients and you open additional business opportunities. This service will help ring-fence your clients and to enhance your value proposition.