

Internal Revenue Service also has 911 for those in trouble

by Bruce McMorris

If your house is on fire or you need medical attention, you pick up the phone and dial 911.

If other circumstances result in problems with keeping up with mortgage payments on your house or paying for needed medical care - so you can't pay your income taxes - file Internal Revenue Service Form 911.

That's the advice of David Baas of the certified public accounting firm Baas, Bruce and Associates.

"The Problem Resolution Office of the Internal Revenue Service will take up the matter within 10 days," Baas said.

But before things get that bad, Baas and other certified public accountants suggest setting up a personal financial plan.

"A personal financial plan is like a road map," said Les

Robbins of Darst and Associates. "If you don't have a road map, you'll arrive at your financial destination only by chance or luck."

"CPAs always have been involved in personal financial planning," said John Hancock of Hancock and Dana.

"It's just been in the past five to seven years that there's been some public confusion about what a personal financial planner is."

The confusion has occurred, according to the CPAs, because people in the insurance and stock brokerage businesses sometimes call themselves financial planners.

Hancock said personal financial planners are compensated through a direct fee to the client or else they make

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commissions off certain types of financial products.

"CPAs, by nature, are fee-based personal financial planners. We don't get involved in selling products or making specific product recommendations," he said.

In assessing personal financial planners, Baas said, "look at their professional designations.

"The International Board of Standards and Practices for



Baas

Certified Public Accountants awards a certified financial planner designation," Baas said. "Successful candidates must pass a six part exam, have three full years of experience in personal financial planning, and agree to uphold a code of ethics."

Baas said stockbrokers also can earn the certified financial planner designation.

Ken Patry of Patry and Associates is an accredited personal financial specialist with the American Institute of Certified Public Accountants.

Patry earned the designation by passing a technical examination, having three years of experience in personal financial planning and submitting five letters of recommendation from clients and peers.

Patry is the third person in Nebraska to earn the relatively new designation.

Both professional designations are held in equally high esteem, the experts said.

The planners all agreed that a personal financial plan is

part of an overall financial strategy for business owners.

"You're planning for both the business and the individual," said Thomas Schleisman of Schleisman, White and Associates.

"Between 80 and 90 percent of all the people we prepare personal financial plans for own businesses," Schleisman said. "What the business year is like will have an effect on when to start thinking about a personal financial plan."

Schleisman said before a personal financial plan is put together, a business owner has to determine first whether the

basic needs - such as adequate insurance protection and a secured financial position - are met.

Once the business is showing a profit and the business Owner is drawing a salary, developing a personal financial plan is the next logical step, Schleisman said.

"A start-up business in retail or manufacturing may take two or three years to see a profit. But a service business may be able to make a profit sooner - even immediately," Schleisman said.

The first step in developing a personal financial plan is for the client to set up specific goals, Robbins said.

All agreed that working with clients is a team effort.

"We work with a client's attorney, insurance agent and stockbroker," Robbins said. "Once the goals are established, we break them down into short term and long term."

The things the client wants to achieve financially in one to five years are considered short term goals, and those beyond five years are considered long term goals, Robbins said.

"The long term and short term goals interrelate," Robbins
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said. "For example, a short term goal may be to save \$500 a month. The long term goal may be to use that \$500 a month to accumulate a specific amount of money by a certain time for college or retirement."

Once short and long term goals are established, the next step is to prepare a personal financial statement or balance sheet, Robbins said.

"You write down what the client's financial liabilities and assets are," he said.

The assets include all sources of income. The liabilities include all expenses, such as housing, clothing, vacations, vehicles, entertainment and taxes, Robbins said.

"Generally, the expenses or liabilities are more variable than income," he said. So the balance sheet translates into a budget, as it is easier to control expenses than to increase income.

"What we're getting to is figuring out how many dollars are left over for investing," Robbins said. "If you don't have any money left over, we look at what you can cut out."

The next step is determining where the long term goals

come into play.

"Let's say 10 years from now, you'll need \$50,000 for college. Now we figure out what your risk tolerance is," Robbins said.

The risk tolerance is determined by what type of investments a client can feel comfortable with. The higher the risk of the investment, the higher the client's risk tolerance needs to be, Robbins said.

"If you have a high risk tolerance, you'll need to set aside less money each month than someone with a low risk tolerance," Robbins said, because higher risk investments pay higher interest rates.

On the other side of the coin, the lower the risk of the investment, the more likely it is that one's ultimate financial goals can be achieved, Robbins said.

"That's why it is important to start out early in life with a personal financial plan. The key here is to invest small amounts of money over a long period," Robbins said.

"Once you get the plan together, you have to stick to it. You don't debate whether to buy clothes or contribute to the plan."

Robbins said a personal financial plan needs to be reviewed periodically, as a client's financial situation or risk

tolerance may change with the passing of years.

“Once it’s written, it won’t do you any good if it’s put into a drawer,” Robbins said.

When changes in one’s situation occur, it may be time to revise one’s personal financial plan, Robbins said.

What investments and strategies make up a personal financial plan?

“Tax assistance is so much a part of financial planning,” Baas said. “Besides preparing tax returns for individuals and businesses, we’re also involved in developing individual tax planning strategies.”

Baas pointed out that someone age 60 is probably in his peak income earning years. But 10 years from now, that person may have been retired for five years and have become dependent on income from investments.

Baas said such a scenario, which would be considered in a 10 year personal financial plan for a 60 year old client, would require two completely different tax strategies.

One of the most popular tax strategies for estate planning is the charitable remainder annuity trust, Hancock said.

“This type of setup is for people who have accumulated a great deal of wealth; say, in stock appreciation,” Hancock said. “You move the assets into the trust. The designated charity will get the remaining assets once you die.”

Hancock said the trust pays the contributor a monthly stipend based on the earnings of the assets.

“You use a portion of the funds the trust pays you to buy life insurance, to cover the value of the stocks you placed in the trust.

“This way, upon your death, your heirs get the insurance proceeds, the charity gets the remaining assets within the trust, and the government gets nothing,” Hancock said, except for income taxes on the money the trust pays to the individual.

Hancock said 50 to 55 percent of large estates can be eaten up in taxes and other administrative expenses if assets are not shifted into trusts.

Hancock said this is a good example of how CPAs use “a team approach” with clients and their attorneys, stockbrokers and insurance agents.

“The attorney designs the will and the trust, the insurance agent provides the insurance products, the stockbroker or money manager manages the assets within the trust” and the CPA keeps track of the numbers, Hancock said.

“All we do is advise the client,” Patry said. “Our mission is an objective evaluation of products and strategies. We look at the big picture for a client.

“For example, it doesn’t make sense to look at tax-free bonds without knowing the whole picture,” Patry said.

All the CPAs interviewed said they work a team concept similar to what Hancock described.

All said they’ve been asked what to do about declining bank Certificate of Deposit rates. The problem is that people dependent on CD interest to finance their retirement are faced with basement level rates once the CD matures — thus cutting their income.

“People don’t know what to do,” said Dottie Feilmeier of Feilmeier and McCaghy, Bellevue. “People used to be in CDs forever, but now they’re taking a look at other products, ... most of which have higher risk.”

Feilmeier and others suggest caution when looking at alternatives to CDs.