

Why Your Advisor Should See Your Taxes

Written by Rob Copeland

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Most people think their accountant should handle their tax return, and their financial advisor should handle their investing, and never the twain shall meet.

But the fact is that your financial advisor must see your tax return in order to provide you with the best investment advice. It's the reason that, although I'm primarily an investment advisor and planner, I personally help with many of my clients' tax returns each year.

Using the information on your taxes allows a good advisor to maximize your after-tax rate of investment return. And in the current environment of low bond yields and stock-market volatility, every bit of return you can squeeze out is especially valuable. Remember, taxes are always the biggest single drag on returns.

What do advisors look for in a tax return? For one thing, knowing a client's tax bracket allows an advisor to better manage selling decisions that lead to capital gains.

Your return also shows the taxes you're paying on the interest from your investments. Based on this information, your advisor may recommend tax-free munis or other ways to make your interest non-taxable. Munis have delivered low returns the past few years, but rising interest rates are now making them more attractive.

There are additional ways your tax information can be used to help maximize your investment returns. It can help your advisor decide how to allocate your investments among taxable, tax-deferred and tax free accounts, for instance.

But beyond investing, the information in your tax return can be used to improve your financial planning. For example, a list of dependents can help your advisor address child education and elderly parent concerns. A list of medical expenses can lead to advice on insurance coverage and tax-efficient ways to fund your medical spending.

Ultimately, your financial success, including investing and planning, requires an open line of

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communication with a trusted advisor. And sharing your tax returns is one of the best ways to make sure your advisor can serve you most effectively.