

# 9 Questions to Ask Your CPA at Tax Time

**Teresa S. Sampleton, CFP®, CLU, ChFC**  
**Vice President**  
**Sampleton Wealth Management Group**

123 Main Street  
12th Floor  
New York, NY 10018  
(212) 555-1111  
tsampleton@sampletonwealth.com  
www.sampletonwealth.com



by Elaine Floyd, CFP® and Amy E. Buttell

**It's time to gather paperwork and prepare your returns by April 15th. Since it's likely been a year since you last spoke to your CPA, it's important to outline any changes in your personal situation and familiarize yourself with revisions in the tax code. Here are nine important questions to discuss with your CPA this tax season.**

As April 15th creeps closer, you probably have an appointment on your calendar to meet with your friendly neighborhood CPA. Because changes in tax laws and in your personal situation can make a big difference when it comes to tax liabilities, it's vital to be prepared for that meeting.

To get started, organize any receipts, financial statements, W-2s, 1099s, and other important documents. Go through the past year and make a note of any important financial transactions that have occurred during the year. Think about any plans for the year ahead that could benefit from tax advice or might impact your returns. Your situation could be affected by changes in marital status, a pregnancy or adoption, any property sales or purchases, a new business venture, or a side business that could generate income.

Information about your tax situation for this year and a CPA's opinions about next year can provide clarity about potential investment, insurance, and financial planning strategies. So make the most of this annual meeting by getting some answers to the following questions:

**1. Will I be subject to the alternative minimum tax?**

The alternative minimum tax (AMT)--a provision enacted in the 1960s to ensure that wealthy taxpayers paid some taxes--affected about four million taxpayers in 2011. Odds are if you were subject to the AMT in 2011, you'll be subject to it again this year.

If there is uncertainty as to whether you'll have to pay the AMT rates in 2013, ask your CPA how to deal with this uncertainty when carrying out investment and financial planning activities during the rest of the year. Here are some follow-up questions to ask:

- When contemplating the tax on the next dollar of income, does it make sense to assume the AMT maximum rate of 28% or one of the regular tax rates?
- Should I defer any major tax decisions until the AMT picture clears up? (If your CPA believes that you should hold off, make sure to let your financial advisor know so investment and financial planning strategies can be adjusted accordingly.)

## **2. What will my tax bracket be in 2013?**

The two-percentage-point reduction in payroll taxes was allowed to expire at the end of 2012. Consequently, most Americans will experience a tax increase from the passage of the American Tax Relief Act (ironic).

However, some Americans stand to benefit from other provisions, including a change to the AMT and the estate tax (more on that below).

## **3. Can you help me estimate my income for 2013?**

When thinking about income for this year, most people only consider their salary income. However, income may also include bonuses, investment income, the taxable portion of Social Security benefits, alimony, gambling winnings, and more.

And it's not enough to know gross income. It's also important to have an estimate of adjusted gross income, modifications to adjusted gross income, and taxable income. Each of these types of income is dependent on various deductions and/or credits that need to be estimated in order to come up with projections for 2013. These in turn will determine what steps you can take in retirement planning, such as what contributions to make to a Roth IRA or a deductible IRA. An accurate estimate of 2013 income allows you to make these contributions early in the year, rather than waiting until 2013 taxes are prepared.

In order to estimate the various forms of income for 2013, you'll need to provide your tax advisor with certain information so the numbers can be crunched. For example, the CPA will need to know if you plan on making approximately the same amount of charitable contributions this year as you did last year. And if there was a one-time or unusual event last year, such as a sale of an asset, the CPA will need to adjust the estimate accordingly.

If you have a financial advisor, it makes sense to connect your advisor with your CPA so that both parties have the information they need to help you make more effective tax, investment, and financial planning decisions. For example, if you had a lot of investment loss carryforwards, how those losses are or are not absorbed can affect the CPA's estimate of your 2013 income.

## **4. Do I have any remaining loss carryforwards going into 2013?**

Loss carryforwards are tax losses as a result of selling investments at a loss. The IRS only permits you to deduct investment losses to the extent that they are offset by gains of up to \$3,000 a year. Any losses in excess of this can be carried forward to future tax years, hence the name "loss carryforwards."

Your CPA can help you determine your loss carryforwards by looking at your past tax returns. The answer can help you better understand how investment activity affects your tax situation. Occasionally, your financial advisor may suggest that you sell some assets to absorb some of these previous losses for precisely this reason. "Tax loss harvesting" is traditionally a year-end activity, but it really should take place throughout the year as investment opportunities present themselves.

## **5. If I were to do a Roth conversion for 2012 or 2013, what would my tax liability be?**

A Roth IRA conversion allows you to convert traditional IRA assets to a Roth to avoid taking required minimum distributions in retirement and avoid paying tax on any distributions you do take. A Roth conversion also involves paying taxes on the assets you convert, since contributions to traditional IRAs are made on a tax-deferred basis. A CPA can estimate the tax that would be due on a Roth IRA conversion.

Also ask your CPA for an estimate as to what the tax liability would be on a partial Roth conversion—such as one that would bring you up to the top of your current tax bracket. The CPA's estimate of the "bracket-completion" amount is likely to be the most accurate estimate of the tax you'd pay in the event of this type of partial conversion.

Your CPA is likely to have an opinion on whether a Roth conversion is a good idea or not. Definitely discuss the option with your CPA as well as your financial advisor before making a decision, as any conversion will have investment and retirement implications, as well as tax consequences.

## 6. Should I increase my retirement plan contributions?

The IRS has increased the contribution amounts for most types of retirement plans for 2013 as well as the phase-outs for retirement plan contributions. This means you can contribute more to retirement plans in 2013 than in 2012.

Type of Retirement Account	Additional 2013 Contribution	Maximum Contribution
401(k), 403(b), Most 457 & Federal Govt Thrift Savings	\$500	\$17,500
IRA	\$500	\$5,500
IRA Catch Up Contributions	None	\$1,000
401(k) Catch Up Contributions	None	\$5,500

Source: IRS

Many employees leave their 401(k) contributions on autopilot and don't increase them to the maximum allowed when the IRS bumps up contribution limits. The more you can contribute to a retirement plan, the more your retirement savings will grow. Your CPA can take a look at your expected income for 2013 and provide some advice as to whether it makes sense to increase your retirement contributions.

## 7. Do you have any recommendations for reducing my 2013 taxes? What about 2014 and beyond?

CPAs can recommend a number of strategies that might help reduce tax liability in the future. Some of these may be complex and may need the input of your financial advisor. Others may be within your control. For example, if you are a small business owner, you may have the ability to accelerate expenses into 2013 and defer income into 2014 to reduce taxes paid in 2013.

## 8. Should I change my tax withholding for 2013?

Various situations may mean that you need to change your withholding on your Form W-4 with

your employer. If you've gotten married, divorced, or had a baby, you'll need to make changes on your W-4. Also, if you've been getting large tax refunds, it may make sense to increase the number of exemptions you take on the W-4 to match up what you pay in tax with your actual tax obligation.

Most CPAs note that it's better to evenly match withholding with tax obligations rather than aim for a large refund. That's because the funds that make up the refund could be available to you through your paycheck and invested, saved, or used to pay down debt rather than accumulating in the U.S. Treasury Department only to be returned back to you in the form of a refund. In 2011, the average tax refund was \$2,913.

## 9. Is there anything my financial advisor can do to help my tax situation?

There's a close relationship between financial planning and taxes. That's why it's good to ask your CPA this question and pass the answer along to your financial advisor. The better informed your advisors are about your tax situation, the more effective they can be in planning and managing your investment and financial affairs.

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*Elaine Floyd, CFP<sup>®</sup>, is the Director of Retirement and Life Planning at Horseshmouth, where she focuses on helping people understand the practical and technical aspects of retirement income planning. Horseshmouth is an independent organization providing unique, unbiased insight into the most critical issues facing financial advisors and their clients. Horseshmouth was founded in 1996 and is located in New York City.*

*Amy E. Buttell is an Erie, PA based freelancer writer. Her articles have appeared in leading publications including The Journal of Financial Planning, The Investment Professional, AARP: The Magazine and Consumer's Digest.*

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