Compiled by Stuart Wemyss

IS IT OKAY TO SEEK FINANCIAL ADVICE from my accountant?

Accountants play a vital role in most dentists' financial lives, often as a trusted advisor with a long-term client relationship. Due to this high level of trust, dentists often turn to accountants for financial advice. However, there are limitations to the advice they can provide and the approach they employ.

Let me disclose upfront that I am both a chartered accountant and financial planner. Therefore, I'm probably well placed to understand the approach both professionals employ. The aim of this article is to highlight some of the common misconceptions that exist. I don't mean to 'pass judgment' on either profession.

ROLE OF ACCOUNTANTS

The traditional role of an accountant is to prepare your accounts and complete your tax returns at the end of each financial year. Often, due to busy workloads, many accountants spend most of their time focusing on the financial past and present – and very little time thinking about the future. This is not meant to be a criticism of accountants, as most of them are doing their best and there are only so many hours in the day. Proactive planning for the future isn't necessarily a role filled by all accountants.

ROLE OF FINANCIAL PLANNERS

A financial planner's role is very different to an accountant. Firstly, my definition of a financial planner is someone who spends most of his time working with clients to develop a good financial strategy and proportionally less time on 'tactics'. Advising someone to tax-effectively divert income into a family trust to invest in shares is a *strategy*. Selling someone a new 'high-growth, capital guaranteed investment with 100% gearing' (be quick because there are only limited funds available… need to invest today. You've heard it before!) is a *tactic*, not a strategy. Too many 'financial planners' spend their time on tactics, i.e., selling products and not nearly enough time on strategy. Therefore, in this article, I am going to assume a financial planner is someone who focuses on providing strategic advice.

A financial planner's role is very much to look into the future and plan for expected events. They shouldn't spend a lot of time thinking about the past and the present (unlike an accountant). They also need to plan (as much as they can) for unexpected changes. Of course, by definition, we can't plan for unexpected changes because they are just that – unexpected. Therefore, more correctly, financial planners need to develop a strategy that is flexible enough to adapt to the constant 'change' in our lives.

MISTAKES WE HAVE SEEN

Our recent research has shown that nearly 60 per cent of dentists do not have a relationship with a financial planner which is a huge (and probably fair in most cases) vote of 'no confidence' in the financial planning industry. Over 80 per cent of these dentists, i.e., the ones without a financial planner obtain financial advice from their accountant (instead).

Let me be absolutely clear about one thing. I would much rather see dentists seek advice from their accountant than go to a 'product based' financial planner (read salesman). Many accountants tend to be independent, which is a good step in the right direction to receiving unbiased advice. However, there are some limitations we need to be mindful of.

Below are some recent observations made through dealing with different clients:

A dentist who ran his own practice was advised by his accountant to trade, i.e., receive income in his own name, rather than a company or trust structure. This advice was provided, because the dentist would be classified as earning Personal Service Income by the ATO. Therefore, all taxable income must be received by him personally. Whilst this advice is correct, it doesn't allow the dentist to plan for the future. For example, when the dentist employs other practising staff, e.g., dentists and/or hygienist and his income meets the definition of business income (Tax Ruling IT 2639), he will be able to deal with his income more tax effectively if he has a trust (for example). Also, there may be better structures that allow the dentist to sell a share of the practice (which is common when dentists implement a succession plan).

It appeared that the client should have considered using a trust or company structure (or a combination of both) that initially complied with the Personal Services Income guidelines, i.e., all income to end up in his personal name as sole director or beneficiary. This would provide the dentist with the opportunity to tax-effectively alter the structure in the future, when his situation has changed. The lesson here is to develop a structure that will not only accommodate current needs, but can adapt to future changes and requirements.

Another client approached us after receiving advice from his accountant. The client wanted to purchase an investment property. He was self-employed. This accountant had suggested that the investment property should be owned in the client's personal name so that the client could enjoy the negative gearing benefits, i.e., tax savings.

The accountant was correct that the client may maximize the income tax savings in the initial years of ownership, if the property was in his personal name. However, what about when the property starts producing a taxable profit, i.e., rental is greater than interest? The client didn't have a partner or any dependants, but he expected to get married and start a family in the medium term. Knowing this, maybe there's a more flexible structure? The client is self-employed and therefore carries a higher risk of being sued, compared to an employee. Owning property in personal names provides very little asset protection. On balance, our analysis suggested that owning the property in a discretionary trust worked out to be better financially (over the long-term taxation was minimized in a trust) and non-financially.

The client expected to receive a sizeable inheritance from his parents. Therefore, setting up a trust for his property investment might also assist with the inheritance. It was our advice that he requests his parents to alter their will, so that any assets left to him will actually be transferred into the new discretionary trust, rather than personal names – providing more tax flexibility and asset protection. Estate planning encompasses planning for how you may receive an inheritance, as well as planning for how you will leave your estate.

YOU NEED A TEAM

The above two examples clearly demonstrate that the key financial planning facets being investments, taxation, asset protection, superannuation, retirement and estate planning cross over and are affected by many decisions made by accountants. Ignore this fact at your own peril. I believe the highest quality advice is delivered when financial planners and accountants work together to deliver holistic, well-rounded advice.

ACCOUNTANTS COULD BE BOTH HOWEVER...

These days many accountants have financial planning qualifications and authorizations. This often makes for a very well-rounded advisor and allows accountants to identify and appreciate financial planning issues. Unfortunately, some accountants harbour negative opinions of financial planners and can often disregard their concerns – maybe because of past bad experiences. However, a good financial planner (again, remember my comments above. I am talking about a strategic financial planning, not a product salesman) can create a significant amount of value.

I acknowledge that it's possible for a professional to be both a financial planner and accountant. However, in most situations, I think it's impractical due to the amount of continuing education required to stay at the top of your game. It would be difficult to maintain a good level of knowledge of both professions – which is why I don't practice accounting, only financial planning. In fact, in our practice each advisor has a specialization such as estate planning, insurance and so on, so that we can, as a team, deliver quality advice. We take this approach so we can spend adequate time and focus on professional development. Therefore, finding an accountant that does offer financial and accounting advice might not be the Holy Grail we expect.

A CAUTIONARY TALE

Of course, I am not suggesting that you block your ears next time your accountant tries to give you some financial advice. However, perhaps the above experiences serve as a cautionary tale about the risks of not receiving quality strategic financial advice. I understand that 'good' financial planners are hard to find. Many readers have probably had bad experiences. However, that doesn't change the fact that financial planning advice is a necessity for most people when building wealth, especially dentists. Good luck in your quest to find the right planner for you.

prosolution
private clients

Stuart Wemyss is a qualified Chartered Accountant, financial planner and mortgage broker. Stuart founded financial advisory firm ProSolution Private Clients which helps dentists maximise their net worth through proactive and strategic asset and liability management.
Contact: swemyss@prosolution.com.au