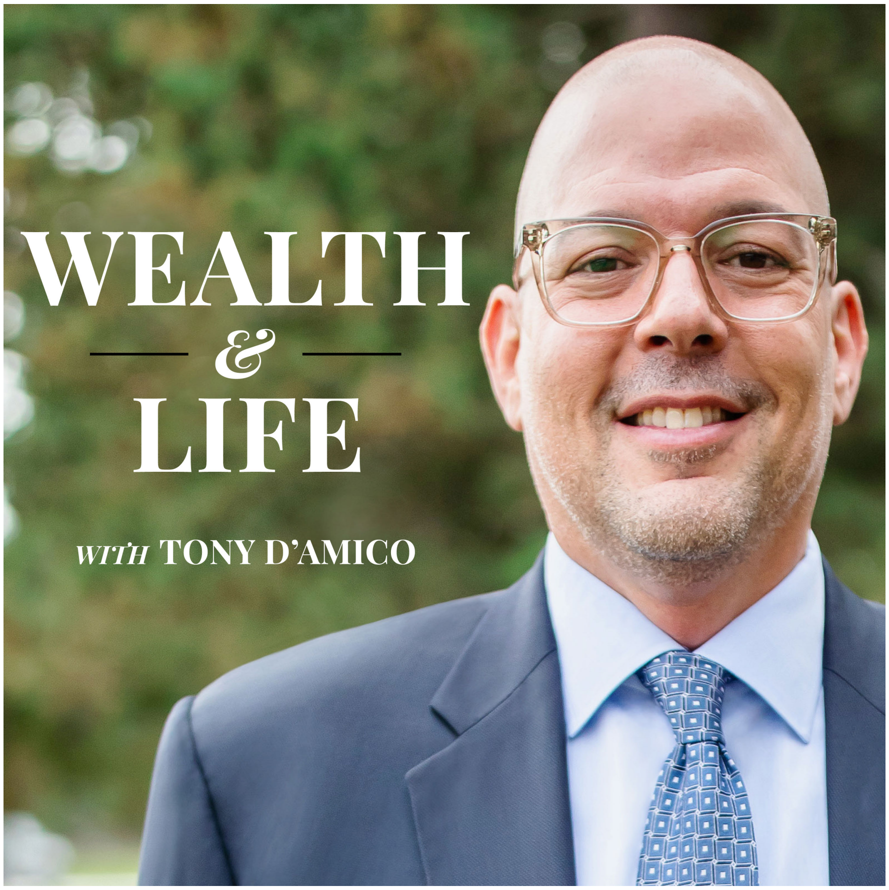
Ep #08: High Impact Personal & Business Tax Planning Strategies with Taki Bitounis



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With Your Host

Tony D'Amico

***Wealth and Life* with Tony D'Amico**

Ep #08: High Impact Personal & Business Tax Planning Strategies with Taki Bitounis

Welcome to *Wealth and Life*, where you'll learn with financial planner, consultant, speaker, and business owner, Tony D'Amico. You'll hear stories from successful business owners and individuals about how they navigated the inevitable challenges that arose as they achieved each new level of success, and you'll get insights and strategies from leading wealth planning professionals on how to achieve your next level of success. Now here's your host, Tony D'Amico.

Tony D'Amico: Well, Taki, welcome to The Wealth and Life podcast today. And I want to introduce Taki. You know what? I don't even know if I know how to say your last name properly.

Taki Bitounis: Bitounis.

Tony D'Amico: I was just going to say that. Taki Bitounis.

Taki Bitounis: Yes.

Tony D'Amico: Since we know each other so well I just call you Taki, but again welcome to the podcast. And today I think we're going to be talking about something really important which is tax planning. Taxes, whether it's income taxes or capital gains or sales tax, estate tax. There's all sorts of different taxes and taxes is one of our largest expenses in life and taxes are necessary. But there's a lot in the internal revenue code that is designed for Americans to take advantage of. The internal revenue code does say that it's each American's responsibility to take advantage of the different tax regulations so it's a huge opportunity.

A little bit about Taki before we kick things off. He's a certified public accountant and managing partner at Pappas & Bitounis CPAs. He earned his master degree in accounting from Wake Forest University and a bachelor of science and economics ... What's that?

Taki Bitounis: I said go Deacs. Wake Forest Deamon Deacons.

Tony D'Amico: So Davidson College, right? You had your bachelors of science and economics from there. So you first started your career at Ernst & Young. One of the big four global accounting firms. And you worked your way up to senior auditor in their Charlotte, North Carolina office. You conducted major audits on one of the company's largest regional clients. And boy, that background at one of the top consulting firms, it has to have been a great experience for you to take the knowledge and apply it to your clients. But I know you wanted to move back home to northeast Ohio, right?

Taki Bitounis: Yes. Yeah, it was a great opportunity because ... Ernst & Young was great because you got to work with these teams where you got to kind of dig in to various different components of a larger company. And I started getting interested in tax because actually I was the audit liaison with the tax team for this international client. And that's when I started realizing that using our energy and our mind power to help our clients manage their tax burden started ... Really interesting. It was really interesting to me. So yeah, that's where it all kind of started. Kind of coming back to Cleveland and jumping over to the tax side. That was I think about eight years ago. Seven, eight years ago.

Tony D'Amico: That's awesome. That's great. That's really cool. It's kind of the same thing for me too. When I started my career it was working with another firm and kind of just getting that experience and a lot of great experience and then wanting to apply it I guess in a little bit of a different way. So Taki, I know that you work with individuals and business owners and what I really wanted to talk to you about today is there's a lot of different tax planning strategies that can make a significant impact for individuals and business owners. So how about we kind of kick things off and talk about tax planning for individuals and families and then after we do that we can talk about some common tax planning strategies for business owners. I guess with individuals and families, what are some of the common tax planning strategies that you see when you're taking a look at a new client and kind of taking a look at where they're at and what gaps that you see? What do you kind of see on your end of things?

Taki Bitounis: I think it all starts with there needing to be a conversation between the tax professional and the client. Whether they're an individual or a business owner. There needs to be some sort of dialog that's happening because that's the only way that we tax professionals can take advantage of our knowledge to help the client. A lot of times one of the things we hear with clients with their previous relationships is, it's much more of a reactionary relationship where they're sending their information in and forms are being filled out and they're being sent back to the client. And in situations like that it's hard to think creatively. It's hard to identify some strategies. So we find that here, even if it's a 30, 40 minute phone call to go over the return, talk about what's going on in their life or tax projections that we like to do in the summers, it gives us an opportunity to utilize some of the strategies that we're going to talk about here because when you're handling their tax filings or tax planning, it's really not just that one given year, it's over the course of their whole life. So kind of the first and kind of the biggest strategy that we're utilizing with our clients is the Roth conversion plan.

So right now many of your clients already know this, but December 2017, a significant tax law was passed that dramatically reduced the individual tax rates. However, in order to pass that law, the tax rate reduction could only be in effect for eight years. So that means in eight years from when it was passed, so six more going forward, the rates automatically revert back to the old rates. So for example, instead of the 12% bracket that we have now it goes up to 15. Instead of 22 it goes up to 24. So essentially what our clients realize is that they need a plan now these next six years to prepare for those rates to go back up. Because it's highly unlikely that given the way the government is spending money right now, very important social programs, it's just going to be unlikely that the government's going to be able to afford to keep the rates at a lower rate. So really it's some of these Roth conversion strategies that are hedging against the rates going back to what they were before, or there is a possibility that rates go up even higher than what they were in 2017.

So doing these Roth conversions, it's shifting future tax burden into these next six years. But, you're taking advantage of the lower rates. The money that is sitting in a Roth account where the earnings are tax free, the principle will be tax free when pulled up, it gives the tax payers a little bit more flexibility in the future. So that's kind of probably the number one thing that's being discussed right now with our clients and has been over the last two years.

Tony D'Amico: Yeah. There's a lot of great stuff there that's valuable Taki. I guess the first thing to unpack is your process and having a process. That's one of the reasons that we love working with you guys is that you guys have a process for your clients and you are open to working with their wealth manager and doing those case review meetings that we do together as a team that include a US tax expert and then risk protection, estate, legal, all in the same room discussing the case and coming up with ideas. So we really appreciate your contributions there. But then in your office too, you have a process and that's really important. The truth of the matter is that we typically see that the tax expert's either going to be a historian or a visionary and we often run into sometimes that challenge when we're trying to work with the client's existing tax professional. But there is a huge difference there of, just doing the tax return and kind of counting what already happened versus having that vision like you guys do. That vision for the future. What's important to the client? What are their goals? And just like you said, it's not just looking at their tax year this year, but looking at the longterm. Their longterm tax situation. And working with Roth conversions with you guys is seamless because we're on the same page together.

I'm glad that you brought that up because it's a huge opportunity. One of the things that we look at for our retirement planning clients. And the reason why is when we look at perhaps their tax rate is lower in their earlier years in retirement. So for example, maybe they're not going to claim social security until age 70 so they get that benefit of that growth. Maybe they don't have a pension. So if we look at their tax rates and we find that there's room in the 12% or 22% tax bracket. Geeze, even up to the point where Medicare would cost more. If we can fill those lower brackets, if we can fill the 12% bracket, the 22% bracket, maybe even some of the 24% bracket. But perhaps when they turn 72 ... And this is like having that full blown picture. And you know what? Maybe when they turn 72 and they have to start taking those required minimum distributions from the IRA, that might push them up into a higher tax bracket. Higher than 24%. Maybe it's in the 30s. So if you're going to pay 30 some percent in the future versus 22% now, well let's take advantage of that. Let's control when we can pay taxes.

And I think that's a very important concept and one of the things that I'll share too to our listeners is, quite frankly, as a firm we've grown. You get better and better. But with the software that we have now, we can run somebody's, what we call tax baseline. So if you don't do anything, here's how much you're going to pay. And then if you do some Roth conversions during this arbitrage period, here's what your taxes will be then over a 20 year period. And sometimes that difference, it can be a couple hundred thousand, it could be a couple million. So once we're able to kind of calculate the potential value. As we should, right? As our client's advisors we have to because they have to understand why it's important. Okay well, let's Roth conversions be kind of the piece of the plan that we pivot other decisions around because that's where the most value is. So let's not hurt the plan by doing other things that would deter how much we can convert. But I've talked for a minute but what's your thoughts there?

Taki Bitounis: You're 100% right. You're 100% right. So you have to baseline the tax situation of almost ... I call it the do nothing scenario. And that's your baseline. You're looking at a case study or a client situation, you say, "We know how much in is your pre tax retirement accounts, how much is in your Roth, how much other assets you have." Then you can evaluate potential estate tax problems or in this example, evaluating what their baseline tax bracket will be for when those RMDs kick in. And that's always your base point. That's your starting point. And then from there, that's when we start looking at the different options. What do we start doing to minimize the long term tax implications? Especially because I think many of our clients are on a similar mindset that the tax rates we have now are just not sustainable. Certainly I think we all think that in six years they're going to revert back to the old rates and potentially even go higher. So we're at this interesting inflection point in our country. So I think doing some planning now can go a long way in five to 10 years.

Tony D'Amico: Sure. Right. And there's always I guess a little bit of risk there. What if they implemented a sales tax? You can't plan by being focused too much on the what ifs. You kind of have to look at what the trend has been longterm. And tax rates are low. Historically. So you kind of ... I guess that comes down to, there are certain things that you can control and when you can control them in a lawful manner ... We're talking about vanilla tax strategies here. It's good to do that. So from your perspective, so Roth conversion's definitely a high impact strategy. And then too, we're not even ... When we talk about the baseline where maybe it saves somebody 500,000 in income taxes or a couple million, that doesn't even factor in then you have a Roth that's compounding tax free. And then the difference between that versus what it would have been in a traditional IRA net of taxes after distribution. But I guess kind of moving on from Roth conversions, what are some other high impact strategies that come to mind from your perspective?

Taki Bitounis: One of the benefits of being proactive, I think, with our clients, and I think this is something that Fidato Wealth does a very great job with, kind of understanding the preferences in the background of their clients and our clients. Finding out if they're charitably inclined. What are their short term goals with charity versus their longterm goals? And using that they're actually really getting into what are the client's intentions with charities. There are many different tax strategies once you kind of understand what their goals are. There are strategies such as qualified charitable distributions if they're in that RMD age. Those types of strategies are where you instead of receiving the distribution from your pre tax retirement account, it goes directly to the charity and the tax payer's avoiding having to pay tax on the distribution. And you can do that up to $100,000. So that's one option. There's a little simpler option which is there's a timing component of getting terrible deductions if you want to try to strategically itemize your tax deductions versus taking the standard. Some of our clients take advantage of that. But really getting to know what are the client's goals with their church, their other nonprofits they're involved in, can help us as the tax preparer and you as the financial advisor advise them on different opportunities. That's another area that we work with some of our clients on.

Tony D'Amico: That's awesome. So yeah. The QCDs or the qualified charitable distributions as you mentioned, that's a great benefit for the charities. Because they don't have to pay income tax on the money. The donor doesn't have to pay income tax on the money, so that money is received tax free, which obviously allows the charity to have more resources to do what they're aiming to do. And then donor advise funds, kind of fits into what you were describing there too where you can make those contributions. It has to be used for charities in the future and it could be done in a way where maybe you're accelerating that certain years to try to get more bang for your buck if you will for those charities. So what other strategies I guess come to mind for again, individuals and families?

Taki Bitounis: Yeah. I know the first thing we talked about is really focusing in on probably people that are closer to retirement or in retirement. One strategy that I like for a lot of just younger professionals are those clients that can take advantage of health savings accounts. Fully funding those even in the years when they're not consuming medical expenses. Saw someone in his mid 30s that has an HSA eligible policy here at our firm. Fully funding that even in years when you don't need it is a great longterm financial strategy because you can actually invest your HSA account in a standard investment account. ETFs, mutual funds, things like that. Other investments like that. And the idea is that all of the earnings within that HSA account will be tax free as long as when it is ultimately withdrawn it's used toward qualifying medical expenses. So that's something that you could easily see as almost like a little ... A nest egg for future health costs. Which unfortunately in this world, they're inevitable. They're going to happen eventually.

So I've got many clients that are funding those HSA accounts even though they don't truly need the funds for medical expenses but they're viewing that almost as like a supplemental retirement. They're going to set that money aside, it's going to grow over the next 20, 30 years waiting for them until they need it for medical expenses, which allows them to use their 401Ks and IRAs for other expenses. Living, travel, and so forth. So whenever I hear that young clients have HSA eligible plans, I very much encourage them to max it out. And a lot of times you're able to make that contribution until the tax return is filed. So for example under a normal year ... This year it's a little bit different. But in a normal year April 15th, you can make a contribution up to April 15th and still have that be allocated to the previous year. So as we're preparing tax returns we like to kind of ask the clients, "Hey, we noticed that your employer contributed a few hundred dollars to your HSA. Did you know that your maximum is X?" You still have time to get that money in the account. All you need to do is cut a check, do an online transfer, and we can deduct that on your personal return. So it's an important tool.

Tony D'Amico: Now that one is really valuable as well. I mean, there's not many things in the tax code where it has that triple tax benefit. Because you make the contribution, it reduces your taxable income, it grows tax free, and then you can take the money out tax free as long as you're using it for qualified healthcare expenses. Now, all of that triple tax benefit, boy, that's very valuable. Let's just say you're effective tax rate is 24% and by making that contribution, you're getting a 24% return on your money right then and there. It's not an investment return but it's still a return on capital. So you're up 24% there then it grows tax free and then you can use it tax free in the back end too. So if your income tax rate in the future is 24% then you get another 24% boost to your buying power for those expenses. And I think that's another great example too Taki that not just worrying about this year and next year, but looking at your longterm picture because you're right. We have some clients that they had that vision in their 30s and 40s and they made contributions even though they weren't utilizing it.

Maybe were investing it and it's compounding, and then by the time they retire at 65 if there's ... Whatever it is. 50,000, 100,000, a couple hundred thousand in there. That money at age 65 ... Up to age 65, we know we can't use it for premiums. Once you become on Medicare then you can use it for Medicare premiums. But you can also ... And you know this. But you can take money out of the HSA after age 65 and not pay a penalty. And you can take it out for any reason. You just pay income tax on the distribution. So it's effectively like you had another IRA. But it's a great tool I think. And I can think of a couple scenarios where they've done a great job. There is a couple hundred thousand there in that HSA. And they're self insuring for longterm care costs. Because you can use it for that type of care. So whether it's home healthcare, adult daycare, assisted living, nursing home, those funds could be used for those purposes. So another really important ... Really another really high impact strategy. Yeah, I think the interesting thing about what we do ... Really what we're talking about here is people come to us with their goals, their vision for their ideal future, and then we kind of take a look at where they're at now.

But part of that process is to educate them on the longterm view. And how does this work? And that's new for people and we have to understand that and educate, be patient, and show the longterm value of making a decision one way or another. But isn't it kind of interesting though when the light bulb goes off for a client and they're like, oh, I get it?

Taki Bitounis: That's a great feeling. I agree. We've found that many of our clients love learning about the tax code financial strategies. It's almost like our educational system has almost left this gap for many people and they are excited to learn about these opportunities. It's fun to be part of that process. It really is. I feel like sometimes, you and I actually can relate, are like teachers, right? We're the steward of their money and their taxes. It's an interesting position to be in.

Tony D'Amico: Yeah. And you know too I think there's that newness. I like what you said too. I think that's real. People want that proactiveness. They want that game plan. They want that education. But quite frankly, they had an experience before where that's not what they got. So now it's like, you kind of have to educate them on the process. And it's not just a CPA experience, but we've talked to some clients where they didn't get that from their previous CPA. And sometimes they didn't work with an advisor that was a fiduciary or that they did financial planning or that they did really in depth comprehensive planning. It may have been more of a lighter plan. So we have to take all those things into consideration. But people do want those answers. But it's really cool to see that. Once they see like oh, I get what they do. I get my longterm plan and then that peace of mind when that light bulb clicks.

We're talking about retirement planning and that's a big part of what we do and with your client base too. Them being in that age range. There's also a lot of tax implications at retirement. And so do you want to talk a little bit about that?

Taki Bitounis: Oh sure. When you're looking at it in terms of taxability of social security and factoring that into certain other investment decisions. You want to make sure that if your pensions are not withholding enough federal or state income tax, understanding where your potential liability would be so you can make maybe quarterly estimates. I think a lot of people, when they shift from being a W2 employee when all of their tax burden is kind of angled in a bi weekly basis, it's kind of a passive relationship with income taxes. All of a sudden when they get to retirement they have to take a little bit more of an active role in managing their tax burden. Whether that's realizing a significant capital gain in a particular investment or rental sale of a piece of property. Working with your advisors, a financial advisor and a tax advisor, to maybe find out if there's ways you can offset that slightly with some other investment decisions. Harvesting some tax losses, things like that. So I think the biggest change at retirement is ... For some people it's perhaps during your working career you were able to view your taxes in a little bit of a passive process. Realizing that once you hit retirement you maybe have to take a little bit more of an active role.

And it could be as simple as just calling, emailing your advisor to say, "Hey, this is the transaction that's on the horizon. Is there anything I need to be aware about?" For example, one of the phone calls I get all the time this time of year is ... Because now is the time of year when people are starting to look ... The residential real estate market is starting to pickup. In summer when people are looking to move and identifying when a 1031 exchange might be a good maneuver. A 1031 exchange is obviously ... I'm sure many of you know this. Is when you roll the proceeds from the sale of one property directly into a new property. And you're able to defer the gain. Not avoid the gain, but defer the gain into the new property. So it's something that many clients may sell a property and then all of a sudden they take the proceeds and then they're no longer eligible for a 1031. So a lot of times a phone call before a transaction occurs when it's still on the horizon and it can save quite a bit of money and aggregation. For the client that is.

So I guess I would just encourage people in retirement to take a little bit more of an active role. Incorporate their tax professional, incorporate their financial advisor. Letting them know what's going on in their lives. Are kids becoming independent? What about gifting strategies for grandchildren? A lot of things left on my list are very specific to certain client situations but overall if the client is communicating with their financial advisor and their tax professional, we can be there to kind of steer them the right direction.

Tony D'Amico: Yeah. And there's a lot of variables in play for different scenarios and these strategies that we're talking about, they're not just static. They work together in certain circumstances. I could think of a scenario recently that we've been involved with with a real estate owner where they have this tremendous opportunity to do Roth conversions. They're in a very low tax bracket. And their goal is to ... They have a goal of selling off these properties in the future but one of the things that came into play there is we said, "Okay, well hey, well we could do Roth conversions for five years, seven years, 10 years. What's the impact there?" And then, how will that affect that desire to sell those properties off. It's not like they want to sell them off now. There's some flexibility there. So how do all these pieces work together? And then when you again measure the longterm impact it's typically not tens of thousands of dollars. It's typically hundreds. And each scenario is different but it's typically hundreds of thousands of dollars. But as far as retirement from my perspective, one thing I will sometimes see is if they ... Again, this is specific but it's okay.

Sometimes if there's a retirement incentive to retire and if maybe you throw that on that they had a bunch of unused paid time off and maybe instead of retiring December 15th, maybe retire January 3rd. So those payouts don't get added to your income for that year and push you up into a higher tax bracket. And you get less of that. So that can sometimes make a big difference. But a lot of different things in play. One other strategy comes to my mind on the personal tax planning side is, often we'll find that our clients are maxing out their 401Ks and they want to save more. And one of the very valuable strategies is we'll call their retirement plan with them to see if they'll allow for after tax contributions. The IRS as you know has provided guidance and clarification that you can take after tax dollars from your retirement plan when you retire and you can put those monies into a Roth IRA. So it's basically ... Because a Roth IRA right is like $7,000 a year if you're above the age of 50 I believe is what it is. So you can only put so much into a Roth as a contribution. You can convert as much as you want.

And there's income limitations to being able to contribute to a Roth IRA. Once you make above a certain amount you can't do a Roth contribution so to do this ... It's kind of called a ... I forgot the ... Kind of the slang term for it is a mega backdoor Roth. But you're doing the after tax contributions and then you can put that sum of money into a Roth. That's significant.

Taki Bitounis: And one of the added benefits of a Roth IRA is that there's no RMD requirements on a Roth. So many of our clients when the RMDs kick in they often say, "Well I don't want to take this money. Is there any way around it?" And unfortunately as you know other than maybe doing some QCDs, qualified charitable distributions, you've got to take the money. So the benefit of a Roth is that the Roth amounts do not factor into the calculation for the required minimum distributions. So your money can stay in the account as long as you want until you truly need the funds. And all of the earnings within that account are going to be tax free. So the tax payers are incentivized to leave the money in the Roth for as long as possible.

Tony D'Amico: Yeah. Taki, there's something else that actually came to my mind to maybe chat with you about too, is obviously with the secure act, it changed the stretch IRA. The stretch IRA being that ... There's a reason why we don't have much hair right? The laws keep changing.

Taki Bitounis: I know.

Tony D'Amico: But when you inherit an IRA from a non-spouse you have to start taking distributions by December 31st of the year following that person's death. And then you used to be able to stretch it out over a life expectancy table. But now, you have 10 years that you have to take the money out.

And you don't have to take it equally. With the laws previously it was much easier because you just stretch it out. Now, you have to look at their tax situation. We had one client where they sold a business and they had a payout over three years. They inherited an IRA as well from their parents. But we said, "The plan is let's not take distributions these first three years because that'll put you up into a higher tax bracket. So let's spread it out over" ... In their situation that made sense to spread it out over the last seven years. Because it all has to be out. Right?

But conversely with a Roth IRA, again, you have that same 10 year rule when you inherit a Roth IRA from a non-spouse. So for example, you inherit it from a parent. With Roth IRAs, in looking at this because this law changed at the end of 2019 at the very end of the year, we're often seeing, and I'd love to get your perspective, is with these Roth IRAs we're often saying if they don't need the distributions let's let it compound for 10 years then take it out at the end of the 10 year period. But what are you guys seeing there with the new stretch rules?

Taki Bitounis: Yeah. I think overall what you're really touching on is family planning as well and how tax planning can incorporate family planning and factoring in what are your kids' income forecasts? What brackets are they going to be in? Maybe you need some strategies around gifting using the annual gifting allowance. There's other strategies with setting up family limited partnerships, things like that, if you want to try to protect wealth for various reasons. So what you're really kind of touching on I think is the importance of involving the family and thinking about the family as a whole and what the client's ... And again, those are the types of things that can't exist and the conversation can't happen if there isn't an open dialog between the financial advisor, the tax professional, and most importantly the client. So I guess my biggest takeaway from today would just be involve all your advisors. Your insurance, your lawyers, your financial advisor, your accountant. They all kind of need to work together and service you as a group.

Tony D'Amico: Yeah. That's awesome. Well, cool. Taki, let's talk about tax planning for business owners. And I guess before we do, just real quick ... Because we're talking about more higher impact strategies. I mean, sometimes when you just audit an individual or a family's tax returns, there's the ABCs that could be off. That by fixing those it adds value. So there's a lot of fundamental tax planning like deductions, credits, exemptions, things like that that obviously would be really boring to talk about. But still an important part of your process right? I mean, you've got to look at the ABCs of the tax return too.

Taki Bitounis: Yeah, I think our process with business owners is we always want to start by looking at the last, at least one, if not two to three years of tax returns. Because we want to look at the those for those basic things that were missed. Unfortunately, we see things like the Ohio small business deduction missed. The federal 199A qualified business deduction. That's only been around for two years. Unfortunately I'm still seeing that missed on some people's returns. Or miscalculated. Maybe it's on the return, but it's calculated incorrectly. So we always like to start there like you said with the fundamentals. How have the returns been processed or prepared in the past? Try to identify anything that might have been missed or calculated incorrectly. From there with business owners, the next place we like to go is how is the business structured overall? Are there multiple entities that are interrelated in some sort of corporate structure? How are those entities electing to be taxed?

A lot of times we find out that people set up their business, were told to set it up a particular way, and they were never really told why or they never understood the reason behind it. So we like to come in and say, "Well, did you understand that having your main company as a S corporation, maybe that limits your options in certain ways?" Whereas, maybe the business wants to be a little bit more flexible. Maybe the parent company should be a partnership. So we like to start there and say how is it structured, let's talk to the business owners, all of them, and say, "How do you guys operate your business? Is there maybe a more tax efficient way to structure the legal entities and how they all come together?" So that's an important step as well.

Probably the biggest strategy that's come about over the past few years is managing the 199A deduction. The 199A deduction is a federal deduction that up to 20% of your business profit is eligible for the deduction. But there's income limitations. Particularly for professional service providers. So financial advisors, accountants, lawyers, doctors, dentists, and so forth. So for those types of clients that are within the phase out range or above the phase out range, demonstrating to them the power of contributing extra to their retirement account. Whether that's maxing out their 401K, implementing a profit sharing plan, or in some cases, some of our higher wealth individuals, implementing a defined benefit plan. We're able to show them by doing tax projections that by maybe contributing say 50 to 100,000 into a defined benefit plan they're able to get below or within the phase out range for this other federal deduction. So maybe you make a $100,000 contribution to your retirement plan, but you're able to deduct 150 or 160,000 because of the way the retirement contribution lowers your income below the phase out of that deduction.

So there's certain situations where we have to be involved with a client before the end of the year. Once the end of the year hits, certain decisions are kind of ... We've missed out on them.

Tony D'Amico: The table. Yeah.

Taki Bitounis: So defined benefit plans are one of those things that if the account is set up, you can always decide by the following September how much you put in. But if the plan isn't even formed by the end of the year then our hands are tied and we can't implement that type of strategy. So I think preparing tax projections for the clients throughout the year, showing them different options during those meetings are very important. And obviously that's after understanding is the entity structured in the right way, are the different entities taxed correctly, things like that.

Tony D'Amico: Yeah. There's a lot there to unpack that's really important. So entity selection. That's kind of like the main decision that you have to start from where everything then starts to work from that point. So should it be a C corp, sub S, pass through, all those different things. So when you're looking at entity selection and when you're seeing things aren't ideal, what sort of difference are you seeing that ... Maybe if you can think of a scenario where their entity wasn't correct. What changes did you make and then how did it impact their bottom line? Because I know that these are big, big decisions, but I think that might help the audience.

Taki Bitounis: Yeah. I think one of the easiest example is we have a client that was structured as a C corporation with four main partners of the firm and we were able to over time change the structure so that instead of being a C corporation where all of the profits were pulled out of the company through officer wages, we were able to structure a parallel legal entity that was a partnership. LLC taxed as a partnership. And then underneath of that partnership were S corporations for each of the four named partners. So that strategy enabled them to save in a few different ways. First, it made them eligible for the Ohio small business deduction. So it's easy to imagine if all of a sudden you're taking 300,000 times 5%, they were saving $15,000 a year in state income taxes right off the top. The other reason why that structure was beneficial is because it made them eligible for the new federal 199A deduction. C corps are not eligible for that, and under this partnership with sub S's, the S corporation profit is eligible for that federal 20% deduction.

Again, it's kind of rolling your sleeves up and digging in and just saying, "How are you structured? How do you guys operate the business? Does this work? And if not, let's come up with some ideas for how to get to maybe a tax structure that is more efficient."

Tony D'Amico: Yeah, that's great. And then too, when you talk about the 199A deduction, again too, that's not just a little bit of a difference to the bottom line. That's significant. And then you start to pair that with possibly in certain situations where it makes sense to set up a defined benefit plan. And then that money going in there reducing taxable income, triggering all these other benefits. I mean, you're talking about decisions there that are compounding upon themselves and making a dramatic difference. Especially over a 10, 20 year period. I guess, any examples that come to mind where it made sense for you guys to set up the defined benefit plan where you can maybe talk about that scenario and what it looked like?

Taki Bitounis: Yeah. We work with quite a few medical professionals across the country and being subject to the phase out for that deduction, there have been many examples where we've been able to identify people that if they just made that extra $50,000 to $100,000 into the defined benefit plan that they're able to keep upwards of 90% to 95% of that money in the owner's accounts. Then only 5% to 10% goes to the employees. But by making that contribution it brings them into the phase out range or below and instead of maybe ... Let's say you make $100,000 contribution ... I'm thinking of a specific client. Instead of just deducting 100,000 it was able to deduct, I think it was 165,000. So there's very few tax strategies out there or scenarios where you can spend $100,000 but you actually get to deduct 165. That's the holy grail. But those are the types of strategies that the owner has to be involved and the financial advisor has to be involved because that's the type of plan that takes time to get set up. There's a lot of options that the business owner has to make.

For example, a lot of times in those defined benefit plan setups what you're really doing is you're setting up a profit sharing plan for the employees so that you can legally exclude the employees from the DB. So maybe you're making a $15,000 contribution to the employee's accounts and then the owner's getting anything above that. So a DB plan. How that money is allocated between the employees obviously has to be subject to the ERISA rules and so forth. So you have to go through testing programs making sure you're not being discriminatory. That the plan passes all the various ERISA tests. So those are the types of plan setups that take time so it's never too early to start thinking about it if you are a business owner in that situation.

Tony D'Amico: And there's some setup costs and ongoing admin costs with DB plans, but it's no different than a 401K really. They're different plans, but the administrative costs are similar. But if it makes sense then it makes sense. That's really it. If there's a value there then it makes complete sense. Do you want to talk about what's your process like with a new client in your office and then how the appointment structure goes throughout the year? Because I think you guys do an incredible job with that and that you guys have, again, a process. But can you share with our listeners what that process looks like?

Taki Bitounis: For our typical business client, we like to meet with them at least twice a year, not counting the tax preparation season. So our typical business client we will talk to and meet in July or August and do a midyear tax projection meeting. During that meeting we're actually going to prepare your tax return using your actual business figures through, let's say June. Let's say we're meeting with someone in July. We're going to take how your business has performed in the first six months. Then evaluating how you did the previous third and fourth quarter or forecasts for your business that the business owner has done. We're going to project how the second half of the year is going to go. And during that meeting we're not just going to look at one scenario. We're going to look at multiple scenarios during that midyear projection.

Scenarios might include making contributions through a defined benefit plan, maxing out 401K. It could be as simple as sometimes our clients are asking us, "Hey, I'm thinking about buying a new piece of equipment. What if I buy it this year versus next year? What if I hired a new employee this year versus next year?" And we can model that for them and show them the tax effect. And what we've seen is when the clients can kind of see the bottom line and we can explain to them what's happening, it helps them make a better informed decision. And then typically we meet with our clients again in the fourth quarter in October, November, or December for a shorter meeting. Because we're taking the work we did in the middle of the year and then just updating. And in that scenario the clients can go into the tax season, into January, February, March and already have a very good idea of where their taxes are going to end up. There shouldn't be any big surprises at that point if we're talking to them in July and the end of the year.

Now, some clients just come in at the end of the year for a once a year meeting in October, November, December. Everyone's got different personalities, but I'd say our default strategy is have a midyear meeting and then a shorter follow up at the end of the year. And one of the things my business partner Bill set up is a automated scheduling system where we want to make sure that all of our clients have time on our calendars. For example, of one of our clients comes in on the third Thursday of June at 4:00, every year he's going to have the third Thursday in June at 4:00. And that's going to be his spot. Now, of course you can call in and move his appointment. Move it earlier, later, to a different day. But we like to pre-schedule all of our business clients for these projection meetings because that ensures that nothing slips through the cracks. Certainly we've had clients call up and say, "Look, I don't need to come in this week. We'll meet at the end of the year." And we said, "No problem. That's great." We've got plenty of work to keep us busy. But by pre-scheduling it, it forces the clients sometimes to think about taxes.

Because people get busy with their lives, they get busy with their kids, their business, they're pulled in so many different directions. A lot of times our clients come in and they say, "I'm so glad that you forced me to come in because otherwise I would always have an excuse not to come in. I always have something that I need to get done." So it's one of the things that my partner started decades ago and we've kind of continued, just automated the system with computerization.

Tony D'Amico: That's awesome.

Taki Bitounis: And a lot of our clients really like that.

Tony D'Amico: Yeah. Just from my perspective, just the fact that for a business owner there could be two meetings that are proactive in nature. And the first year that we're working together on a mutual client it's like you're playing catch up. You kind of have to develop the base, the understanding of their goals, their situation. But once you get caught up then you're having two proactive meetings ahead of time. That's the awesome part right? It's uphill to kind of get them caught up to say the least. And not only the tax strategies, but also too just the mindset, the understanding on their part and all those sorts of things. But that's just phenomenal that there's two proactive meetings that are offered for business owners. Because that's the way to do it. The last thing that you want to do is be working with somebody who's just doing your tax return and saying, "Oh geeze, next year let's do that." That should be the starting point maybe for the first year because of the timing of them working with you and all those sorts of things, but that's really important. To have that blueprint moving forward, know the relevant strategies, and have that longterm view.

The scheduling piece too, that makes me smile. I learned a long time in providing wealth management, you always set the next appointment at the conclusion of the existing appointment. Because if not then you're emailing back and forth or our client service team has to email back and forth and spend all this time to schedule. And it helps everyone involved. It's a very similar concept that you guys have that we do. With an individual then is it maybe kind of one proactive meeting ahead of the tax return? Is that kind of the difference?

Taki Bitounis: Yeah. Usually our individual clients, it's usually one meeting. Usually towards the end of the year. I'd say September through December. Definitely one of the last five months or so. And that goes to the same process of preparing your pro forma tax return using actual investment results, dividends, capital gains, capital losses, and then maybe forecasting other decision points for the individual. But typically our average individual client only needs one projection throughout the year. That doesn't have a business. But certainly we're here year round and happy to help whenever questions pop up and arise. I always describe it as no two days are alike in world because client needs are different every day, the questions that they're asking are going to be very different. So it's kind of an interesting profession. I really enjoy it.

Tony D'Amico: That's awesome. That's key right? That passion. Because it's a lot of work so if you don't love it your career will be short lived right?

Taki Bitounis: Yeah.

Tony D'Amico: I think, I guess one other thing that comes to mind that I'd love to get your opinion on. A lot of the clients that we work with, they've done a great job saving for retirement. Perhaps they have a really great career or they're a business owner of some sort. Whether it's professional services, manufacturing, dentistry, healthcare, orthodontist, whatever it might be. And a lot of times what we see is that they've outgrown their existing advisors. They have maybe the CPA that they had 20 years ago or something like that. So we see that where they've achieved a lot of success, they've outgrown their advisory team, and sometimes they don't, but I do see this. I guess, what's your approach to that or what would you tell our listeners I guess about that challenge and just how to approach it?

Taki Bitounis: Yeah, I think, as you touched on earlier, that often the tax laws change. I think it's important to feel comfortable that your tax professional is staying current with the most recent tax law releases. And I think you've got to kind of separate emotion from the situation. If someone's starting to feel that maybe they're asking questions that their advisor doesn't know the answer to and they don't really get back to you with an answer. It's not a situation where they say let me research it and then you never hear from them again. I think it's important to get a second opinion on your tax returns. I've seen it too many times when I'm reviewing prior year returns for new clients and I'm just seeing things that are missed. And I can kind of understand why they're missed. I can say, oh, that change was implemented a few years ago so the professional clearly just wasn't aware of that change. I think A, it can't hurt ever to get a second opinion. Just say, "Hey, can someone review my returns just to make sure nothing's being missed?"

But I think if someone has a little bit of a hint of concern that their professional's not keeping up to day with the changes, I think that's important to kind of run to get a second opinion because I've just seen it too many times with new clients where i say, "Okay, we'll handle your stuff going forward. And oh yeah, by the way, we're going to be amending the last few years." And many times it's getting money back, but even in situations when we're amending to send a little bit of extra money to the IRS, it allows the client to sleep at night knowing that everything is filed correctly. They don't have any notices that are looming. I think that's important. One of the things we try to say is we try to solve peace of mind. We try to say if you come here we're going to take care of you, we're going to make sure you're in compliance with all the laws and regulations. I guess I would just be mindful of that type of situation that you described. Of someone who's maybe outgrown ... Their life and financial situation has outgrown their professional. Keep your guard up for situations like that.

Tony D'Amico: It's interesting, for some clients we kind of explain it and we show them things on a screen or through Zoom now, and they get it and they're like, "Yeah, let's do a second opinion." But once we do the analysis, then we have everything. It's like, here's where you're at. It's concrete. We show the numbers, we show the net result. And then they do that. So for some folks, they're totally open to do it. We won't talk about this today, but there's actually nine different financial personalities and one of them, they don't like talking about money, they don't like to make changes. And that could be really challenging. But one strategy that we use is when we have somebody where, hey, this is just a big change for them. We try to deliver them one win at a time and then hopefully then the light bulb clicks.

What I like to do is study what people that have 200 million or more do. How they approach their finances, how they maximize their decisions. And apply that to our clients because our clients are not that wealthy. But one of the key concepts that they believe in is trust but verify. Because the consequences can be pretty steep. But again, we definitely appreciate your guys' process, your educational style, the collaboration too. And I'm biased. I'll throw that out there. But I think the result is better for the client if they have a financial planner, wealth manager that they're coordinating with the CPA and they're in sync. Because there's bound to be things that we each don't know, but when we put the picture together, we're able to really best serve the client.

Well, awesome. Well, this has been great Taki. This has been very helpful I believe for our listeners and viewers. But as we wrap up, how would you like our listeners to connect with you?

Taki Bitounis: Even during this health crisis we're still ... At least I'm coming into the office every day. Emails probably the best way to get ahold of us and then we can kind of schedule a phone call from there. Kind of share a little bit of information back and forth and schedule a call. I always like to look at the returns a little bit before our first phone call when possible just to kind of get a little bit of a sense of the situation. But yeah, we're working all the time, even through this crisis, and keeping busy doing ... We've spent the last six weeks helping business owners with SBA loans and conventional loans and now we're going into our wrapping up of '19 returns and 2020 tax projections with the July 15th deadline looming.

Tony D'Amico: Yeah. And I think, just to throw something else out there ... I keep coming up with new things to talk about. I don't want to go too long. But really the timing of working with a new CPA is important. If April 15th is the tax deadline date, as a firm, we're very intentional on that transition because you guys and gals are super busy at certain times of the year. I really give you guys a lot of credit because what you guys do is not easy. It's a lot of work. So that timing of that transition I think is something that a good wealth manager can help with too. And you guys would help your clients too if they contacted you.

Well, we'll post your email address and website address in the show notes for our listeners. But as we wrap up, this podcast is about achieving success where wealth and life intersect. And each person has their own definition of what it means to be wealthy and success even means different things to different people. Taki, you have what most people would call a phenomenal career. A great firm that you're an owner of. But when you think about the intersection of wealth and life, moving forward for you, what does success look like to you going into the future?

Taki Bitounis: That's a great question. I think one of the reasons why I love living in Cleveland is the sense of community. The legacy I would like to leave is that I was here to help people. I was a servant to my clients. And really client service is something that you can't fake it. I enjoy the education element of what we do. I enjoy the phone calls from clients asking for referrals for a plumber or a roofer. To me, I just like to help people and it's what makes me enjoy getting up out of bed in the morning. And I think that's kind of where I see the intersection of success and life is it's what of your personal relationships with the people around you. Being involved in their baby christenings and weddings and asking questions like, "Hey, I just had a baby. Should I start a 529? And what is that?" To me, that's what I get excited about. We send these little bibs with our logo on it and it's getting pictures back from our clients say, "Look, the future intern of Pappas & Bitounis." To me, that's what life is all about. It's the people you surround yourself with.

And that's where I really do love what we do. I've got clients all over the country, but I still feel close to them because we do video calls, we talk to them throughout the year. And we are involved in their very personal life. We're involved in their lives because we're seeing their numbers. They're asking us questions about their financial future. So it's kind of a nice profession to be in and I really do enjoy it.

Tony D'Amico: That's awesome Taki. That's great man. It is an awesome profession right? I agree with you. It's about serving others and making a difference and enjoying the relationships. So that's great. Well, Taki, you've been an incredible guest. Again, thank you for all that you do for the clients that we work on mutually together. Thank you for your help with our clients. Thank you as you've helped our business too over the years. We appreciate that. And I look forward to doing this with you again sometime.

Taki Bitounis: Yes. Thanks for having me. This was great.

Tony D'Amico: Thanks, Taki.

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<u>***Ep #08: High Impact Personal & Business Tax Planning Strategies with Taki Bitounis***</u>