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## On the Horns of a Dilemma: What to Do With That Tax Refund?

How a smart CPA used listening and questioning skills to arrive at a solution.

by Neal Frankle, CFP

Janice and Mike are a married couple in their 40s with two children, ages 11 and 17. Steve, their CPA, thought his clients would be delighted to learn they would soon receive a \$5,000 check from their 2005 federal tax return, courtesy of the United States Treasury.



Little did he know the trouble that refund was about to cause.

Janice and Mike get along great financially. They earn a combined income of over \$110,000. They contribute to their 401(k) plans at work and, other than their home mortgage, they are debt-free.

But when the couple sat down to discuss what to do with that \$5,000, sparks started flying. Mike had his eye on a power saw, a treadmill and a nice family vacation to the Bahamas. Janice thought that all sounded nice enough — other than the power saw — but she thought it was more important to put more money aside for their children, and their own retirement.

They decided to have a powwow with Steve to determine which was better. As an experienced CPA, Steve knew he had to be careful. Regardless of what recommendations he made, he had to be certain both Janice and Mike left his office feeling like winners.

But how?

If you've ever found yourself in a similar situation, take heart. By asking your clients the proper questions, you can help them make the right decisions — and avoid having one of the parties throw a chair through your window.

Let's listen in as Steve navigates these potentially treacherous waters.

### Assessing the Situation

**Steve:** *"Mike and Janice, I'm happy you came in. I understand you're trying to decide how to use your tax return to create the greatest benefit for the family. Is that right?"*

Both agreed.

**Steve:** *"Great! Before we get started, let me ask you something very fundamental: When you think about money, what's important to you? Mike, why don't you go first?"*

**Mike:** *"To me, money is important because it provides security for our family."*

**Steve:** *"Tell me, Mike, do you feel your family is financially secure now?"*

**Mike:** *"Well, our jobs are secure, but if Janice or I were ever laid off, we really don't have much of a savings backup. But I don't think there's much risk of that happening to either of us."*

**Steve:** *"You're fortunate in that! I'm delighted your jobs are secure. But tell me, Mike, how would you pay for an unexpected financial emergency, like the need to replace a car, fix the roof, or something else?"*

**Mike:** *"Steve, I guess we could borrow the money using our home equity line."*

**Steve:** *"You could, that's true. But how do you feel about having your financial security based on borrowed money?"*

**Mike:** *"Not too good, really."*

**Steve:** *"With that in mind, what do you think you should do with that \$5000 tax refund?"*

**Mike:** *"Well, I guess what makes the most sense to putting it into a 'rainy day' account."*

Another happy ending, right? Not so fast, we still have to deal with Janice.

**Steve:** *"Janice, your turn: When you think about it, what's most important about money to you?"*

**Janice:** *"Well, I'm with Mike: money is important because it provides security for our family."*

**Steve:** *"Is there any other reason money is important to you?"*

**Janice:** *"Yes, money also provides freedom...the freedom to enjoy ourselves on vacations and being able to buy nice things."*

**Steve:** *"Do you feel you're both doing enough to provide for your family's financial security?"*

**Janice:** *"I'd say we're doing everything we can. We barely make ends meet, but we save as much as we can, when we can. That's why I want to put that tax refund in an emergency fund, as Mike suggested"*

**Steve:** *"That's great, but how about the freedom to have a little fun. Are you using any of your money to accomplish that goal, too?"*

I knew, just by looking at her, the answer was no!

**Steve:** *"Janice, even though Mike wants to put the whole \$5,000 into an emergency fund, do you think a small portion could be used for family fun?"*

**Janice:** *"Sure. We deserve it!"*

**Steve:** *"Janice, what percentage of that \$5000 do you think should go for security, and what percentage should go for freedom and fun?"*

**Janice:** *"I'd say 80 percent should go to security, because that's the most important thing, and 20 percent to fun."*

**Steve:** *"How about you, Mike? What do you think about splitting the money and finding a happy compromise?"*

### A Reasonable Solution

At the end of the day, Mike and Janice settled on putting \$4000 of their tax refund into a money market fund, and spending \$1000 on a camping trip for the entire family. It's true, of course, the couple could have used that \$4,000 to buy a certificate of deposit, which would have given them more growth. But the increased reward the CD provides would not be worth the downside of lost liquidity to these clients.

Do you see what just happened here? Steve's clients told him what they wanted to do with their money; Steve didn't risk his relationship with his clients by telling them what to do. He accomplished their goal — and his — by *asking the right questions*, and *listening to the answers* — not basing his recommendations on preconceived ideas.

And you can do the same with your clients.

"I'm a CPA, not a shrink!" you say? Let me tell you something: If you've been working with clients for more than one tax season, you already understand that half of your job is being a therapist. You have to develop your listening and questioning skills if you want to help clients make smart money decisions.

[Neal Frankle](#) is the author of *Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity*. He helps affluent clients establish and implement a safety-net strategy to protect their wealth. He also helps other professionals, such as CPAs, do the same for their clients.

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