

Affluent

The Tax Refund Nightmare

By Neal Frankle, CFP®

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Affluent-Lifestyle

Steve was a very successful retired CPA who still prepared the tax returns for Janice and Mike. He also happened to be Janice' father. Steve thought his daughter and son-in-law would be delighted to learn that they would soon be receiving a \$5000 check courtesy of the United States Treasury for their 2005 Federal tax return.

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

Janice and Mike get along great financially. They are in their early 40's and earn a combined income of over \$110,000. They have two children, ages 11 and 17. The contribute to their 401(k) plans at work and other than their home mortgage, they have no debt. But when the couple sat down to discuss what to do with that money, the sparks started flying. Mike had his eye on a power saw, a treadmill and a nice family vacation to the Bahamas. Janice thought it all sounded nice - other than the power saw. But she thought it was more important to put more money aside for the kids' and their retirement.

They decided to have a powwow with Steve to determine the best course of action. Of course, Steve knew that he had to be careful. Regardless of what recommendation he made, he had to make sure that both Janice and Mike left his office feeling like winners. But how? If you have adult children, you may have found yourself between this rock and a hard place before. By asking the right questions, you can help your kids make the right decisions for themselves - and avoid having one of them never speak to you again. Lets listen in on Steve as he tries to navigate these treacherous situation.

"Mike & Janice, I'm honored you came to me for input. I understand that you are trying to decide how to utilize your tax return to create the greatest benefit for the family. Is that right?" asked Steve. Both agreed. "Great! So, before we get started, let me ask you both, when you think about money, what's important about

money to you? Mike, why don't you go first" said Steve. "Well, money is important to me because it provides security for our family" said Mike.

"Tell me Mike, do you feel your family has financial security now?" asked Steve. "Well, our jobs are secure, but in case Janice or I were laid off, we really don't have much of a savings back up. But I don't think there is much risk in being laid off or fired for either one of us" said Mike. "Great Mike. I'm delighted that your jobs are secure. But tell me, how would you pay for an unexpected financial emergency like the need to replace a car or fix the roof...or something else" said Steve.

"Gosh Steve, I guess we could borrow the money on our home equity line" said Mike. "That's true. You could. But does it feel ok for you to have your financial security based on borrowing?" asked Steve. "Not really Steve" said Mike. "So with that in mind, what do you think you should do with that \$5000?" asked Steve. "It makes most sense to put that money in a "rainy day" account" said Mike.

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

"Janice, your turn, when you think about it, what's important about money to you?" asked Steve. "Well, I'm like Mike. Money is important because it provides security for the family" said Janice. "Janice, is there any other reason money is important to you?" asked Steve. "Yes, money provides freedom also. Freedom to enjoy ourselves like go on vacation and buy nice things" said Janice.

"Do you feel like you and Mike are doing enough to provide your family with financial security?" asked Steve. "We are doing everything we can. We barely make ends meet as it is but we save when we can. That's why I want to put that tax refund in an emergency fund like Mike" said Janice. "Great, but how about the free-

dom to have a little fun. Are you using money to accomplish that goal too?" asked Steve.

I knew by looking at her, the answer was no.

"Janice, even though Mike now wants to put that \$5000 in an emergency fund, do you think maybe a small portion of that could be used for family fun?" asked Steve. "We all deserve it, yes." said Janice. "Janice, what percentage of that \$5000 should go for security and what percentage should go for freedom and fun?" asked Steve. "Maybe 80% to security because that is the most important thing and 20% to fun" said Janice. "Mike, what do you think about splitting the money and finding a nice compromise?" asked Steve.

At the end of the day, Mike and Janice settled on putting \$4000 into savings and spending \$1000 on a camping trip for the entire family.

Do you see what happened here? The clients told Steve what they wanted to do with the money. Steve didn't tell them what to do and risk his relationship. He accomplished this goal by asking the right questions. You can do the same for when your adult children come to you for financial advice.

You might groan, "Hey, I'm not a shrink" Well let me tell you something, I'm the father of three daughters and I never got anywhere telling them what to do. You have to develop your listening and question asking skills if you want to really help your family make smart decisions about their money.

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. For more information, please email Neal at Neal@WealthResourcesGroup.com or visit the website www.WealthResourcesGroup.com..

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