

Don't Make This Accounting Mistake - Transcript

Tom Mullooly: Hey, in episode 131 we're going to talk about bringing your accountant into the loop. Stick around.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly, and this is episode number 131. Thanks for tuning in.

We heard a phrase that we used to hear a lot, well I used to hear it a lot, but we hear it every now and then, and it just makes us kind of scratch our heads, where the client says, "I'm going to let my accountant figure that out." This is a mistake, and it's kind of a red flag for us when we hear that.

See, back in the 1980s when I was getting started in the business, I was cold calling to just drum up business, and that's what stockbrokers did back then. One of the common rebuttals that we would hear when we're cold calling was, "Hey, I want to talk it over with my accountant," or "I want to talk to my CPA."

Some of the other rebuttals that we would hear were, "I want to talk to my wife," or "Let me think it over," or "I need to move some money around," or "I don't like the market," but there was something about "I want to talk to my accountant" that actually seemed like it could be real.

This was 1986, when I got started cold calling in the business. It wasn't all that long before in the 1960s, where the top marginal tax rate at that time was 90%. 90%. The top marginal tax bracket was lowered from 90 to 70 in 1965, and so when I was getting started in the business, tax avoidance was a very, very big deal.

Not tax evasion, but tax avoidance.

Today, forget it. There's a 1099 for everything. There is very few loopholes, if any, left in the system. The tax system is very cut and dried. It's simple. There are no tricks. But then every now and then we'll be discussing a transaction with a client and the client will say, "Let me talk to my accountant about that," or worse the client will say, "Well, I'll just let my accountant figure that out." What the heck are you talking about? Let my accountant figure that out?

Now this typically comes when someone's taking money out of a retirement account, whether it's from an IRA or they're taking money from a 401k prematurely. Look, when that happens, it's going to be a taxable event. Just plan for it, and your CPA, a little inside information here, your CPA is going to laugh at you when you bring up this "problem" to them. They're going to tell you, "Look, when you take money out of these accounts, you should be setting aside some money for withholding."

For example, a client takes \$50,000 out from an IRA to finance a real estate deal, a real estate transaction, and they don't withhold any taxes and they say, "Well, I'm going to let my CPA figure that out." Your CPA is going to tell you that you owe taxes on that distribution. It's that simple. It's black and white, and if you're under 59 1/2, you're going to owe a penalty on top of

that. You can have all that withheld from the distribution so you don't have that problem next year when you're filing your taxes.

For some people, the only source big enough to come up with that kind of money to pay the taxes is the same IRA or 401k which will mean even more taxable income again next year. You don't need your CPA. We can help you. In fact, your advisor should be helping you when you do something like this. The main thing is withhold something, withhold anything.

So, if you have last year's tax return available, if you have it handy, that's a big help. We can tell you, "Hey, go to this line. Tell us what your tax bill was. Go to the top line. We can do the math and work on this together."

But you know what the problem is? Most times we hear, "I'm going to let my accountant figure that out," because these folks are in a hurry.

Just, folks, slow it down. Just slow down.

I know you want to get that real estate transaction done. You want to buy that house. I get it. Or you need that money for something, I totally understand, but take your time. Just pump the brakes a little bit. Let's figure out how much you should have in withholdings so you don't get jammed up next year when your taxes are due.

That's it for episode 131. Thanks for watching. See you next time.