

Financial Planning

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Tax advice is a no-no for many financial advisors. Tax guidance is not

By Tobias Salinger

Certified financial planners command a lot of knowledge about taxes, but many of them could be afraid of crossing into professional areas that are outside of their field of qualified expertise.

Planning and direct needs like return preparation and advice with precise calculations must remain detached for advisors who are not also certified public accountants, enrolled agents or other tax professionals. But planners can, nonetheless, guide clients on a lot of strategies to lower payments to Uncle Sam, according to a presentation by Megan Brinsfield, president of Motley Fool Wealth Management, the registered investment advisory arm of investing website The Motley Fool, at the CFP Board Connections Conference in Chicago.

She began her tutorial on legally integrating tax education into advisory practices with lines of verse based on the prologue of "Romeo and Juliet" about the "pair of star-crossed lovers" from two rival families.

"Two households, both alike in dignity, in fair finance, where we lay our scene, from ancient grudge twixt tax and planning arts were separate paths to keep them long apart, but, joined together, make clients' fortunes whole," Brinsfield said. "But what if these two arts



Megan Brinsfield of Motley Fool Wealth Management discussed the integration of tax education into advisory practices in a presentation last week at the CFP Board Connections Conference in Chicago.

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could join as one? What wealth preserved, what peace of mind begot for clients' joy and planners' practice strong when tax and planning dance their destined song? The wisest fool knows this eternal truth: that plans unwed from tax are plans forsooth, that leave upon the table gold untold."

Translating from her riffing on the classic lines of Shakespeare, Brinsfield said she would provide the planners in attendance with

"background about knowing the boundaries, what's advice, what's guidance, what's inbounds or out of bounds" and six ways to "become a tax superhero" without breaching those lines. Despite the lines of professional demarcation between financial advisors and CPAs or EAs, any CFP has obtained and maintained a designation with an exam that devotes 14% of its material to tax planning, which is one of the eight principal topics of

the test. Some CFPs also have tax credentials as well.

"Clearly, we need to know about taxes to be effective in our role as advisors and planners," Brinsfield said. "But how do we differentiate between the things that are guidance or the things that can get us, maybe, into a little deep water with advice?"

The simplicity of the distinctions that she explained belied some recent findings from studies by research and consulting firm Cerulli Associates that only 47% of advisors say they do tax planning, and wealth and asset management firms are bulking up their tax-focused capabilities. Some advisors may be performing aspects of tax planning without knowing it or avoiding the topic entirely without reason.

Permissible and impermissible tax advice

Topics of discussion accessible to any CFP include scenario analysis from planning tools forecasting the impact of a Roth conversion, a qualified charitable deduction or a retirement withdrawal strategy, the tax status of various account types and the consolidation of them and education of a client about loss harvesting or charitable donations.

"All the lawyers love to see us use qualifying language around anything related to tax," Brinsfield said. "We often have in the disclosure of our emails that, 'This is not tax advice. Consult your tax preparer, tax advisor for pretty much everything we say,' and we often like to include words like 'generally,' and, 'This is an estimate,' and 'approximate results.' Using rounded figures always helps. If you

are presenting a figure that's down to the dollar or starts including cents, it gives the air of precision. And that starts, kind of, crossing over that line into advice."

In that regard, words like "I recommend" or "let's move forward" attached to specific numbers or assurances of particular outcomes about, say, the level of a refund or an interest calculation could also fall on the wrong side of that line, she said. And preparing IRS forms or "signing tax returns without the appropriate credentialing" usually end up there as well, she added. Then she invited the audience to participate in a few examples of "impermissible tax advice" versus "permissible tax guidance."

The calculation of a required minimum distribution and federal and state withholding percentages was out of bounds, but helping a client carry out a backdoor Roth conversion and reminding them to file Form 8606 was within the boundary line. Fielding a question on investing the profit from the sale of a home by instructing the client to confirm with their tax professional how much to keep for future taxes was kosher as well.

But promising a client they won't be subject to a penalty for failing to take a required minimum distribution would likely prove problematic. And the same is true for answering a query about a \$10,000 charitable donation "with certainty that something will be a deduction, whereas it could be a deduction," she said. That doesn't mean that planners must respond without any numbers at all, though. They might suggest to the client that there could be savings between \$3,000 to \$4,000, if they itemize.

"In this case, you are in good graces because you have used the words, 'could provide' instead of 'will provide,'" Brinsfield said. "You've provided an estimate, and you've included assumptions that qualify your statement as well."

The tax planning opportunity for financial advisors

If planners stick to those general boundary lines, they can assist clients who would value their guidance or education through at least a half dozen important methods. Those cited by Brinsfield were: collaboration with a tax pro, offering clarity in basic English for often complex topics, exploring how to cut their payments to Uncle Sam or maximize their federal refunds, thinking through the impact of state-level duties and giving insights into the many strategies involving spouses.

For any advisors wondering how clients might greet those topics and tools, Brinsfield shared some anonymous quotes from clients and prospects of her firm who were asked how they like their tax preparers. They responded by saying things like, "does not know anything, does not provide advice, doesn't do much planning, does not strategize, not very happy with him. I've been ghosted for months. Never been particularly helpful, and getting worse," she said.

"Yeah, I've got a tax person. But, I mean, how smart is he? I don't know. I trust the guy to an extent, but I would never say that he is the smartest tax person," Brinsfield added, to laughter. "So, as CFP professionals, I think we should all say to tax preparers, 'Thank you for setting the bar so low. You have made it easy for us to add value.'"