

# Proposal to the Task Force on Financial Literacy:

## *Tax Deductible Financial Planning Fees Would Increase Financial Literacy*

Proposed by  
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## Proposal

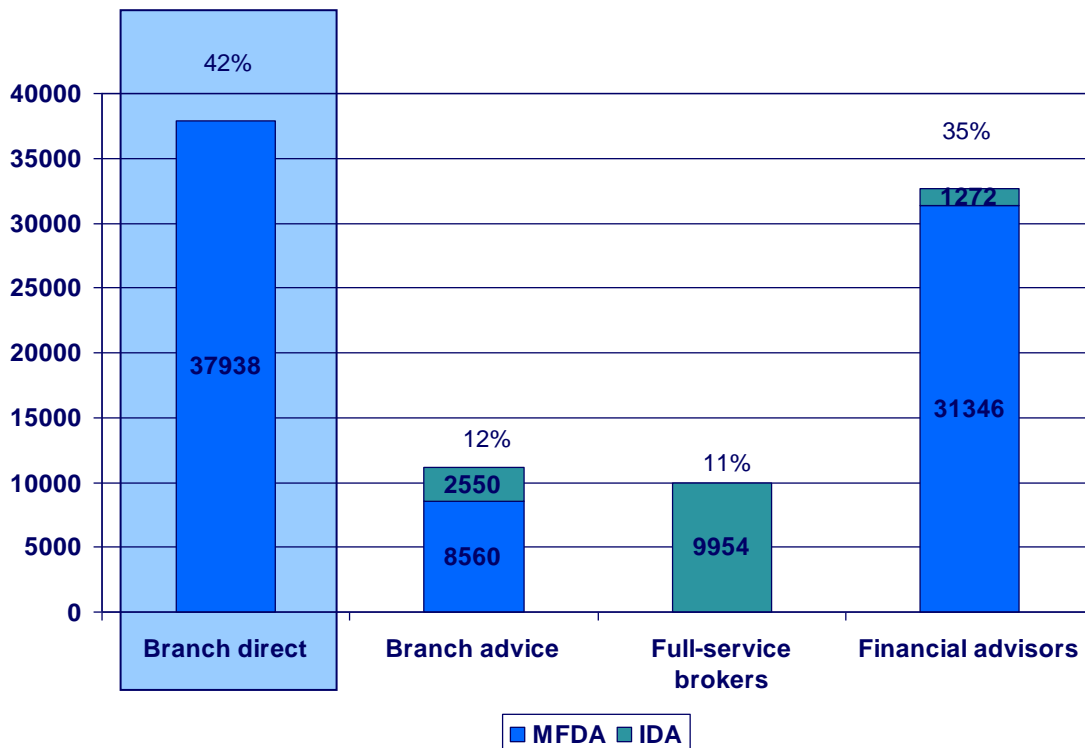
All financial planning fees should be tax deductible (currently only financial planning advice on retirement paid by the employer is not a taxable benefit). This will increase the number of people seeking advice and improve the financial literacy level of Canadians.

## Introduction

According to *iNVESTOR ECONOMICs' 2007 Retail Brokerage Report* there are roughly 40,000 independent financial advisors/planners and brokers, plus an additional 10,000 bank branch financial advisors in Canada. I believe this group of 50,000 individuals has the knowledge, experience, and information that the Task Force on Financial Literacy could utilize to provide relevant financial advice directly to Canadians.

One-on-one advice provides a more efficient and relevant means of educating Canadians than the alternative of offering seminars which may contain topics that won't apply to all individuals. One-on-one advice would also be more convenient for busy families.

### Registration by Distribution Channel



iNVESTOR ECONOMICs, The Retail Brokerage Report, 2007

## **Problems with the Current System**

1. Most financial advisors are paid on commission for selling financial products
2. Fee-only advice, while superior, is difficult to access

The first problem is that the majority of financial advisors are still compensated on the sale of a financial product, and not on providing financial advice. Even salaried bank advisors have aggressive product sales targets and receive bonuses on new money sales. Only a minority of advisors are compensated on a fee-only basis or even offer a fee option/alternative.

Some Canadians are reluctant to approach a commission-based advisor because of the fear of being “sold” something. On the other hand, they may also be reticent to speak to the fee-based advisor because of concerns about up-front costs, especially if they don’t understand the long-term advantages of careful planning.

## **The Benefit**

By encouraging consumers to pay for advice-only financial planning (no product purchase) by way of a tax incentive, Canada would see an immediate increase in individuals receiving customized financial advice. The ability to deduct financial planning fees will certainly encourage Canadians to pay for financial advice since most are looking for additional tax breaks. A French study on consumers of in-home services found that 13.5% of households that do not presently use such services would do so after an increase in the amount they could deduct.<sup>1</sup>

A secondary benefit to Canadians is a potential reduction in the cost of investing since the advisor is no longer compensated by product manufacturers and free to recommend no-load and index investing.

## **The Cost to Canadians**

The cost for fee-based advice is typically in the form of an hourly fee or a flat fee for the project.

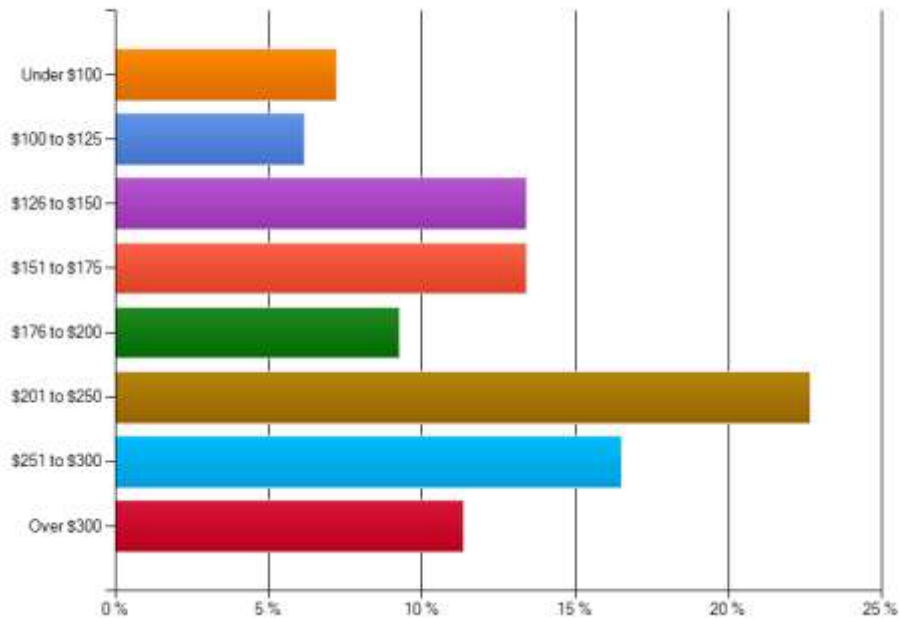
Hourly fees offer the most control to Canadians since they can dictate the maximum time in the engagement and provide the best value for straight forward planning issues that may only take a short time.

How much an advisor charges depends mostly on their knowledge and years of experience.

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<sup>1</sup> Is the household demand for in-home services sensitive to tax reductions? The French case, by Anne Flipo, Denis Fougère, and Lucile Olier, *INSEE*, October 2006.

Hourly fee - If you charge on an hourly basis, even if it is only on occasion, please provide your rate. If you have more than one rate, please use the one most commonly used with retail clients.

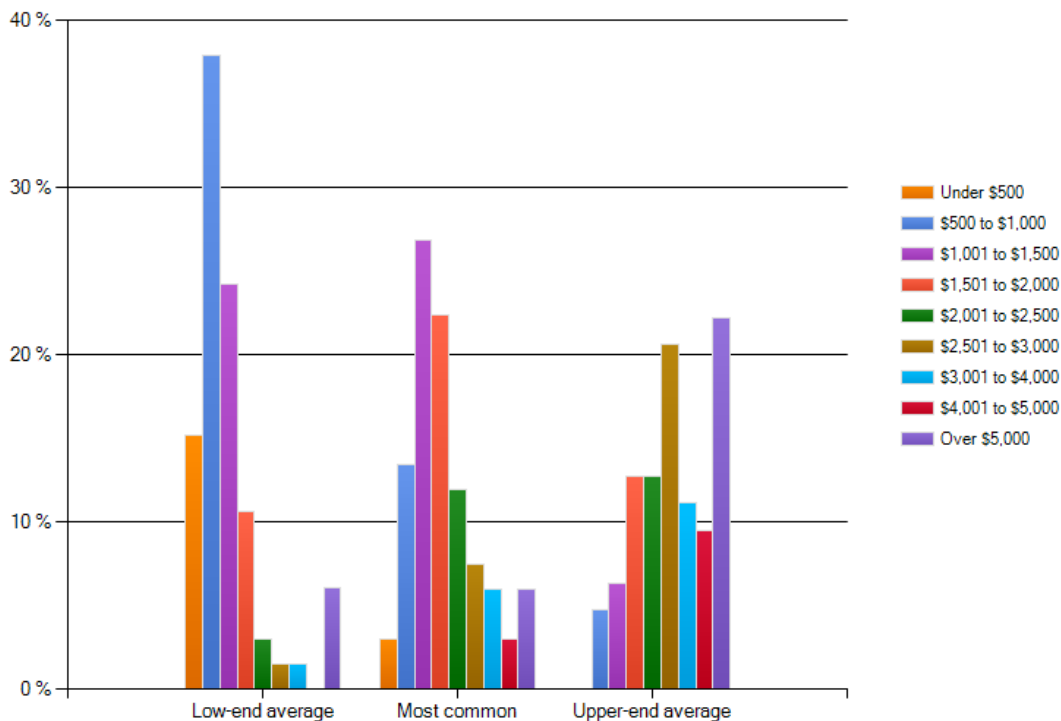


2010 Fee Advisor Survey, To Fee or Not to Fee

On the other hand flat fees may offer a better value for longer engagements such as a comprehensive financial plan, since the advisor and client can take the time to explore alternatives without constantly watching the clock.

Again, the amount of the fee depends mostly on an advisor's knowledge and years of experience, but also on an estimate of the length of the engagement.

**Flat fee for a Financial Plan - If you charge flat fees, even if it is only on occasion, please provide your low-end average fee, most common fee you would charge, and your upper-end average fee.**



2010 Fee Advisor Survey, To Fee or Not to Fee

The tax deductibility of financial planning fees would lead to a savings of anywhere from 20% to 46% of the cost.<sup>2</sup>

### Support of the Financial Planning Industry

The second problem is that many financial advisors are reluctant to offer a fee model because of their mistaken belief that clients won't pay for something they may be already receiving with an appearance of being "free". Since the cost to the client (advisor compensation) is often built into an opaque financial product, there is often little or no ongoing discussion of those client costs.

So clearly a fee-based relationship is superior as it aligns the client's and advisor's interest and all compensation is transparent.

With the addition of a tax benefit to the client, the industry would certainly be encouraged to offer fee-based alternatives.

<sup>2</sup> Using Ontario 2010 marginal tax brackets as an example.

## **U.S. Experience**

With certain limitations, American consumers are permitted an itemized deduction for tax and/or investment advice in the miscellaneous section of Schedule A. It is subject to a 2 per cent floor of the adjusted gross income on a personal tax return, similar to the medical credit calculation in Canada.

There is also a much greater percentage of the U.S. industry that provides fee-based advice, with a number of large firms that specialize in middle-class investors.

## **Conclusion**

So my belief is that if financial advice fees were tax deductible, more Canadians would seek out advice on a fee-only basis and, more financial advisors would be willing to offer advice unconnected to the sale of a financial product.

I would be happy to provide you with the results of my on-going research on Canadian fee-based financial advice and assist the Task Force in developing a detailed recommendation to make financial advice tax-deductible in Canada.

Thank you,

A handwritten signature in black ink that reads "Marc Lamontagne". The signature is written in a cursive, flowing style.

## **Author's Biography**

Marc Lamontagne, CFP, R.F.P., FMA is a financial planner and partner in Ottawa's largest fee-based and fee-for-service financial planning firm (Ryan Lamontagne Inc.); founder of To Fee or Not to Fee, an advisor training company; author of To Fee or Not to Fee II - How to design a fee financial advisory firm.

With over 20 years in the financial services industry, Marc has a broad range of knowledge and experience in the world of personal finance. He specializes in comprehensive financial planning, investment counselling, tax planning and has delivered numerous seminars and workshops across Canada and abroad. His background in the financial professions provides him with a unique understanding of the complexity of comprehensive wealth management.

Marc has a history of leading financial planning industry trends, transitioning to fee-for-advice in 1996. In addition, Marc is past-President of the Ottawa chapter of the Canadian Association of Financial Planners (now called Advocis), a faculty member of the Canadian Academy of Senior Advisors, an Advisor's Edge Report advisory board member, and a CFP® Brand Ambassador.

He published his first book in 2005 and regularly contributes articles for *AdvisorAnalyst*, *Advisor's Edge*, *Advisor.ca*, *The WealthNet*, *The Knowledge Bureau*, and Statistics Canada.