

# IMCA

investment management consultants association

## CPWA® Certification Program Core Topic List August 2009

### Section 1: Ethics

- A. *IMCA Code of Professional Responsibility*
- B. Fiduciary responsibility and due diligence
- C. Forms of compensation
- D. Conflicts of interest
- E. CPWA certification requirements

### Section 2: Tax Planning

- A. Overview of rate-structure and income-tax calculations for individuals
  - 1. Overview of income-tax calculation using Form 1040
  - 2. Overview of income-tax rate structure
  - 3. Limitations on itemized deductions
  - 4. Estimated income tax payment requirements
- B. Alternative Minimum Tax (AMT)
  - 1. Overview of AMT calculation
  - 2. Adjustments, exclusions, preferences
  - 3. AMT rate, tax credits, credit carryforwards
  - 4. Transactions or situations that lead to AMT exposure
  - 5. Strategies that avoid or minimize AMT
  - 6. Need for multi-year modeling
- C. Charitable income tax deductions and corresponding limitations
  - 1. Contributions of cash, short-term capital gain property, long-term capital gain property
  - 2. Application of limitations—20 percent, 30 percent, and 50 percent of adjusted gross income (AGI)
  - 3. Interaction of AGI limitations
- D. Interest-expense classification and applicable limitations
  - 1. Mortgage-interest requirements and special rules
  - 2. Investment-interest expense classification and limitations
  - 3. Interest on business activities
  - 4. Limitations on interest deductibility and carryforward provisions
- E. Income taxation of investments
  - 1. Qualified-dividend income—rules and exclusions
  - 2. Wash sale rules
  - 3. Key components of capital-gain tax rules
  - 4. Definition of short-term and long-term capital gains
  - 5. Netting of gains and losses
  - 6. Deducting net capital losses
- F. Income taxation of stock options
  - 1. Taxation of incentive stock options
  - 2. Qualification as incentive stock options
  - 3. Basis and holding period of stock acquired for regular and AMT purposes
  - 4. Taxation of nonqualified stock options
  - 5. Basis and holding period of stock acquired
- G. Overview of pass-through entities and their impact on tax liability
  - 1. Character of flow-through income and deductions
  - 2. Calculation of basis
  - 3. Basis and at-risk limitations
  - 4. Passive loss limitations and carryforwards
  - 5. Classification of pass-through income as passive or non-passive
  - 6. Treatment of passive losses, disposition of passive activities

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- H. Non-taxable transactions or gain/loss deferral provisions
  - 1. Taxation of like-kind exchanges
  - 2. Gain and loss deferral, basis of property acquired in exchanges
  - 3. Section 1244, 1045, and 1202 transactions
- I. Tax-planning strategies
  - 1. Multi-year income tax modeling
  - 2. Reviewing client tax returns for planning opportunities
  - 3. Tax timing and recognition of income and deductions
- J. Role of advisors in providing tax planning services to high-net-worth families

Section 3: Portfolio Management

- A. Impact of taxes on long-term wealth accumulation and investment returns
- B. Measures of tax efficiency and after-tax returns
- C. Tax-loss harvesting strategies
- D. After-tax asset class assumptions
- E. After-tax evaluation of equity and fixed income managers
- F. Tax-aware investment policies
- G. Asset positioning based on the tax characteristics of the entity
- H. Alternative investments
- I. Socially responsible investments

Section 4: Planning for Executives

- A. Types of stock options
  - 1. Qualified—tax rules, advantages, and disadvantages
  - 2. Nonqualified—tax rules, advantages, and disadvantages
- B. Strategies for exercising groups of options with differing maturities, exercise prices, and terms
  - 1. Exercise strategies for portfolios of stock options
  - 2. Incentive stock options and their impact on the overall exercise strategy
  - 3. Minimizing AMT on incentive stock-option exercises
  - 4. Simultaneous exercise of qualified and nonqualified
  - 5. Cashless exercise, exercise and hold, pyramiding options
  - 6. Tax basis and holding period of option shares
- C. Concentrated position risk and client education
  - 1. Quantifying downside risk from excess concentration
  - 2. Use of Monte Carlo Simulation to illustrate probable outcomes of single stock positions versus diversified portfolios
- D. Key strategies for hedging and/or diversifying concentrated stock risk
- E. Understanding the operation of each strategy, best use of the strategy, major tax implications including taxation of options and straddle rules, risks, and limitations of each strategy
  - 1. Outright sale of stock
  - 2. Prepaid variable forward contracts
  - 3. Costless collars
  - 4. Exchange funds
  - 5. Charitable Remainder Trusts
  - 6. Section 10b-5 Plans
- F. Restrictions on senior executives of publicly traded businesses
  - 1. Short-swing profit rules
  - 2. Insider information
  - 3. Exercise “windows”
  - 4. Company policies

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Section 5: Planning for Closely Held Business Owners

- A. Business entity structure
- B. Determining the appropriate type of entity for a client's business purpose
- C. Intergenerational business transfer
- D. Buy-sell agreement planning
- E. Valuation and liquidity planning for closely held business interests

Section 6: Retirement Planning

- A. Spending policy in a "distribution" portfolio—maximizing the life of the portfolio
  - 1. Sustainable rate of withdrawal
  - 2. Impact of timing of retirement and "luck factor"
  - 3. Impact of asset allocation on the spending decision
- B. Spending from the qualified plan or the after-tax asset pool—strategy considerations
  - 1. Identifying the optimal priority of asset distributions
- C. Required Minimum Distribution (RMD) rules in retirement and estate planning
  - 1. Minimum distribution timing
  - 2. Minimum distribution calculations
  - 3. Impact of death of the account holder
- D. Investment strategies for assets inside qualified plans—integration with the portfolio
  - 1. Determining whether to invest qualified plan money for long-term growth or income
- E. Net Unrealized Appreciation (NUA) exception for employer securities
- F. Roth IRA strategies
- G. Distributions at death
  - 1. Beneficiary planning
  - 2. Stretch IRA

Section 7: Risk Management

- A. Risks that give rise to the need for asset protection
- B. Property and casualty insurance as a component of risk protection
- C. Use of onshore entities for asset protection
  - 1. Family Limited Partnership
  - 2. Limited Liability Company
  - 3. Domestic Asset Protection Trusts
  - 4. Life insurance products in asset protection
- D. Offshore asset protection planning
  - 1. Selecting an appropriate jurisdiction
  - 2. Offshore protection trust structure and creation
  - 3. Cost and operation of offshore trust vehicles
  - 4. Limitations on offshore entities

Section 8: Charitable Planning

- A. Adjusted gross income (AGI) limitations on gifts to public charities
  - 1. Limitations on gifts of cash to public charities
  - 2. Limitations on gifts of long-term capital gain to public charities
- B. AGI limitations on gifts to private foundations
  - 1. Limitations on cash gifts to private foundations
  - 2. Limitations on gifts of long-term capital gain property to private foundations
- C. Planning to maximize charitable deductions and interaction of multiple limitations
  - 1. Income planning to maximize charitable-contribution deductions
- D. Gifts of ordinary income property and property subject to debt

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- E. Donor-Advised Funds
  - 1. Common uses
  - 2. Structural issues
  - 3. Advantages and limitations
  - 4. Funding strategies
- F. Charitable Lead Trusts
  - 1. Common uses
  - 2. Structural issues
  - 3. Advantages and limitations
  - 4. Funding strategies
- G. Charitable Remainder Trusts—CRATs, CRUTs
  - 1. Common uses
  - 2. Structural issues
  - 3. Advantages and limitations
  - 4. Funding strategies

**Section 9: Estate Planning**

- A. Assets/liabilities includible in the taxable estate
  - 1. All assets owned or controlled
  - 2. Life insurance
- B. Estate, gift, and generation-skipping tax
  - 1. Tax rates
  - 2. Situations in which each tax applies
- C. Credits allowable against estate tax liability
  - 1. Unified credit
  - 2. Charitable contributions
  - 3. Unlimited marital deduction
- D. Estate, gift, and generation skipping transfer tax calculations
- E. Trusts
- F. Strategies for reduction of the taxable estate
  - 1. Elimination of assets from the taxable estate
  - 2. Shifting future appreciation
- G. Use of trusts, selection of trustees, succession of trustees, timing of inheritance, and amount of inheritance
- H. Qualified Retirement Plan (QRP) assets in the estate plan
- I. Stock options in the estate plan
- J. Grantor-Retained Annuity Trusts (GRATs)
- K. Valuation discounts
- L. Family Limited Partnerships
- M. Installment sales to Defective Grantor Trusts (IDGTs)
- N. Intra-family loans
- O. Irrevocable Life Insurance Trusts (ILITs)
- P. Comprehensive estate planning

**Section 10: Behavioral Finance**

- A. Prospect Theory
- B. Adaptive Markets Hypothesis
- C. Decision-making process (intuitive or deliberative)
- D. Decision-making biases (cognitive and emotional)
- E. Paradox of Choice
- F. Developing trust in client relationships
- G. Family goals, challenges, communication, and strategies