

Statement of

Dan Arnold

President and Chief Executive Officer  
LPL Financial LLC

Hearing on

“The 2017 Tax Law and Who It Left Behind”

Before the

House Ways & Means Committee

March 27, 2019

Chairman Neal, Ranking Member Brady, and members of the Committee:

LPL Financial LLC (“LPL”) appreciates the opportunity to submit this statement for the record and comment on the hearing entitled, “The 2017 Tax Law and Who It Left Behind.” I know that many of our independent contractor financial advisors certainly feel like they have been left behind and have not felt the benefit of the Tax Cuts and Jobs Act (TCJA) as some others in the service industry have.

Therefore, we urge Congress to resolve via clarifying legislation that financial services professionals such as broker-dealers and investment advisers shall qualify as “qualified trades or businesses” and shall not be considered “specified service trades or businesses” under new Internal Revenue Code (IRC) §199A. We are concerned that this definition unfairly and unintentionally disadvantages financial advisors such as those associated with LPL, and diminishes their ability to invest in and build their businesses.

Right now, real estate brokers and insurance brokers are able to enjoy the benefit of the 20% pass-through deduction. While we recognize that financial advisors may be regulated differently than real estate and insurance, as small business owners, they face the same burdens and challenges. Congress should not pick winners and losers.

LPL is one of the country’s largest independent broker-dealer firms and provides brokerage and advisory services to over 16,000 financial advisors and over 700 diverse financial institutions. LPL further serves as a trusted partner to many of the country’s retirement plans and market participants for technology, custodial, and consulting services.

Because of our independent contractor model, our advisors may be distinguished from those wealth managers, financial planners, and retirement advisors who are employed by the traditional employee-model broker-dealers. LPL financial advisors are small business entrepreneurs and drivers of the American economy.

A key provision under the TCJA created a 20% deduction on “qualified business income” for owners/shareholders of pass-through businesses, such as S corporations, partnerships, and sole proprietorships. A significant number of financial advisors associated with LPL

are organized as pass-through entities, and we believe it is sound policy to allow these hard-working business owners to benefit from this new deduction in whole. Under § 199A, owners and shareholders of certain types of businesses – the “specified service trades or businesses” – are limited in their ability to apply the 20% deduction if their overall taxable income exceeds certain thresholds.

LPL advisors provide a broad range of services that do not fall within a “specified service trade or business,” and do far more than simply provide “financial services,” “brokerage services,” and “investment management” services (i.e., the terms used in the statute) for their clients. LPL financial advisors provide assistance on a wide range of issues, dealing with challenges such as how to create a savings plan, and how to plan for family transitions. As such, our advisors should have the opportunity to show that it is the reputation of their firm that is the principal asset of the business, not the reputation of any particular owner or employee.

With the savings crisis that America is facing, LPL believes that Congress did not intend to limit small business owners like our advisors from receiving the full benefits of the pass-through deduction. LPL financial advisors employ thousands of individuals across the United States and are community leaders, supporting millions of clients. Excluding our advisors from the full benefits of the pass-through deduction would be contrary to Congress’s public policy goals of growing the economy, creating jobs, and providing our small business owners with much needed tax relief. For these reasons, we believe that Congress should approve clarifying legislation to confirm that advisors who perform services like ours shall not be considered “specified service trades or businesses.”

Thank you for your attention to this important issue. We look forward to serving as a resource to you as you continue your work on clarifying legislation to strengthen TCJA. Please do not hesitate to contact us if we can provide further information.

Sincerely,

Dan Arnold  
President and CEO  
LPL Financial