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Q&A: G2 FinTech's Michaels Discusses New Company, Product Roadmap

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Last week, GFT Technologies announced the acquisition of the consulting services division of G2 Systems. Today, G2's technology arm revealed it would rebrand as G2 FinTech. G2 FinTech CEO George Michaels speaks with BST about why the company decided to branch off from its consultancy business and what products the vendor is working on.

BST: What was the thinking behind having G2 FinTech become a separate entity after the GFT acquisition of G2 Systems?

Michaels: We had two very separate independent businesses with a certain amount of synergy between the two. But as far as taking software to the next step, we had to divest ourselves of the consulting business. We're looking to dramatically expand what we do and for whom we do it.

We are in the business of helping investment firms—particularly hedge funds—produce their books and records as a starting point and we take them through producing their tax returns. In order to do that well, I couldn't constantly be distracted by the consulting business. Now we can put all of our energy into producing the best product possible.

BST: From a tax perspective, what are your clients' greatest needs?

Michaels: When I look at what the industry needs for tax analysis software, the answer we hear over and over again is the qualified dividends processing, and doing it thoroughly. With qualified dividends, everybody thinks at first glance that it's a simple problem: If you held a stock for 60 days and it paid a dividend, you would get a preferred tax treatment on it.

The problem is, the wording in the tax code means there are a whole bunch of things that can disqualify you from counting all 60 days, and all of those things have to do with other sections of the tax code. For example: You mitigate your risk of loss. So that means if you hold a stock for 60 days, but half the time you had the short position on the same stock, that would lower your risk of loss because you're both long and short, you have a box and you have no risk; therefore you don't get a qualified dividend. But you can't determine if you have a box or not unless you solved another section of the tax code called the constructive sales.

These are complex problems, and now we are able to do so much more on the software side because I'm not out constantly trying to sell the consulting product. Someone who is a pro-GFT at selling the consulting business will do a better job. And GFT had no interest in acquiring a software company. The only way to do what we do well is to break the two into separate pieces.

BST: Will the G2 Systems name continue to exist?

Michaels: G2 Systems will continue to exist only for legal purposes. G2 Systems separated its assets into two piles: the consulting assets and the software assets. The consulting assets were sold to GFT and the software assets were sold to G2 FinTech.

George Michaels, CEO, G2 FinTech

BST: Will the same developers that developed TaxGopher—G2 Systems' flagship product—continue to work with G2 FinTech? Will there be any staffing changes?

Michaels: Yes, the developers who developed TaxGopher are going to G2 FinTech.

BST: What went into the development of the qualified dividend (QDI) module, the inaugural product released under the G2 FinTech banner for TaxGopher?

Michaels: We're talking about really big chunks of money here. If you remember when Warren Buffett came out and said that his secretary paid more in taxes, as a percentage, than he did, it's because Warren Buffett pays the capital gains tax. Capital gains are like a special tax you get for buying and selling things. The qualified dividends are one of the elements that make up capital gains.

Capital gains and qualified dividends qualify for the rich-person's tax rate of 15 percent—that's why this stuff is newsworthy. The trick is trying to figure out exactly how much of your income gets the special, rich-person's tax rate, and how much of your income is left to pay the heavy duty rate that the middle class pays. Everybody wants to pay the rich person's rate and our QDI module tells asset managers, of the dividends that their clients received this year, here are which ones qualify for the rich-person's rate and here are which ones that qualify for the middle-class-person's rate.

BST: What are some of the projects you are working on that the industry can look forward to as we head into the fourth quarter of 2011 and the first quarter of 2012?

Michaels: The QDI is being rolled out in a series of phases. We've got the first phase, which is a simple version that catches whether or not your dividends qualify using the normal rules. The second version, which is upcoming, is the one that does mitigated risk of losses and the one that detects boxes and can tell you which ones were qualified at first glance, but were boxed off in another section; thus, the dividend is disqualified for the lower rate.

The other thing we are working on is a portable version of our software. All of our software sales at this point have been to institutions that run it on their platform. What we'd like with the portable version is something where anybody can run it on a laptop to do the analysis. So this would be of interest to high-net-worth individuals.