Top 50 Year-End Tax Planning Strategies

As the year-end approaches, now's the time for doctors to implement changes that can cut taxes in 2016 and 2017. We're including the following top 50 year-end tax planning strategies as an added "bonus" to this month's issue:

____1. Claim a Section 199 manufacturing deduction for the onsite production of crowns, inlays, onlays, and other restorations, lab items such as retainers, study models, and appliances, placement of orthodontic brackets and implants, and printed x-rays, ICAT images and records.

____2. Minimize or eliminate the new 3.8% Medicare payroll tax on personal investment income by increasing retirement plan and IRA contributions, increasing salaries to employed children, gifting investment assets to lower bracket family members or charity, investing in tax-free bonds, and reducing capital gains through tax-free exchanges and harvesting capital losses.

____3. File amended practice tax returns for 2013, 2014, and 2015 if you paid staff health insurance premiums for those years but did not claim the Small Business Health Insurance Tax Credit.

____4. Make maximum use of the Section 179 expensing election to immediately write-off new or used equipment purchases of $500,000 made during 2016.

____5. Use 50% bonus depreciation to write-off one-half the cost of other new assets purchased in 2016, including qualified improvements made to the interior of office buildings not owned by the doctor.

____6. Consider purchasing a new business car in 2016, to take advantage of below-market financing and 50% bonus depreciation. Maximum depreciation deductions of up to $11,160 are available this year.

____7. Get an even bigger write-off by purchasing an SUV rated at 6,000 pounds or more fully loaded on or before December 31, 2016 to obtain a six-year write-off, and to achieve eligibility for the $25,000 expensing election (if business use is at least 50%), and 50% bonus depreciation (new vehicles only). Qualifying SUVs include the BMW X5, Cadillac Escalade and SRX, Lincoln Navigator, Chevrolet Suburban, Trailblazer (Model SS) and Tahoe, Ford Expedition, Explorer, and Excursion, GMC Yukon and Acadia, Envoy Denali, Hummer H1, H2, and H3, Mercedes M, G, GL, ML and R-Class, Range Rover, Toyota Land Cruiser and Sequoia, Land Rover LR3, Porsche Cayenne, Volkswagon Touareg, Jeep Grand Cherokee SRT8 and Overland, Mercury Mountaineer, Nissan Armada and Pathfinder, Saab 9-7X, Dodge Durango, Audi Q7, Chrysler Aspen, Infiniti QX56, Saturn Outlook, Volvo XC09 and the Lexus X570 and GX470. Note that many pick-up trucks also qualify (Toyota Tundra, Dodge Ram, etc.).

____8. Looking to maximize tax-deductible retirement plan contributions (more than $118,000 annually)? Doctors over age 40 with a younger staff can now fund a combined "safe harbor" 401(k) profit sharing plan (with a 6% match) and cash balance defined benefit pension plan to save thousands in federal and state income taxes, says Jared Hollands of PenSys, Inc. (888.440.6401).

____9. Looking for slightly smaller tax-deductible contributions ($118,000 or less)? Doctors over age 40 with a younger staff should consider a 401(k) cross-tested (age-weighted) profit sharing plan.

____10. Doctors covered under a qualifying High Deductible Health Plan (HDHP) should establish a Health Savings Account (HSA) and fund the maximum tax-deductible contribution to cover future medical expenses. Doctors can deduct up to $3,350 for a single policy and $6,750 for a family policy in 2015. In addition, doctors and spouses age 55 or older can make additional tax-deductible "catch up" contributions of $1,000 each.

____11. Contact your CPA to determine the payroll tax savings available from electing Subchapter S corporation status for your practice, effective January 1, 2017. In most states, doctors will be able to significantly reduce payroll taxes (including the 3.8% payroll tax on personal investment income) by taking a lower salary, with the remaining profit distributed as a dividend (not subject to payroll taxes). S status can also reduce income and payroll taxes on the practice sale, and lower IRS audit risk and exposure.

____12. Contact Mark Rudolph, CPA (704.808.5232) to implement a cost segregation study if you have purchased, constructed, or renovated an office building costing $500,000 or more after 1986, in order to reclassify some costs as non-structural for faster depreciation write-offs.

____ 13. Increase tax-free income through employee awards and by renting your personal residence and vacation home for up to 14 days each year. If not otherwise rented, rent your personal residence and vacation home to your corporation for board of director, shareholder, staff retreats, staff training, or other business meetings. The rental paid by the practice will be tax-deductible, while up to 14 days of rental income can be received tax-free pursuant to Section 280A(g).

____14. Utilize a Section 1031 tax-free exchange to avoid federal and state income taxes on the sale of your practice, office building, or other real estate held for business or investment purposes, if you plan to reinvest the proceeds.

____15. Increase tax-free income by making sure that the practice reimburses you for all business expenses paid personally during 2016, such as travel, meals and entertainment, business car expenses, dues and subscriptions, advertising and promotion, continuing education, safe deposit fees, tax return and planning fees, investment expenses, etc.

____16. Increase tax-free income by making sure that the practice is paying all medical insurance premiums for the doctor and his or her family. Medical insurance premiums remain 100% deductible for all doctors (C corporation, S corporation, unincorporated, etc.), even if no staff coverage is provided, since the Obamacare non-discrimination rules are not yet in effect.

____17. Make sure that the practice takes advantage of the Disabled Access Tax Credit of up to $5,000 annually for the cost of building improvements, such as expansion of hallways, repaving parking area, installing wheelchair accessible ramps, or new ADA-compliant bathrooms, or adding new carpet or floor coverings incurred to make your practice facility more accessible to the handicapped, or for equipment purchased to provide services to the disabled.

____18. Make sure that the corporation fully utilizes the $15,000 expensing election under Section 190 for expenditures made to remove architectural and transportation barriers to provide services to the handicapped and elderly.

____19. Separate fully (100%) deductible travel, lodging, and continuing education expenses from meal and entertainment expenses (50% deductible) for tax reporting purposes. In addition, make sure that all meal expenses for staff meetings, functions, and outings are classified as “office expenses” since they remain fully deductible under Section 274(n) of the Internal Revenue Code.

____20. Increase business deductions through purchasing artwork for the practice and business luggage through the practice with tax-deductible dollars. Maximize business related dues and subscriptions to magazines, newspapers, and other periodicals paid through the practice.

____21. Make sure that all travel is business-related (continuing education meetings, consults with colleagues, board of directors meeting, etc.) in order to eliminate non-deductible personal travel costs. In order to document consults with colleagues, send a letter to the doctor confirming your visit, as well as a follow-up letter thanking him for the opportunity, outlining what you learned from the four hour in-office visit, and inviting him to visit your practice.

____22. Purchase a business computer and other office furniture and equipment through the practice, and use it at home for confidential duties such as practice accounting, payroll, and personnel matters.

____23. Pay all miscellaneous expenses such as tax return fees, safety deposit box rentals, dues and subscriptions, investment expenses, etc., through your practice, and deduct them on your practice tax return, in order to assure full deductibility.

____24. Reduce your regular C corporation’s taxable income to zero at year-end by paying a bonus to the doctor and making retirement plan contributions, if appropriate. Retaining earnings in your C corporation makes sense only to the extent necessary to fully utilize existing net operating losses and the tax credits discussed above.

____25. Pay all operating expenses for your business automobile through your practice and deduct the actual cost of operation, rather than the $.54 per mile rate. The auto expenses which should be paid through the practice include gas, oil, maintenance, repairs, taxes, tags, licenses, and insurance. Keep a log on a three-month basis, and show any personal usage as income on your W-2.

____26. Employ your spouse through the practice and pay him or her an annual salary of $3,000 (generally) in order to qualify the spouse for minimum Social Security benefits, the child care credit, as well as fully deductible practice travel and fringe benefits, while minimizing payroll taxes. However, if your family has two or more children under the age of 13, and child care expenses exceed $3,000 annually, increase the annual salary to equal the annual child care expenses, up to a maximum of $6,000 annually. Moreover, if your practice operates a SIMPLE-IRA retirement plan, increase the spouse's salary to $14,000 ($17,000 if age 50 or older), in order to qualify the spouse for the maximum SIMPLE-IRA deferral of $12,500 ($15,500 if age 50 or older). If your practice sponsors a 401(k) profit sharing plan, increase your spouse's salary to $20,000 ($26,000 if age 50 or older) to qualify for the maximum deferral of $18,000 per year ($24,000 if age 50 or older). Pay the spouse the highest reasonable salary in exchange for his or her services in order to generate a larger tax-deductible retirement plan contribution, if the practice operates an age-based retirement plan (target benefit pension plan, cross-tested or age-weighted profit sharing plan, or defined benefit pension plan).

____27. If you do not have a practice retirement plan, set one up on or before December 31 in order to qualify for a 2016 tax deduction. Procrastinators have until April 17, 2017 (or October 16, 2017 if extension filed), to establish a SEP-IRA and still deduct contributions on your 2016 return. Make sure your corporation utilizes the tax credit for small employer pension plan startup costs of up to $500 annually for the first three years of the plan.

____28. Contribute the maximum "catch up" contribution to your 401(k) profit sharing plan ($6,000 annually) for each spouse age 50 or older.

____29. Contribute an amount to your practice's retirement plan to assure that the doctor receives the maximum contribution allocation possible ($53,000 in 2016; $59,000 if age 50 or older), as long as at least 70% of the amounts are allocated to the doctor and spouse's account. If receiving less than 70% of the total amounts allocated, contact Jared Hollands of PenSys, Inc., at 888.440.6401 to have a plan design analysis performed to determine what retirement plan will prove most cost effective for your practice.

____30. If the doctor is age 40 or older with a younger staff, adopt a "safe harbor" 401(k) cross-tested profit sharing plan to maximize tax-deductible contributions for the doctor and spouse, while limiting staff funding costs.

____31. If you or your spouse operate a separate full or part-time sideline business, establish a separate retirement plan for that business and maximize tax-deductible contributions to it.

____32. Fund non-deductible IRA contributions for the doctor and spouse of $5,500 per spouse ($6,500 if age 50 or older), to avoid the 3.8% tax on personal investment income. Establish these as tax-free Roth IRA accounts for married doctors with less than $184,000 of AGI, or as regular non-deductible IRA accounts otherwise.

____33. Consider re-characterizing your 2016 Roth IRA conversion if you are in the higher marginal tax brackets (35%/39.6%).

____34. Roll taxable IRA amounts into existing retirement plans (if permitted) to avoid income taxes on Roth IRA conversions.

____35. Convert your regular IRAs (non-deductible contributions only) into Roth IRAs each year so that all future earnings will grow tax-free.

____36. Convert additional amounts from taxable IRAs into Roth IRAs following your practice sale to fully deduct all available itemized deductions and exemptions, and fully utilize the 10%/15% tax brackets ($75,300 for married doctors).

____37. Employ children age 6 or older through your practice in order to fund college savings, private school costs, etc., on a tax-deductible basis. Each child can earn $6,300 tax-free in 2016 in exchange for services actually rendered.

____38. Establish and fund the maximum annual contribution of $2,000 per year to a Coverdell Savings Account (formerly known as Education IRAs) for each child in order to shelter investment earnings for future tax-free payouts to cover college and/or private school costs.

____39. Establish a Roth IRA for each employed child and contribute an amount equal to their earned income, up to a maximum of $5,500 for each in 2016. While these contributions are non-deductible, principal can be withdrawn tax-free for college, and all future earnings will be tax-free when withdrawn after age 59½.

____40. Reduce income taxes further by shifting income-producing property (dental and office equipment, office building, etc.) into a family limited partnership (FLP), Subchapter S corporation, or limited liability company (LLC), set up on behalf of your children age 19 or older, or children who are full-time students age 19-23. This income will be taxed at their lower rates if their earned income equals more than half of their support.

____41. Transfer appreciated property (e.g., stocks, bonds or real estate) that you plan to sell, to your children age 19 or older, or children who are full-time students ages 19-23, or to an FLP or LLC set up for their benefit. Thereafter, they can sell this appreciated property and have the capital gain taxed at rates as low as 0% if their earned income equals more than half of their support (and avoid the 3.8% payroll tax), and use the proceeds to fund educational costs.

____42. Increase the rent charged to your practice for use of the professional office building and/or equipment to the highest reasonable rate if this property is owned by a FLP, LLC, or Subchapter S corporation on behalf of your children, to increase the income shifted to their lower tax bracket.

____43. Have the family limited partnership FLP/LLC loan funds to your corporation for working capital or for capital improvements, at a high interest rate (15%), or begin operating an in-house lab and/or records business, in order to shift additional income from your highest bracket to your children on a tax-favored basis.

____44. Do not claim any college-age children as dependents on your federal or state income tax returns. Rather, have them pay for their college education and living expenses from their own funds, custodial accounts, or by taking distributions from a family limited partnership. Through this strategy, your children will be able to claim a personal exemption ($4,050) on their return, and become eligible for the American Opportunity educational tax credit ($2,500 a year during the initial four years), and Lifetime Learning credit ($2,000 educational tax credit during remaining years).

____45. Increase charitable contribution deductions by making gifts of property, such as stocks, bonds, artwork, or real estate that have gone up in value, in lieu of cash donations, to qualified charitable organizations. The full fair market value of the property is tax-deductible as a charitable contribution if held for at least 12 months, and the gain is not subject to income tax.

____46. Increase charitable contribution deductions by donating a qualified conservation easement or remainder interest in a personal residence or farm to charity.

____47. Deduct state and local sales taxes as an itemized deduction for those doctors who itemize and whose sales taxes exceed their state and local income taxes otherwise deductible.

____48. Convert non-deductible interest on personal loans into fully deductible status through paying off the debt using available cash, or a home equity line of credit, or consolidating loans as part of a home mortgage refinance to take advantage of low home mortgage interest rates.

____49. Defer income into 2017 by delaying billing and collection activities in December.

____50. Accelerate personal tax deductions into 2016 by paying any state estimated income tax payments due in January before year-end; if incorporated, increase your state income tax withholding on your corporate salary or bonus before December 31. Also, prepay your home mortgage payment due January 1, and pay all real estate and personal property taxes due, before December 31.