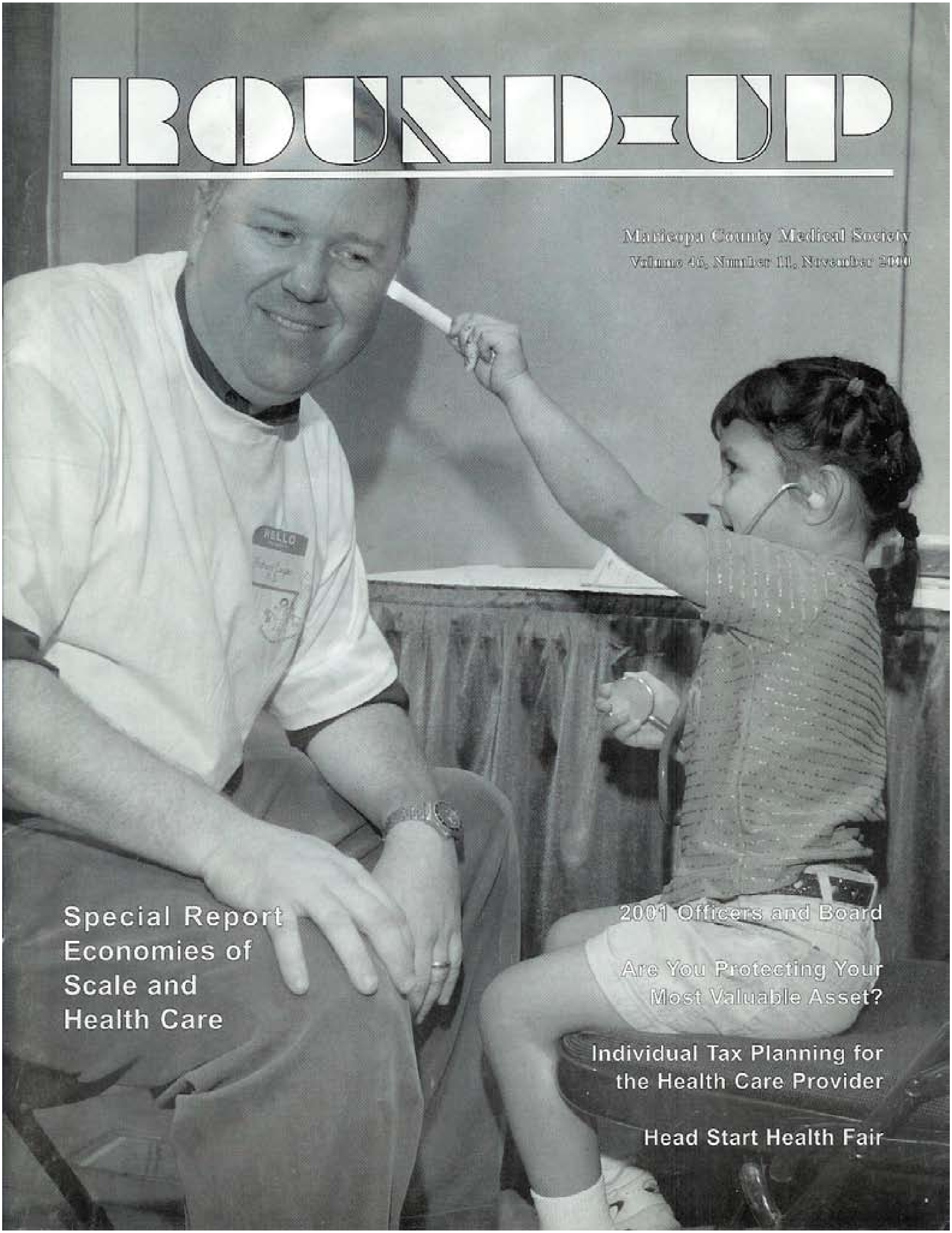
ROUND-UP

Maricopa County Medical Society
Volume 46, Number 11, November 2000



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Are You Protecting Your Most Valuable Asset?

Individual Tax Planning for the Health Care Provider

Head Start Health Fair

Individual Tax Planning for Health Care Providers

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If you ever have the feeling that you continue to pay more and more taxes every year, take comfort. You are not alone. Middle and higher income taxpayers are paying an increasingly greater percentage of all federal income taxes collected by the Internal Revenue Service. In spite of the fact that this statistic works against many people in the healthcare industry, there are steps you can take now to reduce your tax debt later. And there is still time to reduce your Year 2000 tax liability.

Throughout this article, I will focus on tips that, if followed, can reduce your taxes. However, every individual is different and depending on your tax bracket and other factors, some tax planning tips may have greater benefit to you than others may. Be sure to consult with your own Certified Public Accountant before you attempt to implement any of the suggestions that follow.

Analyze Your Tax Situation

In order to determine the benefit to be derived from various tax saving tips, it is first necessary to be aware of your current tax bracket. And consideration of your filing status is necessary to determining your tax bracket. In most cases, filing jointly gives married taxpayers more favorable tax treatment. This is particularly true in community property states such as Arizona. The IRS requires taxpayers filing separate returns in community property states to equally divide income and expense items between the two spouses. For example, the husband reports half of his income and half of his wife's on his separate return, while his wife reports half of his income and half of her own income on her return. There are a few exceptions to this rule and your CPA can advise you as to whether you qualify for different treatment.

You'll also probably want to do a projection. As a guide to preparing this projection, you may wish to refer to your 1999 individual income tax return. The first step is to calculate adjusted gross income (AGI). The adjusted gross income is used to figure limitations of medical expense deductions, charitable contributions and miscellaneous itemized deductions. Other tax law provisions also apply to this figure. AGI is total income, less certain deductions. Examples of such deductions include student loan interest, alimony paid, certain moving expenses, IRA contributions, 60% of self employed health insurance and half of the self-employment tax.

Next, you'll figure your itemized deductions: medical expenses, interest expense, taxes, charitable contributions and miscellaneous itemized deductions. Some of these deductions are subject to limitation based on your adjusted gross income. For example, the deduction for medical expenses is derived by subtracting 7.5% of adjusted gross income from total medical expenses. The total of all itemized deductions (or your standard deduction if greater), along with your personal exemptions are subtracted from AGI to arrive at taxable income.

Once you have done a projection of taxable income you'll be able to refer to the 2000 tax rate table to find your tax bracket.

Now that you have a general idea of your current tax situation, we can take a look at some tax saving techniques. Again the tax benefit you reap from each strategy is dependent on your tax bracket, income limitations, and various other factors.

Make Voluntary Contributions To Employer Sponsored Retirement Plans

If you have your own medical practice, make sure your practice makes the most of pension plan options. There are a wide variety of available plans and your tax advisor can help you find the one to help you maximize your retirement benefit and your current tax savings. If your employer provides a plan that allows voluntary contributions, such as a 401(k) plan, contribute the maximum allowable. This year, you may be able to contribute as much as $10,500 to a 401(k) or 403(b) plan or $6000 to an employer-sponsored SIMPLE.

Contribute to an IRA or Roth IRA

If your income is below certain tax limits and/or you cannot participate in an employer sponsored plan, you may want to contribute to an IRA or a Roth IRA. Contributions to an IRA are deductible against income and reduce adjusted gross income. Roth IRA contributions, while not currently deductible, will reap benefits in future years. The earnings from a Roth IRA accumulate tax free and there is no taxable event upon the ultimate distribution of the earnings at retirement. You have until April 16, 2001 to contribute to your IRA or Roth IRA.

Accelerate or Delay Income

If your bank account can handle it, it may be beneficial to defer receipt of income until next year. Oftentimes, deferring income can keep you from being bumped into the next tax bracket in the current year. Here are a couple of ways you can defer income:

- If you have your own practice, or are otherwise self-employed, you have some control over when you take a paycheck. Keep in mind, however, that the IRS has special rules governing the timing of salary distributions for personal service corporations with other than December year-ends. And even if you are not self employed, you may be able to talk with your employer about deferring a year-end bonus until after the first of the year.
- Invest in certificates of deposit with maturity dates after December 31, 2000. No interest will be reported on a 1099-INT until the CD matures.

Do you anticipate being in a higher tax bracket for 2001? If so, accelerating income may be in order. You'll pay more tax this year, but make up for it next year when you taxes are reduced by an even greater amount. Many reasons may exist that would contribute to a substantial increase in next year's income. Do you anticipate a significant pay increase? Are you planning to marry next year? Is your spouse planning to return to work after having stayed home with children for several years or after finishing an education? Perhaps you have invested in a limited partnership that has announced large gains are anticipated for next year. Whatever the expected reason for stepping into the next tax bracket, there are ways you can minimize the tax burden. If you anticipate your tax rate will be higher in 2001, consider doing the following:

- Accelerate bonus payments from your employer into the current tax year. Again, you may have more flexibility to do so if you have your own medical practice.

- If you're contemplating the sale of some investments that have done well, make sure the transaction takes place this year if you are currently in the 15% tax bracket. Taxpayers in a higher tax bracket are already reaping the benefits of the maximum capital gains tax rate of 20% on the sale of long term investments. If you are in the 15% bracket, however, your capital gains are taxed at only 10%.
- Make gifts to family members. Consider transferring income producing assets to your children or other family members who are in a lower tax bracket. For 2000, the IRS allows you to transfer up to $10,000 each to as many individuals as you desire, without the consequences of the gift tax. If your spouse agrees to gift splitting, that figure increases to $20,000 per individual. And it is important to keep in mind that gifting can help reduce estate taxes later.

If you have children in college consider this: You could donate appreciated property, such as stocks, to your children. They would in turn sell the stock, recognize the gain at their own, presumably lower tax rate, and use the funds to pay for college tuition. If you are in a higher tax bracket, chances are you will get little or no benefit from taking the tuition credit anyway, as it is phased out at certain income levels.

Sometimes, of all the ways you can save on your taxes, increasing your itemized deductions is one of the simplest. Let's take a look at some of the things you can do to lower your taxes simply by doing a little planning with respect to those itemized deductions.

Take the full benefit of the mortgage interest deduction. The mortgage interest deduction is probably the best itemized deduction still available. Several years ago, Congress passed legislation to eliminate the deduction for most other interest expense items, leaving only the mortgage interest and investment interest deductions. Not only can you deduct the interest on the purchase of your home, but you may also deduct interest from loans on equity in your home. To take full advantage of this benefit, it is wise to consider borrowing on your home's equity for major purchases such as a new car or boat. And don't forget about your vacation home as a deduction. The IRS allows you to take the mortgage interest deduction on two residences. You may want to consider making your January, 2001 mortgage payment in December of this year to give yourself more deductible interest.

Deductible mortgage interest also includes "points", usually referred to as loan origination fees on the purchase of a home. Points are deductible in full in the year you buy your home, or you may choose to amortize the points over the life of the note, deducting a portion of the points each year. You can also deduct points paid on home improvement loans. If you refinance an existing loan, those points must be amortized. When you pay off or refinance your loan again you can deduct any remaining amounts in full. Decide whether to accelerate medical expense payments. Your medical expense deduction is subject to limitation on your return. The limitation is so great that many people don't keep records of their medical expenses for tax purposes. But you may be missing out on a valuable deduction. It is true that your total deductible medical expenses are reduced by 7.5% of your adjusted gross income. But let's not forget about your Arizona return. If you are a resident of Arizona your medical expenses are deductible in full if you itemize.

And if you incur a major medical expense, or several, that could just be enough to make you want to gather the rest of your medical expenses together to see if they are deductible. If you've already incurred unusually large medical expenses and foresee additional expenses in the near future for yourself or another family member, consider whether you want to accelerate the scheduling of elective surgery, eye care appointments and dental work into the current year.

When figuring medical expenses don't forget to include dental expenses, lab fees, medical transportation, x-rays, glasses, contact lenses and hearing aids. Health insurance premiums and premiums for long term care insurance paid out of pocket or withheld from your pay are also deductible medical expenses. Also keep in mind that if you provide more than half of the support of a parent, those medical expenses can be deducted as well.

Make your forth quarter state estimated tax payment early. If you are a partner in a medical practice or a member of an L.L.C. you probably make quarterly estimated tax payments. And there may be other reasons why you would be making estimated tax payments, such as to cover the tax on investment income. If you do make these quarterly payments, your final 2000 state estimated tax payment is due in January 2001. Since state income taxes paid are deductible, you'll increase your total deduction if you make that final payment in December. You can also increase your state withholding for the remainder of the year if it appears that you will owe more taxes with your state return.

Make Year-End Charitable Contributions

If you make annual contributions to favorite charities, consider making your 2001 contribution this year. Another way of reaping additional tax benefits is to donate appreciated property. Doing so allows you to claim a deduction for the full fair market value of the donated property and lets you avoid recognition of capital gains on the increase in the market value upon the eventual sale.

Take Advantage of Education Credits

You may be eligible to take the Hope Scholarship Credit or the Lifetime Learning Credit on your 2000 tax return. The Hope Credit applies to tuition payments and related expenses for you, your spouse or your dependents for the first two years of post-secondary education. You can claim this credit up to $1500 for each eligible student in your family who is enrolled at least half time. The Lifetime Learning Credit can be used for tuition and expenses for post-secondary education including graduate-level courses and courses to improve or obtain job skills. This credit is 20% of the first $5000 per year in educational expenses.

Plan The Timing of Capital Gains and Losses

No discussion on tax planning is complete without taking a close look at what you can do to minimize your capital gains as well. Recall from our review of the tax tables that the maximum federal tax rate on ordinary income is 39.6%. However, if you dispose of capital investments held for over a year, your maximum tax rate on that income is only 20%, and only 10% if you are in the 15% tax bracket. So it makes good sense to hold onto appreciated assets (stocks, etc.) for more than a year. Investments you sell within one year of acquisition are short term investments and tax on the gain is assessed at your ordinary income tax rate.

Beginning in 2001, if you are in the 15% tax bracket and you have held the investment for over five years, any resulting gain on the sale will be taxed at only 8%. If you have appreciated stocks that you've been holding four or five years, try to wait until next year to sell them. If you are in a tax bracket higher than 15%, consider gifting the appreciated stocks to your children. Assuming your

2000 TAX RATE TABLES

RATE	SINGLE	HEAD OF HOUSEHOLD	MARRIED/JOINTLY	MARRIED/SEPARATELY
15%	$0-26,250	$0-35,150	$0-43,850	$0-21,925
28%	$26,251-63,550	$35,151-90,800	$43,851-105,950	$21,926-52,975
31%	$63,551-132,600	$90,801-147,050	$105,951-161,450	$52,976-80,725
36%	$132,601-288,350	$147,051-288,350	$161,451-288,350	$80,726-144,175
39.6%	Over 288,350	Over 288,350	Over 288,350	Over 144,175

STANDARD DEDUCTIONS

Single	$4,400
Head of Household	$6,450
Married filing jointly and surviving spouses	$7,350
Married filing separately	$3,675
Married and age 65 and older or blind	Additional $850
Single of head of household and age 65 or blind	Additional $1,000

children are in this lower tax bracket, they will receive a far greater benefit if they sell the stocks than you would. Your gain would still be taxed at 20% for any investments not held for a five-year period that begins in 2001.

There are many other ways to plan your gains and losses, including maximizing your use of capital losses, effectuating a like-kind exchange on certain types of investment property, and consideration of reporting certain gains using the installment sale method. Each of these topics has aspects unique to you, and you should consult your Certified Public Accountant for details on how you might benefit.

The most important step you can take toward maximizing the benefits of individual tax planning is to talk to your Certified Public Accountant. Don't think of him or her as just someone you see once a year to prepare your tax returns. That plan may work for someone with a very modest income and no eye toward the future. But if your income is substantial—or you'd like it to be—tax planning is a must.

Would you buy a high-speed, high memory, large capacity computer and only use it to check your email? Would you buy a flaming red Porsche, only to drive it around the block now and then? If you hire a CPA and don't use him or her for tax planning, you are not taking advantage of a vast array of information and guidance. Although tax planning can and should be considered throughout the year, the last few months of the year are ideal. By this time you should have a good idea of what your tax situation is, and any congressional acts affecting tax law are in the books or soon will be. Now is the perfect time to plan.