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20 tax tips for doctors

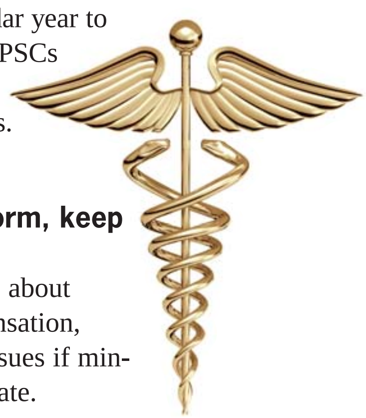
Among the busiest of professionals, doctors have little time to learn about the latest tax law. Tax planning is often neglected in the crush of other obligations. Yet making hasty year-end decisions in an attempt to reduce taxes is a very poor substitute for year-round tax planning.

Review these tax tips; then contact us for assistance in identifying and implementing the best tax-cutting strategies for you.

1 **Choose your form of business wisely.** The basic forms of operation from which to choose include sole proprietorship, partnership, corporation, or limited liability company (available in some, but not all states).

The form that you choose will have a direct bearing on the amount of tax you pay. As you might expect, each form has advantages and disadvantages. Don't make your decision based on the recommendations of colleagues. Get professional assistance so that you make the right choice for you. Then review your chosen form periodically to see if it's still appropriate.

2 **If you are already in operation as a personal service corporation (PSC),** review your situation. Using a fiscal year rather than a calendar year to defer income is generally not allowed. PSCs pay a flat 35% on taxable income, so you may want to consider other options.



3 **If you operate in corporate form, keep good corporate minutes.** The IRS is less likely to give you problems about excess compensation, deferred compensation, pension contributions, and other tax issues if minutes are accurate, detailed, and up to date.

4 **Don't aggravate your tax bill with penalty charges.** If you are required to make estimated tax payments, be certain that you are paying the minimum required.

5 **Hire your children.** The wages you pay will be deductible by your practice and taxable to your children in their own, presumably lower, tax brackets. Wages paid to your children under 18 are not subject to payroll taxes if you're a proprietorship or family partnership.

6 **Keep adequate records for travel, meal, and entertainment expenses.** Travel related to the operation of your practice is fully deductible. Commuting expenses (that is, travel to and from your work) are generally not deductible. Most business meal and entertainment expenses are only partially deductible.

Keep an account book, diary, log, or expense record noting the amount spent, the date, time, and place of the expenditure, and the business purpose served by the activity.

7 **Continuing education expenses are deductible.** Keep track of them.

8 **You can deduct membership dues** in professional and public service organizations. Dues for such organizations as country clubs, golf and athletic clubs, airline clubs, and hotel clubs are not deductible.

9 **You can elect to expense a certain amount of equipment costs** in the year of purchase. Any amount you expense reduces your tax basis for depreciation.

10 Consider leasing rather than buying medical equipment. Equipment leasing may result in financing and tax benefits that equipment purchasing does not offer.

11 Consider some form of deferred compensation if you believe that income you receive in the future (for example, at retirement) could be taxed at lower rates than the present.

12 Don't be too quick to buy investments for tax reasons. The passive loss rules, at-risk rules, interest deduction limitations, and other frequent changes in the tax law make analysis of any proposed investment essential.

13 Shelter income with a retirement plan. There are many kinds of plans to choose from. The kind of plan you should have will depend on the legal form in which you practice, the number of employees you have, and the amount of retirement income the plan must provide.

14 Don't look for unbelievably high-yield investments; they may be disappointing. Consider more tried-and-true investments, such as municipal bonds or a sale-leaseback on your medical office building.

15 Consider the tax shelter aspects of owning a home. You get a deduction for real estate taxes and for interest on your home mortgage or your home-equity loan (within limits).

When you sell your personal residence, you can exclude from taxation up to $500,000 of profit if you're married and up to $250,000 if you're single.

16 Consider taxes in building a college fund for your children. Check the tax breaks available for financing your children's college educations. Section 529 plans may be a good choice since they are not subject to income limitations.

17 Conduct a second occupation as a business in order to maximize tax benefits. If you engage in a second "occupation," such as farming, breeding horses, conducting seminars, or writing, the activity will be considered a hobby (and the deductibility of expenses connected with it very limited) if you cannot show that you are engaged in the activity to produce a profit. Take the necessary steps to demonstrate that the activity is a business.

18 Consider a tax-deferred exchange when you want to dispose of one piece of business or investment property and acquire another. With a tax-deferred exchange, you can postpone taxes until you dispose of the newly acquired property. Careful planning and professional assistance are necessary.

19 Always take a sensible approach when it comes to tax planning. Structuring transactions strictly on the tax consequences is seldom a good idea. Your investments, family financial planning, and business activities should have economic merit without the tax considerations.

However, taxes are a fact of life. The truth of the matter is that a little planning can often save a lot of money.

20 Do some planning to put your estate in order. Since doctors typically earn good incomes, they are likely to have sizable estates.

If you do not have a will and an estate plan, make an appointment soon to discuss estate planning options that fit your situation. If you have an estate plan, have it reviewed following any tax legislation or change in your personal situation (marriage, divorce, births, deaths, retirement, etc.).

The information in this brochure is of a general nature and should not be acted upon without further details and/or professional assistance. To identify and implement the tax strategies best suited to your situation, please contact us.

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