End-of-Year Tax Tips for Doctors

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Introduction

That tall, bearded guy dressed in red, white, and blue standing in front of you with his hand out? That's Uncle Sam, waiting patiently for you to fork over your taxes.

Although we're already into the holiday season, there's still time for you to make some personal or business tax-saving money moves before year end. "If you own your own practice, there are some especially good perks that are going to disappear in 2012, so you should plan to take them now," says Robert G. Baldassari, CPA, a principal with Matthews, Carter & Boyce, in Fairfax, Virginia.

Even if you follow only a few of these tips, chances are you'll owe less next April than you would ordinarily -- keeping more cash in your pocket. Some of these tips relate solely to your personal tax return, some pertain to physicians who own their practice and thus file a corporate return, and some could apply to either personal or corporate returns. We've noted this by adding a **P** for **Personal** or **B** for **Business** after each tip.

1. Donate More to Your Hospital, Medical Research Charities, or Other Qualified Organizations (P, B)

Sharing your good fortune with others feels great on its own, but it feels doubly nice when you get a tax break for it.

For donations of $250 or more, you'll need a written acknowledgment from the charitable organization stating the amount of the gift (or its value if it was an item other than cash, such as a used car or shares of stock that have appreciated) and whether or not you received any goods or services in return, the value of which will reduce your donation dollar for dollar. For amounts less than $250, a cancelled check or credit card statement will suffice.

Can your *practice* take a deduction or just individuals? It depends on how the business is set up for tax purposes, says Larissa Grantham of Stepp & Rothwell of Overland Park, Kansas.

"If you're a sole proprietor, your business taxes are filed on Schedule C and any charitable donations are filed on your personal Schedule A," she says. "For a partnership, which itself doesn't pay taxes, the income and expenses -- including charitable contributions -- are passed along to the partners on their individual Schedule K-1s each year. So if the partnership makes a pledge, each partner deducts a percentage of it on his or her personal tax return."

The same applies to multiple-doctor LLCs or S corporations, Grantham says." Only the C corporation, since it pays its own taxes, can make charitable contributions on its own behalf and deduct for them."

There are 2 additional points worth raising here: First, don't confuse pledges and payments. If you pledge $1000 in November, but pay the charity only $300 by December 31, you must deduct the lower amount. However -- and this is the second point -- if you pledge $1000 and put it on your credit card before the end of the year, you can write off the whole $1000 even if you don't have to pay off the bill until 2012.

2. Defer, Defer, Defer (P, B)

If you own your practice, see if you can arrange things so that you're paid in 2012 for work done during December, even if it means sending out some claims later than usual. This generally works really well, since you're not taxed on income until it's actually received.

Another tactic that falls under this heading has to do with year-end bonuses. If you're incorporated, it makes the most sense to pay yourself a bonus before December 31, since doing so reduces the corporation's taxable income.

However, if you're not incorporated -- you're an employee who draws a salary, say -- the bonus increases the amount of income you'll report for 2011, and you'll be taxed accordingly. Is there a way around this? Yes. If the practice can hold off on paying you until January 1 or later, you won't have to report the bonus until April 2013, on your return for 2012.

But think twice before you ask your employer to delay in cutting a check, says Baldassari. "Since there will be withholding on the bonus, and it'll likely be one of the first paychecks you receive next year, it will be subject to FICA tax. That means the total withholding on the bonus could be 40%-45%." If you're unsure of which way to go, call your tax adviser, he suggests.

3. Set Aside More for Retirement (P, B)

This is practically a no-brainer, since every dollar poured into a qualified, tax-deferred account reduces the amount of income you report to the IRS.

"If you own your own practice, the 'solo' or 'individual' 401(k) is much better than a SEP IRA and gives you a larger tax deduction," says Dora J. Hillyer, a principal with Tobia & Hillyer, in Fairfield, New Jersey.

If you and your spouse are both in the plan, you can together sock away a maximum of $98,000 ($109,000, which includes "catch-up" contributions of $5500 each, if you're both 50 or older), subject to certain net income restrictions, Hillyer says. You'll have to set up the account before December 31, even though you have as late as next April's tax deadline to fully fund it.

Don't think you can free up more cash to contribute? Remember that possible bonus we just talked about? If you do get a check this year, use it to max out the amount you can contribute to your retirement plans. (Note: Contributions to a Roth IRA will *not* reduce your taxes since they're made with after-tax dollars.)

4. Sell Stocks That Are Losers! (P)

Sick of holding onto that dog of a stock that has slumped and shows little sign of rebounding? Sell it and write off the loss against any taxable capital gains (read: winners) you've incurred for the year. If you're able to do that and still have losses left over, up to $3000 can be used to reduce your income for 2011. Anything above $3000 can be carried over to future years.

All of these maneuvers will be negated, however, if you repurchase shares of the same investment within 30 days before or after the sale. (If you're not sure how to handle this, talk to your tax adviser or financial planner before you make a move.)

5. Take a Business Trip for Continuing Education or to Broaden Your Clinical Horizons (P, B)

If you were on the fence about attending a medical conference or meeting before the end of the year, pack your bags and go. You'll get a tax deduction for all legitimate business expenses (airfare, hotel, meals, mileage, etc) on top of all of the good information your colleagues will share with you. It goes without saying, though, that you'll need to keep all of your receipts and a log of your mileage.

6. Add Up Any Job-Hunting Costs (P, B)

Sometimes you have to spend a little to make a little. If you interviewed with several practices this year and incurred a lot of out-of-pocket costs along the way, the IRS will allow you to deduct miscellaneous expenses that exceed 2% of your adjusted gross income, assuming you itemize your deductions, as many high-earners do.

Valid deductions include food, lodging, and transportation for overnight trips; placement fees paid to a physician search firm; and costs of resumes, postage, business cards, and the like. The exception: Costs related to looking for a *first* job aren't deductible.

7. Buy More Business or Medical Equipment (B)

If you're thinking of buying any expensive new equipment -- diagnostic or business-related -- for your practice, now's the time if the price is right.

You'll be able to deduct up to $500,000 on your corporate return, which can reduce your tax bill substantially. (The amount drops to a woeful *$25,000* next year.) This, coupled with a special 50% bonus depreciation allowance in the first year, ensures that you can recover your investment a lot faster. In the past, buyers had to depreciate new equipment over several years.

"Another benefit that will disappear in 2012 is that off-the-shelf software can be part of the $500,000" says Bob Baldassari. "This could be a big benefit to a group practice that's looking to add an electronic medical records system or upgrade its existing one." So if you have your eye on a paperless system but have been dragging your feet, this might be the very incentive (in addition to government incentives) you need to get moving quickly.

There are other things you can do now to shrink next year's tax bill, like installing new energy-efficient windows or a state-of-the-art heating/cooling system in your home or office, for which you'll receive a tax credit. These sorts of "green" improvements didn't make our list because the IRS says the upgrades must be "placed in service" in the year they're purchased, which means you'd have to act awfully fast.

So review these suggestions with your tax adviser to see which ones make the most sense for your individual situation. If you can take advantage of just one or two of our tips before you ring in the New Year, you'll be much happier come April.