

Year-End Tax Planning for the ObGyn Practice

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Saving on taxes often requires spending, and timing makes all the difference.

As the end of 2008 approaches, it is time to take advantage of some tax minimization strategies for your practice. Ensuring that your books are up-to-date and accurate will help in calculating current projected taxable income; as most tax-planning strategies must be completed before the end of the year, this information is essential.

Tax laws are subject to change, especially in the year after a presidential election. The advice presented here is based on current laws, but it is important to work with your tax advisors to keep pace with any changes. Having laid this groundwork, there are several things you can do before year's end that will help your practice at tax time.

PURCHASING EQUIPMENT

If your practice requires both large 2008 deductions and major equipment purchases, the Economic Stimulus Act offers some substantial incentives. If you need equipment, consider buying it before the end of the year to take advantage of the Section 179 expense deduction. Section 179 of the Internal Revenue Code allows taxpayers to deduct the cost of certain types of property on their income taxes as an expense, rather than requiring the property to be capitalized and depreciated. This is generally limited to tangible, depreciable, personal property acquired for use in the active conduct of business. Buildings are not eligible for Section 179 deductions.

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For 2008, the Section 179 deduction was raised from \$128,000 to \$250,000 by the Economic Stimulus Act. The deduction applies to equipment, including vehicles, specialty equipment, and office equipment that is put in service before year's end. This equipment can be either new or used. To qualify, the equipment must be used at least 50% for business in the first year you own it. You can deduct only the business-use percentage of the cost, and for vehicles there are weight-related limits on the deductible amounts.

Some property may qualify for a special depreciation amount equal to 50% of its adjusted basis. Examples include tangible property with a recovery period of 20 years or less, computer software purchased by the business, and qualified leasehold improvement property. Because both the increase in the Section 179 limit and the 50% depreciation allowance are generally available only for 2008, consider purchasing the assets you need this year. Additionally, for 2008, your practice's Section 179 deduction is decreased if you spend more than \$800,000 on equipment. This phase-out amount was also raised by the Economic Stimulus Act.

ACCELERATING EXPENDITURES

If you have the cash to do so, there are many productive ways to spend money and save on taxation at the same time. For example, you can prepay malpractice insurance. As this is such a "big ticket" item for ObGyns, it allows for discretion in moving the expense from one year to the next, which can aid significantly in tax planning. Overall, you should pay as many of your bills as possible.

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Consider year-end bonuses for worthy employees. Look ahead to next year's office and medical supply needs, and stock up on nonperishable items. Many businesses offer year-end discounts, and you may find that it is cheaper to buy before December 31st. If you are planning business-related travel in 2009, book your flights, hotels, and rental cars now. If you are not averse to short-term debt, payments can be made via credit card or a bank line of credit and then paid off in January—if your financial

institution's billing cycle and interest expense policies are favorable.

Here are some examples of year-end expenditures:

- Rent
- Insurance, (particularly malpractice)
- Employee bonuses
- Utilities (phone, water, electricity)
- Repairs and maintenance of office equipment
- Medical supplies
- Office supplies
- Annual memberships
- Office party
- Travel expenses
- Advertising
- Vehicle expenses
- Dues and subscriptions
- Postage, fax, and delivery
- Professional fees.

All reimbursable expenses must be submitted to accounting so that the payment is made in the current year. Many physicians avoid this exercise because it can be time consuming, but why waste these tax write-offs?

Accelerating expenses into 2008 means that you must also do so at the end of 2009 to avoid a "bump" in that year's taxable income. This should be part of a strategic tax plan, projecting income and expenses for both the current and following year and determining how to best minimize taxation. On the other hand, if your practice is having a bad year but you expect to do better in 2009, you should consider delaying payment of your expenses.

REVIEWING RETIREMENT OPTIONS

Like the tax laws, the laws regulating retirement plans are constantly in flux. Retirement plans have changed substantially recently, and physicians who don't explore alternatives may be losing out on some great opportunities. ObGyns should have their plans reviewed by their accountants and plan administrators every few years.

Depending on the type of plan, you may be able to start or add to it. You can also deduct set-up and administrative costs for retirement plans—eg, legal and accounting fees, expenses for educating employees about the plan; bills for these services should be paid by December 31st. In most cases, if the retirement plan is set up before the end of the year, the practice can deduct the pension contribution in 2008 even though it is not paid until the due date of the tax return in 2009.

CONCLUSION

Preparation is the key to tax planning. As the year draws to a close, review these potential tax savings with your tax advisor and discuss what is best for your practice. There may be other tax planning opportunities that apply to your situation as well, so be certain to ask about all available options.

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