

HEALTH CARE PROFESSIONALS



**Tax strategies for doctors,
dentists and health care workers**



HEALTH CARE PROFESSIONALS

This brochure is designed to provide income tax information specifically pertinent to individuals who work in health care professions.

While in many ways the IRS treats health care professionals just as they treat taxpayers in other fields of employment, there are some special tax treatments and deductions worth discussing.

Income

Most health care professionals fall into two income earning groups. Either you are an employee or you are considered self-employed. Some individuals actually earn income as both an employee and as a self-employed individual.

Employee or Self-employed?

For tax purposes, workers in health care will be treated as either employees or as self-employed unless you work on a volunteer basis.

As an Employee:

- Your employer will withhold Social Security, Federal and State taxes and any amounts you may have elected for fringe benefits such as health care insurance, life insurance and savings plans.
- Any non-reimbursable expenses related to your work are subject to the 2% of adjusted gross income (AGI) threshold before any deductions are allowed.

Tip: Any excess expenses above your reimbursements may be an itemized deduction if they exceed 2% of your income.

As self-employed:

- Your 1040 tax return is filed as self-employed (Schedule C).
- You may receive a Form 1099 from each business client or customer who has engaged your service.
- Payments from individuals must be recorded as income.
- Generally no withholdings are taken for Social Security or Federal or State income tax.
- You will be subject to the self-employment tax of 15.3%.
- You will need to file quarterly estimated taxes to pay your federal, state and self-employment tax obligation.

- All business related expenses are directly deductible from your gross income without the 2% threshold.

Excludable income to employees

- Reimbursements to employees for purchase of required uniforms and other required personal equipment used solely for your work can be excluded from income.

Excludable Research Income

Income received for research may be exempt from income tax by health care facilities in several areas:

- Income of non-profit hospitals and medical research facilities for research conducted for any person or the U.S. Government and it's agencies or State governments
- Income of any primarily research-oriented organization the results of which are made freely available to the public
- Income of labor unions or agricultural or horticultural organizations that is used to establish a hospital, retirement home or similar facility specifically for the aged and infirmed

Allowable Deductions For Self-Employed

In addition to the typical deductions allowed for non-reimbursable expenses incurred by employees and business expenses of self-employed, health care professionals who are not employees may deduct the following expenses to the extent they are directly related to the practice of their profession such as:

- Auto expenses incurred in making calls and performing services
- Dues to professional organizations
- Lease or rent payments made for office/clinic space
- Lease payments for equipment and furniture
- Books, if their useful life is less than one year

Tip: If the useful life of books, manuals and equipment is more than one year the expense is considered a capital asset and must be depreciated over the useful life of the item.

- Equipment purchased, with a useful life of less than one year
- Membership dues for professional organizations, associations and public service clubs (e.g. Rotary)

- Cost for professional journals
- Costs for professional information services and subscriptions
- Convention attendance expenses
- Business entertainment expense directly related to expansion of a medical practice
- Uniforms

Deductible Expenses as an Employee

If you are a health care professional who is an employee you may deduct non-reimbursed business expenses in excess of 2% of your adjusted gross income (AGI). Typical expenses include:

- Uniforms of nurses, orderlies and technicians, including cleaning and maintenance provided they are:
 - a requirement of the job
 - not adaptable for common wear
- Protective wear, such as gloves, masks and safety glasses
- Work shoes
- Union dues
- Trade association dues
- Education within your profession
- Work related travel expenses
- Convention/Trade Show attendance expenses
- Practice insurance

Reduced Deductions for High Incomes

Health care professionals with individual incomes over a certain adjusted gross income (AGI) threshold must reduce their allowable itemized deductions by 3% of the excess amount over the threshold times $\frac{1}{3}$. No reduction is required for:

- Medical expenses
- Investment interest
- Casualty, theft and wagering losses

Note: The reduction can never be more than 53.3% of your itemized deductions. The reduction is applied after the disallowance of miscellaneous expenses below 2% of your income.

Non-deductible Expenses

- Club dues, other than professional organizations or associations, whether for pleasure or business
- Cost for professional libraries with useful lives of more than one year must be capitalized and depreciated over their lives
- Foreign convention attendance expenses
- A physician's staff privilege fee paid to a hospital must be capitalized and depreciated
- Commuting expense to and from place of work

Office in Your Home

Many health care professionals can now enjoy the tax benefits of deducting the cost of an in-home office. If you are a health care professional with an office in your home, you may deduct certain expenses if:

- You are operating an on-going trade or business
- The space is exclusively used for your profession
- The space is on your premises but in a separate structure
- You use the space to meet patients, clients or customers
- The space is the principal place of your business
- You use the space to store samples and/or inventory for your business
- You conduct the general administrative duties of your business in the space and there is no other fixed location to do so

The tax laws regarding home office use have recently been relaxed. With the new home office definition, many professionals who perform administrative duties in their home can now take home office deductions.

Cash vs. Accrual Method of Accounting

Most professional medical service businesses have traditionally used the Cash Method of accounting for keeping their books, preparing financial statements and filing annual tax returns.

This method allows revenue, or income for services, to be recorded when payment is received, not when the payment obligation is established at time of the service. This cash basis method may not apply appropriately if you are selling any medical supplies, equipment, medications or supplements in your practice. When you have an inventory of purchased items that are sold later, the Accrual Method of accounting may be required. Combination methods of cash and accrual are also possible. Call if you would like clarification regarding your situation.

Tip: If your average gross revenues for the past three tax years is less than \$1 Million, you can use the cash method of accounting, despite the fact that there is inventory present.

Cooperative Hospital Service Organizations

The IRS provides tax exempt charitable organization status to cooperative hospital service organizations who perform the following types of services to two or more tax-exempt (non-profit) hospitals including those hospitals owned and operated by the local, state or federal government:

- Purchasing supplies
- Purchasing insurance
- Laboratory services
- Billing services
- Collection services
- Personnel services
- Clinical services

With this status an informational return is filed, but charitable rules of taxation apply.

This publication provides only summary information regarding the subject matter. Please call with any questions on how this information may impact your situation.