

ExecTech Management Consulting

To: Practice Owner

Tips and Ideas

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Seven Tax-Reduction Strategies

If you add up your federal income tax, state income tax, capital gains tax, sales tax, property tax and other taxes, your biggest cost in life is obvious. So as a higher-than-average tax payer, you need the best possible tax strategies to meet your financial goals. Below are ideas to discuss with your tax advisor.

1. Rent your home for business meetings. For example, your practice agrees to rent your home for ten staff meetings and four study groups per year. A hotel meeting room of similar quality would cost you \$350 per event which equates to \$4900 in tax-free rental income. The law allows you to rent out your home for up to 14 days without being required to depreciate your home or file a rental income tax form. The practice pays a fair market rate for use of the home and takes a deduction while you are not required to report the income.

2. Hire your spouse. As an employee, your spouse qualifies for child-care credit, deductible travel and other benefits. Employment is necessary to qualify which means you must pay social security tax and other payroll taxes. The best pay off is the retirement plan benefit. For example, \$17,500 in salary paid to your spouse can translate into an \$17,500 retirement plan deduction using a 401(k).

3. Hire family members. Consider putting your kids on the payroll. Your kids won't have to pay any Social Security/Medicare (FICA) taxes on their wages if they're younger than 18, and they won't be subject to federal unemployment taxes if they're younger than 21. For your children who are attending college, you do pay the FICA tax, but the child can use the education tax credits to reduce the income tax. For example: a student who earns \$17,000 in wages, claims herself as her own dependent, and is eligible for a \$1,000 education credit resulting in no federal income taxes.

4. Establish a separate business, such as a lab or equipment lease company, that is owned by family members. You move income from your practice to the outside business without federal or state payroll taxes. This strategy reduces taxes if you are in a high tax bracket and move the income to family members (children age 14 or older, parents, brothers or sisters) who are in a low tax bracket. Highly-paid practice owners use this approach to reduce their taxes by \$6,000 to \$15,000 per year.

If you want to refer Medicare or Medi-Cal patients to an outside business or facility in which you or a family member has a financial interest, ensure you are not violating the Stark Laws.

5. Rent your office space from a building owned by you or a family member. If you own a building while practicing as a business entity, like a partnership or corporation, you can pay rent from the business entity to yourself as an individual. Because this rental income is free from payroll taxes, pay yourself at the highest fair market rate you can justify.

6. Combine business trips with pleasure trips. Attend seminars in locations where you would like to take a personal vacation. If the location you wish to visit has no continuing education opportunities, arrange to consult with colleagues in that area. If your spouse works for your practice, his or her expenses are also deductible.

7. Deduct auto costs through the practice. Have the practice buy or lease your vehicle. Remember to keep a mileage log to support the deduction. For greater savings, buy a sport utility vehicle or truck, rated at 6,000 pounds or more. You can deduct up to \$25,000 in the first year if the vehicle is used at least 50% for business.

Recommendation

Circle the tax strategies that might help you and fax the article to your tax pro for his or her assistance.

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