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GRAY • PILGRIM AND ASSOCIATES, LLC

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Year End Tips...

Housekeeping Items and Tax Saving Tips

Rather than a typical newsletter discussing a few issues in depth, we are changing it up a bit. We will show you many tips; some of which may apply and others that won't. If you need more detail on any of these tips, just give us a call.

S Corporation owners that have health insurance paid for by the corporation should let their payroll company know the dollar amount of their insurance as it MUST be included on the owner's W-2 in order for a deduction to be taken on their personal tax return. If you pay those premiums personally, you need to have the corporation reimburse you for those premiums prior to year-end so you can still include them on your W-2 for just this year.

Have you maxed out your 401(K), Simple IRA or other pension plan? The IRS limits how much you can contribute every year, so if you have the funds, it is nice to put as much in as you can afford; to take advantage of the federal tax deduction of the pension contribution. Remember that the practice matches your pension at some level.

There are so many different pension plans you could utilize to get wonderful tax deductions. Always talk to your pension advisor to make sure you are in the right plan for your specific needs and goals. There are numerous new plans available, and others constantly change, so don't fall into the mindset that

once you made the choice you have to stay with that plan your entire career. There is a cash balance plan for when you have extra cash and your other needs have been met. It isn't for everybody, but it is great when it works.

Equipment purchases for businesses.

These purchases are a good way to reduce your income when needed. However, it absolutely NEVER makes sense to purchase equipment for the tax deduction. You end up spending a dollar to receive 30 or 40 cents of benefit. Not a good deal. If you need the equipment OR if you could generate another revenue stream, then it is a good idea. No matter what the equipment sales people say, you MUST have the equipment on your premises and READY TO USE! If it needs to be plumbed to use and it isn't, then no deduction. If it just needs to be plugged in to use, but you didn't use it before yearend, that's fine. It was ready to be used.

Consider offsetting your stock losses incurred this year or carried over from previous years, with selling stocks that will show gains. It is an effective way to protect those gains from being taxed. Now, if you want to buy those stocks again, you can since there are no "wash sale rules" on gains. When you repurchase them you are now buying them at a higher price, so your basis is higher when you go to sell them later.



Deductions for Vehicles

Buying a business vehicle is a good thing if you need it. Again, it is never a good idea to purchase something purely for the tax deduction. IT IS POSSIBLE that Congress will pass the "extenders tax package" which means that the heavy SUV's, those NEW vehicles with a gross vehicle weight of over 6,000 pounds, are again eligible to get an expense for \$25,000 in the first year. The weight of the vehicle typically can be found on the edge of the driver's door when you open it or we suggest going to www.alphaleasing.com and search for the qualifying vehicles there.

DON'T PURCHASE THE LARGE VEHICLE UNLESS YOU WANT THE VEHICLE ITSELF! PURCHASING IT FOR THE TAX DEDUCTION IS RIDICULOUS!!!

The cost of gas, repairs and difficulties driving and parking this vehicle can be a drawback for some people, so unless you want or need this large SUV, don't purchase it for the potential tax benefits. Remember, the legislation may not be passed anyway. We may not know until the very end of December or potentially

not until January and if they make it retro-active.

Business deductions for your vehicle—There are two methods for deductions. One is using a standard mileage



rate provided by the IRS. You have to keep track of your business miles and total miles for the year and the business miles are multiplied by the standard rate to get your deduction. This is a good method to use if you don't use your vehicle for 50% or more for business. For this, they recommend that you keep track of your business miles for three or four months of the

year and if you feel those months are representative of the year, they allow for it to be expanded to cover the whole year. The mileage rate is to cover the cost of gas, repairs, maintenance and wear and tear on the vehicle, so you don't have to keep track of those individual expenses. You ALSO get to deduct any loan interest expense for the business portion in addition to the standard mileage rate.

Now for the second method—the value of the car is depreciated over time based on the percentage you use it for business and the value of the vehicle and the limitations for deductions that are already established. You have the same mileage reporting rules, but you must keep track of each expense as you are deducting the actual dollar amount of the expenses incurred.

Just remember to jot down the odometer reading at the beginning and the end of each year so you have a good starting point.



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Here at Gray Pilgrim we like to make life simple. That's why we offer different options to pay your bill. We accept major credit cards, ACH, and of course, cash or check.



Year End Tips cont...



Paying state and local tax estimates early in December rather than the due date in January does-

n't always give you the benefit that you used to get. If you have paid AMT (Alternative Minimum Tax) in past years, it isn't worthwhile to pay them early.

Interest expense of any kind used to be an itemized tax deduction, but it hasn't been for some time. However, you can pay off that debt by taking a loan up to \$100,000 on your home and that interest can now be deductible. That loan doesn't have to be used for home improvements. You could use that home equity loan to pay off consumer debts at higher interest rates, auto loans, college loans, etc. Remember that this loan is secured against your home and you are putting your home at risk to some degree. You should be disciplined with money if you choose to do this.

Charitable Contributions—If you have appreciated stock you may want to consider using that as your donation rather than cash. You can take a full deduction of the fair market value of the stock or property, as long as you have held it for a 12 month period of time. The gain you would have had if you sold it has now been avoided. Any contribution over \$5,000 requires an appraisal to be attached to receive a deduction.

Shifting of income and deductions is discussed everywhere at this time of the year. This may be a good thing, but it isn't for everyone. If you move some of December's income into January, it will help you this year; however,

next year you will pay more because you deferred prior year income into the current year—unless you have the opportunity to defer December's income again at the end of the next year. But then you really only got the tax benefit one year. Now, if you are potentially selling your practice in one year and you can defer other income into the next year when your tax bracket will be much lower, then it makes perfect sense to defer it. Sometimes you may want to defer the sale into the following year when you don't have a high earnings year and the practice sale falling in the same calendar year. If you have income this year and it isn't a recurring thing, you may want to consider in which year it would be advantageous to report if you have the option. Deductions work the same way.

You may have more 2015 deductions than you think if you put some business purchases on your credit card. These qualify for 2015 deductions even though you won't pay for them until 2016. Send that information in with your other tax items to receive the deduction in 2015.

Separating expenses for travel, hotels, continuing education and meals at those events. The meals at these events are limited to a 50% deduction. If you are reimbursing a staff member for the meals, they get reimbursed at the full 100%, but you as the employer are limited to a 50% deduction. Meals with business associates that you entertain are also limited to a deduction of 50%. Again, if you are reimbursing an employee, they receive the full deduction. It is the employer who is limited in how much can be deducted.

Staff Meetings—Meals provided on busi-

ness premises for the convenience of the employer are 100% deductible. Designate them as being staff meetings. Sometimes you provide food because you need staff to stay during the lunch break during a busy day. That qualifies. The holiday party qualifies as well—even though it isn't on your premises! Notate this as well and you get a 100% deduction.

Merchant Services—The fees that you are charged when your patients pay with credit cards is based on how much activity you have. The higher dollar volume that you have, the better rate they can give you. Consider checking out how much these fees could be reduced. They will ask for several months of bank statements and then give you a quote. You can check with several sources including who you are currently using. One source is TSI (Formerly known as Transworld Systems). Your contact is David Weiner, 888-780-1333.

Collections Services—David Weiner mentioned above of TSI (formerly Transworld Systems) handles this service as well. Collections can be that big issue that your current staff just doesn't want to do or they don't do it well. So rather than writing it off and never collecting anything, TSI will bring cash into your practice in a very acceptable manner.

Any contribution over \$5,000 requires an appraisal to be attached





Helpful Tips

If you have professional pictures take of the child and hang them in the office or use them on your website or brochures, you can legally pay the child.



Have older and college age children pay for their education to qualify for education tax credits

Payroll Tips

Should your spouse be on payroll? It depends! If the owner of the business makes more than the FICA maximum in gross wages (\$118,500) and there is no pension plan in place, then the answer is NO—don't put the spouse on payroll. You end up costing yourself more money in re-starting FICA tax again.

There is an exception if the spouse doesn't have enough quarters of wages to be able to draw Social Security later, then you may want to consider having smaller gross wages each quarter until they have enough quarters of earnings to qualify.

For businesses that have a pension plan, and the owner is already maxing out their own pension, it may be worth putting the spouse on payroll to be able to put more money in

pension. Both parties get pension matching from the practice as well.

Now how about putting the kids on payroll? It used to be where the kids had to be at least six years old before you paid them for tasks around the office. No longer. If you have professional pictures taken of the child and hang them in the office or use them on your website or brochures, you can legally pay the child. You don't have to identify them as your child if you are concerned about their privacy. The photos have to be displayed so they are visible to patients. We have a modeling agreement and we suggest that the amount you pay them is within reasonable limits, (\$3,000—\$6,000) per child. It is a nice deduction for the practice. Keep reading...

Roth IRA's for kids on parents payroll is a great idea. Your child will receive a w-2 from the practice and you, as the parent, can take the funds and invest them as you see fit. But putting them in a ROTH IRA, you are paying income taxes at the child's bracket (if there is any federal or state tax) and you received the deductions at your higher tax bracket. The money can be used to set up college funds etc. You will have to pay some Social Security and Medicare tax, but that is really insignificant to the entire benefit.



Claiming Older Children...

Sometimes in the senior year of college or sooner, it would be better not to claim them on your tax return. As you get into higher brackets of income, you lose the ability to fully deduct your personal and family tax exemptions. But your child may be able to get their own personal exemption as



well as some education tax credits. To do this, they need

to show that they have provided more than 50% of their own support. So, if possible, have them pay for their college education and living expenses from their own funds. Grants, student loans, W-2 earnings are all means of support they could use to qualify.

Renting your personal home...



...for business purposes for less than 14 days per year is a wonderful and under-utilized deduction. You can do this, for example, if you hold staff meetings, team meetings, training events or board meetings in your home or your second home.

The rent paid to you personally is tax free but it is a deduction to your business. To determine a fair price, find out what a nice facility or hotel would charge and you can use that as a guide.

Hold Staff meetings at your home and use rental fee as a deduction

Other Useful Tips

S-Corporation entities—many people ask us if this entity is the best choice for them. Many times it is, but not in state of Pennsylvania, typically because there is a state tax that offsets the benefit you gain from the Federal side. Sometimes the additional cost initially when you start your business isn't worth it. You can change, but there are steps you need to take to do that. Also, it isn't for everyone. Sometimes, the whole purpose gets defeated because it is more important to show higher wages for owners to get the best pension benefit, so the federal tax benefit isn't utilized. It is best to have that discussion when you first go into practice and then check to see whether it could be beneficial for you

at a later point. Pennsylvania just isn't the best state for this particular entity choice many times.

If you have reached age 70 1/2 in this year, you are required to take out a "required minimum distribution" from your pension and IRA accounts by year end. If this is your first year to take out your required distribution, you do have the advantage, this year only, to wait until April 15th of 2016, but that means you will be taking out two distributions in tax year 2016. Some taxpayers could benefit from this delaying tactic.



Gifting limits are \$14,000 for this year in case you wanted to make sure you take advantage of this each year. It is not a tax deduction, but it is an estate reducing measure.

Home offices

If you have a home office and you furnish it, those furnishings are tax deductible to the practice. Either pay for those items from the practice or have the practice reimburse you. The purpose of the office at home is typically for privacy. The confidentiality of payroll records, financial statements of the practice and reviewing of practice data to check on potential breaches is crucial to the success of the practice, so doing these tasks at home are warranted.

Home Office—this is an old turned new strategy that has huge savings potential for some taxpayers. At one point taxpayers took this deduction a lot and then the IRS started questioning its necessity and many deductions were denied. It was used sporadically after that. Now the IRS has made it easier to take as a deduction by giving us a "simplified method." They will allow up to 300 sq. ft. of space and \$5 a sq. ft. for a total deduction of

\$1500. Now this isn't a huge deduction is it? No, but what it does is allow you to no longer have COMMUTING MILEAGE which is non-deductible. Business mileage starts at your first place of business, which is now your home office. Without the home office, the distance from your home to the office was not deductible. Obviously, the further from the office that you live, the larger the deduction you get. It may be a worthwhile deduction if you really utilize a home office for the reasons stated above.

