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GRAY • PILGRIM

AND ASSOCIATES, LLC

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New division of Gray Pilgrim & Associates



At Epic Wealth Management, we are devoted to helping you and your practice establish and maintain an impactful and robust retirement plan. As with your practice, using your personal objectives to create your custom plan is the beginning to achieving your goals. We have been working to help your practice succeed, and now we want to help you create and achieve your financial and retirement goals as well.

Charlene Bridger is our wealth advisor with the EPIC Wealth Management division and she would be glad to have the opportunity to meet with you to identify your objectives and design the solutions to help you achieve them.

Contact Charlene today at 717-263-8713 or by email at Charlene@epicwealth.biz.



HOW LONG DO I NEED TO KEEP COPIES OF MY TAX RETURNS?

Space is a premium it seems, and spring always seems to be a good time to purge our home and office of unwanted/unneeded clutter. So, this time of year, we are often asked how long you have to keep tax returns. The normal answer is three years from the date you originally filed the return, which generally means that you need to keep them **FOUR YEARS**. If you filed under extension, then that adds another six months or so saving four years is safe. This includes the backup as well as the actual return. There have been some cases where the IRS has pushed for **SIX** years because of certain issues.

If you amended a return, it still refers back to the original return filing dates.

If the IRS finds or suspects fraud, or if you didn't file a return at all, there is **NO LIMIT**.

To keep a copy, you can keep it on paper or you can keep the return and backup electronically as long as you can retrieve it if the IRS ever requests information. So, if space is an issue or if security is a concern, keeping your files electronically is allowed. Just remember that if you change computers to make sure you copy those files to the new computer or you keep it on a thumb drive. Those thumb drives are small and easy to lose as well, so find a place for them where they won't get mixed in with other things where they would be prone to be thrown away or misused.

Our office also keeps electronic backup copies of your return and the most important copies from your backup which helps both of us if anything is ever questioned or we need it for reference, but don't count on us to be your only backup system!

If you have information in a prior year that continues to carry forward, such as basis on some old stocks not recorded with a broker, major improvements on a rental property; basis for a property that was inherited or gifted to you; bitcoin (or similar transactions) purchases – these are some suggestions for things you may want to hold onto longer.

I also suggest you hold onto mortgage statements showing that the mortgage was paid in full. It has been quite a few years ago, but I had a loan that was paid off by getting another loan with better terms. The original bank was later bought out and neither bank recorded the lien being released with the courthouse, so when I went to sell the property, there were two mortgages that were showing. Ouch! Because I hadn't purged some old records, I was able to prove that the original loan had been satisfied. Because banks continue to be bought out, you cannot rely solely on the banks to possess that information. It may be the easiest way to prove that a lien no longer exists.

There are some people that have their paystubs from when they worked as a teen. Get rid of them! Once you receive your W-2 and you agree with it – get rid of the paystubs!

WARNING – now that you are convinced that you can get rid of the old tax information, make sure that you do it in a safe manner since identity theft is a constant threat. Make sure you shred the information rather than throwing it away in your trash. Some communities even have free shredding days where you can take your personal information to be shredded. You may have access to a shredder or a shredder service at your office and can utilize that. Personal shredders may take longer to get the job done but if you keep current with it, it isn't that bad. So, get busy and shred your old records!



Once you
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Meals and Entertainment Expenses *AND the new tax law.*

This deduction has always been under IRS scrutiny because it requires judgment calls that we make on our returns thus there is a high risk for potential abuse.

Like many other years when new legislation is passed, what is missing is the IRS clarification on how they intend to interpret the new law. Everyone creates their own guidelines until different perspectives get challenged in court and then you have finally gained some clear rules to use.

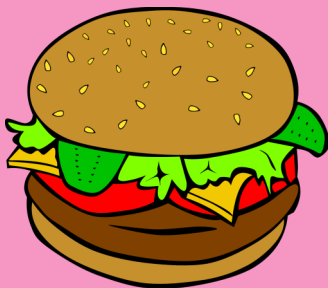


For now, let's explain it like this:

Committee reports that were part of the current law suggest that it was NOT intended for the business meal tax treatment to be changed – only the entertainment section. However, the actual law states that all business meals are **non-deductible**. The current consensus though is that meals are not considered to be entertainment IF they have the business component, that makes them deductible! This preserves the 50% deduction. What is now not deductible is the meal for social reasons where no business is discussed and tickets to events and sports boxes, etc. Again, this could change with time.

For now:

- If you take a business-related person to lunch AND you talk about business, then that meal is deductible at the 50% level. You had a business motive for the meal – making it deductible.
- If you take a prospective client to dinner, it also is 50% deductible because business was the motive and business was discussed.



The current consensus is meals are NOT considered to be "entertainment" if they have the business component thereby making it a business meal deductible at 50%



- If you take that same person to lunch and you do not talk business and it is more of a social event, then that meal is NOT DEDUCTIBLE.
- If you buy a sporting event ticket for that person, it is not deductible – it is entertainment. If you have lunch before the event AND talk business, then the meal is deductible. If you don't discuss business, then the meal is non-deductible just like the ticket.
- Some professionals have said that the ticket can be considered business if you did not accompany the person to the game. Others have said that they consider it to be all entertainment because no business purpose was gained, so it is non-deductible. We just don't know the answer yet. Err on the side that the ticket portion will be non-deductible.
- If you travel for business and you have meals during that travel, they are 50% deductible.
- If you have a meal for convenience purposes tied to the business such as bringing in lunch to the office because of the schedule so staff does not leave, that is 50% deductible as well.
- Staff holiday parties, team meetings, team building events for the purposes of creating strong bonds within the team are fully deductible. No change there.
- What truly was your goal – entertainment or business? Most of the time you clearly know whether business or pleasure. Like we say all the time : DOCUMENT, DOCUMENT, DOCUMENT!
- Document the name of the person, what you discussed – make sure it is dated as well. This will show that you attempted to make the correct choice.

Bottom line? Have five categories of expenses:

1. Meals with clients and prospective clients where business was discussed – 50%
2. Meals during business travel – 50%
3. Meals for convenience of office – 50%
4. Team Building Meals – 100%
5. Entertainment or Social Meals – 0%

Now, if they change the rules later, all the expenses are categorized so that it is easy at yearend to nix a category if needed with little effort. It also shows the IRS that you made a valid attempt to comply with the law.



Revisiting 1099 requirements

When you pay someone for just about any service – plan on getting their Employer's Identification Number (EIN) or their Social Security Number (SSN) and address *immediately*. They are motivated to give it to you before they get paid. Keep Form W-9 handy so that you can give it out easily. The forms are available for printing on the IRS site.

No one likes to issue them or receive them, but the IRS is serious about them being issued and the penalties for not doing it correctly is worth putting some effort into them.

\$ Limits-

You must have paid a vendor more than \$600 during the calendar year.

Exceptions-

Corporations – either S or C corporations

LLC's or partnerships ONLY if they are TAXED as S or C Corporations

Businesses that sell merchandise

Credit Card Payments – If you paid vendors with your credit card or PayPal – they don't get included.....yet.

Temporary workers should not be issued 1099's because they should be considered an employee in most cases. If you haven't treated them correctly, give them a 1099, but correct in future years by treating them as an employee.

Who gets 1099's-

Cleaning and janitorial service providers

Lawn maintenance and snow removal vendors

Landlords for rent

Dental Labs for their services

Contract dentists

Any other services performed by non-employees

Attorneys for their fees REGARDLESS of their ENTITY type - if you paid them \$600

Due Date –

January 31, 2019 but you should be sending the W-9 forms to us throughout the year because it saves you money by saving us time in preparing those 1099 forms. The earlier we have the information, the happier everyone will be!

Helpful
Tips

The IRS
is serious
about 1099s
being issued



**ADA Code
4346
is a code
that truly
describes a
situation that
was unclear
before.**

ADA Code 4346

Introducing the somewhat new, and certainly under-utilized code – **ADA Code 4346 – *scaling in presence of generalized moderate or severe gingival inflammation – full mouth, after oral evaluation.*** It came to us in 2016 but it hasn't been utilized well so far.

This may best be described as a “tweener” code as it is for patients with generalized gingivitis but without evident bone loss per x-ray. The patient can have pocketing, inflammation and bleeding but ***without bone loss***, where previously they wouldn't have qualified for a debridement but they really didn't qualify for a regular prophy either. This code interprets where you could consider using 4346 rather than 4355 or 1110.

There are too many nuances to this code to fully review in this article, but you need to look at this code in depth to gain a clear understanding of when it is appropriate to use. It is a code which truly describes a situation that was unclear before.

The next question is whether insurances will pay for this code at the level it should be. The answer depends on the insurance company. Whether they reimburse you at the lower prophy level or not, you may still get reimbursed by some insurance companies and from cash paying patients.

Making it worse to use Code 4346, you cannot bill for any scaling and root planning or perio maintenance benefits for 12 to 24 months after its usage. So careful consideration is needed. The suggestion is to use Code 4346 when you have a gingivitis only situation and keep Code 4355 for when you have an early periodontal disease situation. To even begin to receive payments from insurances, you absolutely **MUST DOCUMENT** it well with diagnostic specifics **WITH** a narrative and this will increase your odds. It is an important code to become familiar with, as some insurance companies will payer higher fees than code 1110.



Beyond The Basics by Robert J Gray, EA



After working with dentists for years, I've found that these small-business owners are familiar with the big picture of how the Section 179 deduction for equipment purchases can benefit their practices. However, there are some common areas of the deduction's regulations that are often overlooked.

Deduction = Basis

Let's say you're a young dentist who personally invests \$1,000, and borrows the balance to purchase a practice and start an S Corporation. Toward the end of that year, you decide to buy a \$140,000 CAD/CAM system and assume you can deduct that entire purchase price under Section 179. When that \$140,000 of depreciation attempts to flow through from the K-1 on your personal return, it can't be deducted. Your deduction is limited to what you have basis for: your actual investment in the corporation, i.e., \$1,000 in this case.

The solution is to reduce your salary by \$140,000, allowing that amount to show up as profit. So the profit is offset by depreciation. This is why making the most of Section 179 takes thoughtful planning up front, not just at the end of the year. If you're planning a purchase, adjust your salary accordingly.

Don't Forget About Year 2

For estimated tax purposes, to avoid penalty, the IRS offers 2 options: if you adjust gross income was more than \$150,000 (\$75,000 if you are married and filing a separate return), you must pay the smaller of 90% of your expected tax for the following year or 110% of the tax shown on your current return.

Let's say you bought \$100,000 of new equipment in 2017, and reduced your tax burden by \$30,000. That could also reduce your required minimum tax payments in 2018 by \$30,000, giving you the use of that money for free until April of 2019. That extra cash flow would be available to counteract any potential dip in income during the learning curve for the new technology, giving you time to be up and running more profitably.



Show a Profit

I frequently hear dentist clients proudly acknowledge that they paid no taxes in the year that they bought a new practice or made major equipment purchases. My reaction is a smile, followed by an explanation that they actually used some of their Section 179 in the 10% tax bracket. If you get your income down to zero, that means you use up, let's say, \$25,000 of Section 179 in the 10% bracket. Taxes are "on sale" when they're in the 10% bracket, so you want to take advantage of that. It's a costly mistake to show no taxable income.



SECTION 179 SNAPSHOT

Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment purchased or financed during the tax year. The basics:

Deduction Limit = \$1,000,000

This deduction is good on new and used equipment, as well as off-the-shelf software. To take the deduction for tax year 2018, the equipment must be financed/purchased and put into service between Jan. 1, 2018 and the end of the day on Dec. 31, 2018.

Spending Cap = \$2,500,000

This is the maximum amount that can be spent on equipment before the Section 179 deduction available to your company begins to be reduced on a dollar-for-dollar basis. This spending cap makes Section 179 a true "small-business tax incentive" (because larger businesses that spend more than \$2.5 million on equipment won't get the deduction).

Bonus Depreciation: 100%

Available for new equipment only, bonus depreciation is generally taken after the Section 179 spending cap is reached.

IRS Scams

Calls and E-mails from the IRS????

Are they really from the IRS??? We all have gotten them and initially they are confusing and scary too until we have time to process what is happening. They take advantage of the fact that you are scared at first and work to get you panicked so you act before thinking, which is in their favor.

PHONE CALLS – IRS fraudsters can now get whatever phone number to show up as if that is where the phone call originates. It may show the local IRS office number; or the local Sheriff's information or the Police Station's information. They will tell you that you need to send money right now or they will send the police to your house or office immediately. It isn't legitimate!

E-MAILS - The IRS will NOT E-MAIL YOU!!! When we are working with the real IRS on

legitimate issues, we cannot get them to e-mail us information because the fraud is that bad! They will always start things with letters – regular post office mail or if that is ignored – certified mail. Those e-mails look so real but they are FAKE.

These scammers are extremely good at what they do, so be careful. If someone is trying to scare you or get you to act quickly, you need to step back and re-evaluate the situation. Take time to check things out independently. Don't act rashly. Hang up/delete those e-mails. You worked hard for your money; take time before you give it to a scammer! Trust your gut – overwhelmingly these are all scams. We can help you deal with the IRS in REAL situations and it need not be a scary or rushed situation.

The real
IRS
will NOT
email you



Pets as a tax deduction?????

This is a topic that I never thought there would be a discussion about. But surprisingly enough, there are numerous reasons how and why a pet can be a tax deduction. Maybe “pet” is a misnomer and we should say service animal. One situation we may not think of initially is for autism. If a physician writes a note saying that a pet is necessary for a medical condition all the expenses are deductible starting with the initial purchase, food, vet bills, supplies, boarding, equipment etc. You get the idea. The initial reason is for a *medical condition*.

First you have to be able to itemize. Then your next hurdle is having enough expenses to exceed the limits placed on medical deductions. You need more expenses than 7.5% of your Adjusted Gross Income (AGI) which essentially is the number at the bottom of page one of Form 1040. If your AGI is \$150,000, you would need expenses of at least \$11,250 before you begin to get a deduction. With health insurance costs increasing and the higher co-pays required, we are seeing more who are able to take advantage of the deduction.



Other examples to get a *business* deduction rather than a medical deduction are if your business would have a need for a guard dog; an animal for pest control; farm dog to work with cattle or ward off predators; an animal used for ambiance in a business or for any viable business purpose. This qualifies as a business deduction rather than a medical one. It is just such an unusual deduction that we may not have considered previously but one that may actually come into play at some point.



If a physician writes a note saying that a pet is necessary for a medical condition all the expenses are deductible