

Dental Services Practice Financial Check-Up : *for you*

December, 2011

In this Issue:

The Importance of Year
End Planning
Upcoming Events
Page 1-2

About Us
Page 2

Welcome to the Fall Issue of *Financial Check-Up*



Rebecca Horn has some excellent suggestions for you as the year-end approaches. If your CPA can not implement these ideas, please call us. In these difficult times, there is no reason to pay additional income taxes. Furthermore, as Rebecca suggests, you should begin 2012 with a plan in place. Many doctors are always too busy managing urgent interruptions and miss out on important planning. Don't let that be you.

- Bo Elliot

The Importance of Year End Planning

By Rebecca Horn, CPA



The last thing anyone wants to see is a large unexpected tax liability on April 15th. Planning and preparation are critical to avoiding this situation. If your accounting records are up to date, your CPA should be able to project your 2011 tax liability with reasonable accuracy and be able to offer some solutions to help mitigate it. Below are some proactive considerations for doctors this tax season.

1. Identify your tax liability situation NOW

Predicting liabilities is not an exact science. In our experience, most dental practices usually face lower production numbers in December due to the holiday season and vacation time for both the Doctor and staff. The first step in the planning process is ensuring that your accounting records are up to date. Take the time to reconcile bank accounts and credit cards. By updating your accounting software in "real time" you are more likely to have a better understanding of your actual financial situation. Often Doctors only look at the Dental Production software to gauge how their practice is doing in the current year. The full picture of your practice profitability encompasses the expense side, as well as cash flow management.

The current QuickBooks file, your most recent paystubs, and a prior year tax return make up the majority of the information needed to determine what your liability should be for 2011. Your CPA will also inquire about any big changes in your financial or life situation. Did you buy equipment or a vehicle? Do you plan to make any big purchases before year end? Was there a change in your marital status? Did you have a child or adopt? After answering some additional questions, your tax liability should be able to be reasonably estimated.

2. Implement a strategy

If the result of your tax planning session is not favorable, don't panic. If you begin the planning process early enough, you may have time to implement savings strategies if they make sense in your situation from both an income tax and cash flow perspective. Other ways to help alleviate potential tax burdens are to accelerate deductions in the current year. There are ways to do this from both individual and business perspectives:

Individual

1. Pay any state estimated income tax payments due in January before the end of the year.*
2. Prepay your home mortgage payment due January 1.
3. Pay all real estate and personal property taxes due before December 31.*
4. Increase charitable contribution deductions by making gifts of property, such as stocks, bonds, artwork, or real estate that have appreciated in value - allowing the deduction at full market value instead of paying capital gains rates. Some of these items may require an appraisal in order to qualify for a deduction.

* The effectiveness of these planning items will depend on whether you are already subject to the alternative minimum tax. Additionally, this advice could subject you to the tax depending on your situation. It is important to discuss these options with your tax advisor to see what may be best in your situation.

 **elliott davis**



Business

1. Maximize retirement plan contributions. If you have yet to set up a plan, do so on or before December 31 in order to qualify for a 2011 tax deduction. In many cases, the funding of the plan can take place in 2012 (before extended filing deadlines) and still be eligible as a 2011 deduction as long as the plan is established this year.
2. Take advantage of the \$500 annual tax credit for small employer pension startup costs.
3. Rent your personal residence or vacation home for up to 14 days each year for business purposes. This will increase tax-free income to you pursuant to Section 280A (g), while allowing the rental expense paid by the practice to be deducted for tax purposes. These expenses may be subject to entertainment facility limitations under section 274. Contact your tax advisor with questions.
4. Take advantage of the annual Section 179 expensing election to immediately write-off new or used equipment purchases of up to \$500,000 made during 2011.
5. Consider purchasing a new business car in 2011 to take advantage of lower prices, below market financing, and 100% bonus depreciation. For sedans, the maximum depreciation deduction of up to \$11,060 is available this year.
6. Consider purchasing a sport utility vehicle rated at 6,000 pounds or more on or before December 31, 2011. This will allow you to achieve eligibility for the \$25,000 expensing election (if business use is at least 50%), and 100% bonus depreciation (new vehicles only). This means that you have the potential to expense the full cost of a qualifying SUV in the current year. Contact us for a list of vehicles that qualify for the 100% write off.

If after these strategies you still find yourself in a liability situation, it might be worth looking into increasing withholdings in the remaining pay periods. This option can alleviate IRS underpayment penalties because your withholdings through your paychecks are deemed collected equally throughout the year, as opposed to quarterly estimates. Your CPA will be able to determine if you might be subject to underpayment penalties based on your current withholdings and estimated payments.

If you are in a projected refund situation, it might be worth talking to your CPA about opportunities to push some expenses into next year. Perhaps you should delay purchasing supplies or equipment, or wait to pay your property taxes if they're not due until January. This will let you defer those deductions into a year where you might find yourself in higher liability situation. Another option would be to reduce your withholdings for the remainder of the year.

3. Identify ideas to implement in January

While December may be too late to solve all of the current Year's problems, it is early enough to devise a plan for 2012. If you were in a situation where you owed additional taxes, perhaps go ahead and increase withholdings beginning in January 2012, to help alleviate the situation by smoothing out the cash flow.

1. Have you thought about employing your spouse? By paying your spouse the highest reasonable salary in exchange for his/her services, you are ensuring that your spouse can qualify for social security benefits, the child care credit, and be eligible for fully deductible practice travel and fringe benefits. They will also be able to contribute to company sponsored retirement plans.
2. Have you considered employing working age children through the business? Besides being a deduction to the practice, this will allow them to fund college savings, Roth IRAs, etc., on a tax-deductible basis. Each child can earn \$5,800 tax free in 2011, and \$5,950 in 2012 in exchange for services rendered.
3. Try to ensure that most of your travel is business related - for continuing education meetings, consults with colleagues, and board of directors meetings. This will help eliminate non-deductible personal travel expenses.
4. Pay all operating expenses for your business automobile through your practice and deduct the actual cost of operation, rather than the \$0.55 cents per mile rate. The auto expenses which should be paid through the practice include gas, oil, maintenance, repairs, taxes, tags, licenses, and insurance. Keep a mileage log of your business trips and show any personal usage as income on your W-2.

Finally, use this opportunity to make a plan and budget for your practice. When you looked at your income over all and your net profitability, were you pleased with performance? Utilize the Dental Specific Chart of Accounts to compare your expense categories against industry averages to determine where your spending habits might be out of line. These are places you can target to monitor throughout the year.

A few reminders for year end - Whether you prepare your own payroll reports or whether you use a payroll service, doctor's health insurance costs as well as "personal use of your company vehicle" income both need to be included on your W-2. If you have questions or need assistance with these items, please call our office and we will assist you.



Upcoming Events

Resort Seminars:

- Steamboat Springs, January 23-27, 2012
- St. Thomas, February 20-24, 2012

We hope you enjoyed our October issue. Please note: Rebecca Muse penned the article on "The Importance of Social Media."

About us:

Since 1925, Elliott Davis, PLLC has been the accounting, tax and consulting services firm that provides our clients the solutions needed to achieve their objectives while offering our people rewarding opportunities.

Today, Elliott Davis has more than 400 employees in 10 offices throughout the Southeast. Our Dental Services Practices assists dentists across the U.S. in making informed decision about their practices. From analyzing needs to developing and implementing solutions, our services include:

- Accounting services
- Compliance
- Cost reduction strategies
- Entity structure planning

Our Dental Services Practice is affiliated with the McGill & Hill Group. A one-stop financial services resource providing transitions, tax and business planning, legal, accounting, investment advisory and retirement plan services exclusively for the dental profession.

Elliott Davis is also a member of The Leading Edge Alliance, an international professional association of independently-owned accounting and consulting firms based in the U.S., and is strategically aligned with LEA Europe and LEA Asia Pacific, a worldwide network of 450 offices in 100 countries around the globe. For more information about Elliott Davis and its services, visit www.elliottdavis.com.

This publication is distributed with the understanding that the authors are not rendering legal, accounting or other professional advice or opinions on specific facts or matters and assume no liability whatsoever in connection with its use. If you would like to be removed from this publication's distribution list, please email mbusbin@elliottdavis.com and write "Unsubscribe" in the subject line.