

Top Ten Tax Deductions for Doctors

By Frank P. Giordano, Jr., CPA

No matter how good your tax preparer is, if he/she does not know about your recent purchases, business combinations, or personal changes (such as sending a child to camp or investing in a vacation home), he/she can't advise you properly on how to save tax dollars. It's similar to trying to accurately diagnosis a patient who has failed to provide you with all the symptoms. Here are 10 tax deductions for medical professionals that frequently are overlooked.

1. Outside Earnings

Did you receive any outside income last year, such as from a drug company or for your time spent giving testimony in court? Assuming the income was paid to you personally and not to your practice, you may be able to set up a Simplified Employee Pension (SEP) based on this personal compensation. You have until the due date of your return (including extensions) to set up the SEP and make a tax-deductible retirement plan contribution (a \$45,000 maximum contribution for 2007).

2. Travel and Entertainment

Do you lump together all your travel expenses such as air travel, meals, lodging, entertainment, and continuing education into a single category? If so, you may be missing deductions. IRS limits the deduction for certain "business meals and entertainment" to 50%. If your accountant doesn't know the details of your travel and entertainment account you could be missing out on fully deductible expenses such as air travel, hotel, continuing education, and activities for the benefit of non-highly compensated employees, such as staff meals, outings, and holiday parties.

3. Practice equipment

Did you purchase equipment for your practice last year, like office furniture, medical equipment, computers, or off-the-shelf software? Provided you started using the equipment in 2007, it qualifies for special treatment. Section 179 of the Internal Revenue Code provides a first-year expensing election, which allows you to immediately deduct \$125,000 of new or used equipment, rather than depreciate it over several years.

4. Remodeling Rented Office

If you rent your office and remodeled it in 2007, you can take advantage of a special 15-year depreciation schedule (instead of the usual 39 years). Called "leasehold improvements" they must be interior improvements, and the improvement must be made more than three years after the building was first placed in service. Improvements must be placed in service before January 1, 2008 and may not be available for owner-occupied rental space.

5. Improving Owned Office

If you own your office, you also might be able to get a tax break for remodeling. Some of those costs could qualify for faster depreciation if the work is considered "nonstructural" improvements such as parking lots, landscaping, shrubbery, sidewalks, roads within the property, outdoor lamps, and fencing—items that can be classified as "land improvements," and as such are depreciable over 15 years.

6. Insurance Premiums

Unincorporated physicians (and those in S corporations) can deduct 100 percent of health insurance premiums for themselves, their spouse, and their dependents. In addition, you may be able to deduct premiums for long-term-care policies, which are 100% deductible if you're self-employed.

7. Corporate Charitable Contributions

Some of your charitable contributions may be viewed as "advertising and promotion" and thus be fully deductible (as opposed to the Charitable Contributions limitation of 10% of taxable income). A reclassification to "advertising and promotion" would be in cases where you expect to receive a future benefit from the donation, such as attracting new patients.

8. Personal Charitable Contributions

Medical professionals frequently donate their expertise for public and charitable needs. Keep in mind that you can deduct the out-of-pocket expenses incurred in rendering services to a charitable organization and mileage (14 cents/mile) you put on your car for charitable work. Certain Federal and State relief areas may qualify for more, check with your accountant for the latest figures.

9. Dependent Care

If both you and your spouse work, do you send your children who are under 13 to day camp? These expenses are eligible for the child and dependent care credit, along with benefit for dependent care plans (up to \$5,000) and childcare facilities.

10. Home Office

If you physically meet with patients on your premises, and their use of your home is substantial and integral to the conduct of your business, you may qualify for a Home Office deduction. There are some important limitations. Occasional meetings in your home do not qualify. Similarly, telephone calls to customers, clients or patients are not enough. The customers, clients or patients must be physically present in your home office. Finally, the area of your home must be used exclusively for business. For example, doing business in your study that is used to read novels and listen to music as well as meet clients will not qualify.

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