O
ver the last few months, Congress has been busy passing a lot of new laws, some of which bring
about many tax changes. In fact, the Health Care Reform Act has already been labeled as one of the most
prominent examples of tax legislation in the history of our country. Many dentists fall specifically into the oft-mentioned
and openly targeted group of income earners making over $250,000. With that in mind, you could use a summary of
what to watch for while doing your tax planning with your accountant this year!

We all know that tax law does not provide an easy read. Luckily, the focus of this article is not to fully educate you
on tax law or to provide specific tax advice. The purpose is to give you, the dentist, some highlights regarding those provisions
most likely to affect you and to emphasize the importance of meeting with your tax advisor to maximize your benefits and
minimize your exposure.

THE HEALTH CARE REFORM ACT
Let’s tackle the foremost issue first. This reform actually combined two new laws together as the Healthcare Reform Act,
also known as “Obamacare”. First, it offers healthcare reform and availability and also lays out the revenue provisions
for funding healthcare spending.

The law includes some major changes regarding benefits, including new tax credits. However, it also includes penalties, excise taxes,
payroll taxes, and income tax increases. A variety of factors determine who will be impacted, such as the number of employees
and the type of industry in which each company conducts business.

The following is an overview of the provisions that will have the biggest impact on small businesses — specifically dentists.

Tax Credits to Certain Small Employers Who Provide Insurance — after 12/31/09
The new law provides small employers with a tax credit (i.e., a dollar-for-dollar reduction in tax) for up to 35% of non-elective
contributions that the practice pays to purchase health insurance for their employees. The credit can offset an employer’s regular
tax or its Alternative Minimum Tax (AMT) liability.

Eligibility Requirements: To qualify for this credit, a business
must offer health insurance to its employees as part of their
compensation and contribute at least half the total premium
cost. Owners and their families are generally excluded from
the calculation. The business must have no more than 25 full-time equivalent employees (FTEs), and the employees
must have annual full-time equivalent wages that average no
more than $50,000. However, the full amount of the credit is
available only to an employer with 10 or fewer FTEs and whose
employees have average annual full-time equivalent wages from
the employer of not more than $25,000. Most dental offices will
not qualify for the full benefit due to higher salaries, but many
will be eligible for a portion of this benefit. Make sure to discuss
with your tax advisor or payroll administrator who can help
determine eligibility and produce estimates for you. The credit is available beginning in
tax years after December 31, 2009.

Medical Expense Deduction Reduced — after 12/31/2012
For tax years beginning after December 31, 2012, medical expenses taken as an itemized deduction will be reduced to the
amount in excess of 10% of Adjusted Gross Income (AGI). For individuals age 65 or older (and their spouses) the effective date
is delayed until after December 31, 2016.

Small Employers May Establish “Simple Cafeteria Plans” — after 12/31/2010
For most dental practices, this will give dentists the opportunity
to provide employee benefits for health, group term life, and/or
dependent care assistance affordably. Contact your tax advisor
for the eligibility requirements of this provision.

Most Small Businesses Exempted From Penalties for Not Offering Coverage to Their Employees — after 12/31/2013
The new law imposes penalties for not providing health care
coverage to employees (the so-called “pay or play” clause).
However, most dental practices won’t have to worry about this
provision, because employers with fewer than 50 employees
aren’t subject to the “pay or play” penalty. For businesses with at
least 50 employees, the possible penalties vary depending on whether or not the employer offers health insurance to its employees. Since most dental offices do not have 50 employees, you can rest easy regarding this potential penalty which goes into effect after December 31, 2013.

Increased Penalty for Non-qualified Health Savings Account (HSA) Distributions — after 12/31/2012
The penalty is 20% of funds withdrawn for non-qualified expenses (qualified expenses are items such as prescription drugs or physician office co-pays). In addition, Health Flexible Savings Account (FSA) plan contributions have a new annual limit of $2,500 under cafeteria plans, beginning in 2013. This will affect how dentists configure their employees’ benefits as well as how they manage their own plans.

Information Reporting Required for Payments to Corporations — after 12/31/2011
Year-end Forms 1099 must be filed for previously excluded payments to corporations. This requirement will hit all businesses and will impact dental practices by reducing production time to do more administrative work. For offices that outsource Form 1099 preparation, this policy will increase costs. The failure-to-file penalty ranges from a minimum of $15 per Form 1099 to a maximum of $250,000. Plus, additional penalties will be applied for intentional disregard. The requirement goes into effect for payments made after December 31, 2011.

The “Cadillac tax” on High-Cost Health Plans — after 12/31/2017
The new law places an excise tax on high-cost, employer-sponsored health coverage (often referred to as “Cadillac health plans”). This applies a 40% excise tax on insurance companies, based on premiums that exceed certain amounts. The tax is not applied to employers unless they are self-funded, which is typically the case in larger practices — the average dental office may not be directly affected. However, expect that employers and workers will ultimately bear this tax in the form of higher premiums passed on to all the insurers. The tax becomes effective after December 31, 2017.

Excise Tax Imposed on Medical Device Manufacturers — after 12/31/2012
This provision directly impacts dental manufacturers but will end up impacting dental offices in the form of higher costs for equipment and supplies. The tax is 2.3% on medical device sales transacted after December 31, 2012.

Additional Medicare Hospital Insurance (HI) Tax — after 12/31/2012
For tax years beginning after 2012, an additional 0.9% of HI tax will be applied for taxpayer earnings in excess of $250,000 for joint returns, $125,000 for married taxpayers filing separately, and $200,000 in all other cases. This change does not affect the portion of HI tax that employers pay, but the business must withhold this additional 0.9% on wages paid over $200,000 per individual, regardless of the spouse’s earnings. The tax is applied to self-employed and LLC dentists in the form of additional Self-Employment Contributions Act (SECA) tax. This tax applies to many dental professionals, since the average dentist’s wages are over $250,000 per year.

Unearned Income Medicare Contribution Tax — after 12/31/2012
For tax years beginning after December 31, 2012, an unearned income Medicare contribution tax is imposed on individuals, estates, and trusts. For an individual, the tax is 3.8% on the lesser of either (1) net investment income or (2) the excess of Modified Adjusted Gross Income (MAGI) over the threshold amount (i.e., $250,000 for a joint return or surviving spouse, $125,000 for a married individual filing a separate return, and $200,000 for all others). Again, since dentists’ average earnings are more than $250,000 per year, consult your tax advisor for some investing options that could help avoid this additional tax.
THE HIRE ACT

Another new law is the HIRE Act. The centerpiece of this law is a payroll tax holiday and an up to $1,000 tax credit for businesses that hire and retain previously unemployed workers. In addition to these new hiring incentives, the HIRE Act includes a one-year extension of the enhanced small business expensing option under Code Sec. 179. Both of these provisions are extremely important for dental practices.

Payroll Tax Holiday and up-to-$1,000 Credit for Employers Who Hire Unemployed Workers — after 2/3/2010

The payroll tax holiday and tax credit applies to most dentists. In order to stimulate the hiring of workers, and incentive has been instituted for the employer who hires a worker who had been unemployed for at least 60 days. This employer will not have to pay the employer’s 6.2% share of the Social Security payroll tax on that worker for the remainder of 2010.

A practice could save a maximum of $6,621 if it hired an unemployed worker and pays that worker at least $106,800 (the maximum amount of wages subject to Social Security taxes) by the end of the year. Additionally, for any qualifying worker hired that the employer keeps on payroll for a continuous 52 weeks, the employer is eligible for a non-refundable tax credit (also known as a “retention bonus”) of up to $1,000 after the 52-week threshold is reached. The credit is to be taken on the 2011 tax return. In order to be eligible, the worker’s pay in the second 26-week period must be at least 80% of the pay given in the first 26-week period.

Workers hired after the date of introduction of the legislation (February 3, 2010) are eligible for the payroll tax forgiveness and the retention bonus, but only wages paid after March 18, 2010 receive the exemption for payroll taxes.

Other features of this law include the following:

- The tax benefit is immediate. It puts money into the business cash flow right away, since the tax is simply not collected in the first place.
- There is no minimum weekly number of hours that the new worker must work to be eligible, and there is no limit on the dollar amount of payroll taxes per employer that may be forgiven.
- For workers that would otherwise be eligible for the Work Opportunity Tax Credit (i.e., another type of employment tax credit), the employer must select one benefit or the other for 2010. Double dipping is not permitted.
- An employer cannot claim the new tax breaks upon hiring family members.
- A worker who replaces another employee who performed the same job for the employer is not eligible for the benefit unless the previous employee left the job voluntarily or was terminated for cause. In other words, the practice cannot fire one employee for the purpose of filing the position with a new employee that would qualify for the credit.
- For the hiring to qualify, the new worker must sign an affidavit, under penalties of perjury, stating that he or she hasn’t been employed for more than 40 hours during the 60-day period ending on the date the employment begins.

Extension of Enhanced Small Business Expensing — after 12/31/2009

The HIRE Act law includes a one-year extension on enhanced expensing rules, which allows qualifying businesses the option to deduct the cost of business machinery and equipment currently, instead of recovering it through depreciation over a number of years.

For tax years beginning in 2010, the maximum amount that a business may expense through Internal Revenue Code Section 179 is $500,000. Up to $250,000 of that limit may be used for qualified leasehold improvements. The expensing election begins to phase out when a business buys more than $2,000,000 of expensing-eligible assets. These dollar limits were recently increased retroactive to the first of the year.
These limits are especially important for dentists looking to expand or build, as well as those with higher collections and less expenses for 2010. The dentist can choose to replace old equipment or add new equipment and/or technology to take advantage of this benefit. Keep in mind that the $500,000 expensing limit is scheduled to drop to $25,000 in 2012.

In addition the increased Section 179 limits, for 2010 only there is a Bonus Depreciation expensing limit which is 50% of qualified expenses, and the auto expensing limit has been increased to $8,000 for qualifying vehicles.

NOW IS THE TIME TO MEET WITH YOUR DENTAL PROFESSIONAL!
Congress is still considering bills which could directly impact dental practices in a big way. The largest of these considerations are the Bush-era tax cuts that will expire at the end of 2010. If the cuts are not extended, the top tax rate for individuals will rise from 35% to 39.6%. New phase-out provisions for some itemized deductions and personal exemptions will have the effect of increasing tax rates by an additional 1-2%. Additionally, the maximum tax rate on long term capital gains and dividends will increase from 15% to 20% (18% for assets held over five years).

It is also important to remember that your state may observe rules differently from the federal rules on some deductions or credits. Since writing this article, further new laws may already have been passed, and adjustments to current laws may have been enacted. Therefore, think ahead and plan to be prepared now. After all, it’s just good business!

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