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Tax Update for Early 2017: Donald Trump and the Republican Congress have made tax reform a priority, and if they act quickly, these changes may take effect this year. Whether or not we see major tax reform in 2017, here are some important tax law changes that are taking effect this year.

New Filing Deadlines for C corporations and partnerships: Starting this year, the filing deadlines for the various forms of business entities are being tweaked to make the process more sensible and logical. Individuals and C corporations, who are typically the owners of partnerships and S corporations, have often had to wait a long time to receive their K-1s in order to properly file their 1040 (individual) and 1120 (C corp) returns. If the filing deadlines all coincided, then this would result in late or incorrect filings.

The new rule for **partnership** tax returns is that the due date is being accelerated to March 15 from April 15. The March 15 date coincides with the due date for **S corporation** returns, which is not changing. In both cases, you can claim an automatic 6-month filing extension to September 15.

The due date for **C corporation** tax returns (IRS Form 1120) is pushed back one month to April 15, the same date as the individual tax returns (Form 1040). Now that partnership and S corp returns are due one month earlier, the K-1s that will be necessary for finishing the individual and C corp returns will be available. If you need more time, then you can claim an automatic 5-month extension on your C corp tax return to September 15. This becomes a 6-month extension to October 15 starting in 2027. (There is an exception for C corporations with June 30 year-ends. The old due date of the 15th day of the third month following the end of the corporate year remainis in

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effect until 2027.)

Section 179 expensing rises from $500,000 to $510,000. Bonus depreciation of 50% of the remaining cost is also available if necessary.

The standard mileage rate for business driving falls to 53-1/2 cents per mile. We have a choice to either deducting the actual operating costs of the business vehicle (gas, repairs, license, insurance, lease or depreciation, etc.) or take the standard mileage rate. Here's an example showing why deducting the actual expenses is usually smarter. If the annual deductible vehicle expenses equal $10,000, you would have to drive 18,700 business miles to generate the same tax deduction. If you are now using the standard mileage rate, consider switching this year and deduct the actual vehicle expenses.

Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) Update: As discussed in the January 1st Newsletter, we are now offering these new reimbursement plans to clients who are interested. To briefly recap, the QSEHRA is a permissible reimbursement plan for small employers who do not offer group health insurance. The employees submit evidence of their health care costs, and the plan reimburses the employees up to a pre-determined amount each year. Reimbursements are tax-deductible to the employer (and not subject to FICA and FUTA taxes) and tax-free to the employees. This is a terrific new option for doctors who want to offer a health care benefit but who no longer provide group insurance.

These plans must be adopted at least 90 days before the start of the next year (i.e., October 1st). Since the law that authorized these new plans was only just passed on December 13, 2016, there is a grace period for new 2017 plans. They must be implemented within 90 days following the law's passage. This means that for new plans that are meant to be retroactive to January 1st, 2017, the plans must be signed and dated no later than March 12, 2017.

Our fee for the initial consultation and the plan document preparation will be $475. Feel free to call our office at (216) 765-1199 if interested.

S Corporation Owners and Partners in Partnerships Are Not Eligible For Reimbursement Under the QSEHRA: One of the very few negative aspects of S corporations is that a shareholder who owns more than 2% of the company (and his or her spouse) is treated as a partner in a partnership and not an "employee" for purposes of employee fringe benefits programs. This includes HRAs, whether they are drafted broadly to reimburse employees for all permissible health care expenses or drafted narrowly and limited only to individual insurance premium reimbursements. The tax rules make this unnecessarily complicated, but if you structure it the right way, your individual insurance premiums will be deductible as well.

The technical way this is handled is for the insurance premiums to be deducted on line 29 of the shareholder's or partner's 1040 tax return. But in order to do that, the insurance must be "established by the business." To be established by the business, one of three things must happen: (1) the business obtains the policy in the name of the shareholder(s) and pays the premiums, (2) the shareholder obtains his or her own policy, and the business pays the premiums, or (3) the shareholder obtains his or her own policy, pays the premiums, and then gets a company reimbursement, though not under the HRA. Be careful. If you obtain the policy and pay the premiums and don't get a reimbursement, then the business did not establish the insurance plan for you and you cannot deduct the costs on your 1040. The business must be involved.

If the business "establishes" the insurance plan, the premium payments (or reimbursements) are not deductible to the business as fringe benefits. Instead, the business adds these amounts to the shareholder's W-2 or the partner's K-1 (but free of Social Security and Medicare taxes). The final step is that the individual then claims the deduction on his or her 1040.

An RMD Donation to Charity is Nice, But Donating Appreciated Securities is Nicer: Many Newsletter readers take advantage of the new rule permitting IRA owners to make their required minimum distributions directly to a charity. If the IRA owner doesn't need the money to live on and is charitably inclined, then this

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makes good sense. Up to $100,000 of the RMD goes directly to the charity, counts towards the required annual IRA distribution and does not raise the taxpayer's adjusted gross income. That last point is particularly important, because many tax rules are tied to one's AGI. For example, the higher one's AGI, the more one's Social Security payments will be taxed, the higher their Medicare Part B and Part D premiums will be, and the more their itemized deductions and personal exemptions will be scaled back.

While these are undeniable benefits, you will come out ahead if you can instead donate shares of stock or mutual funds that have a large long-term capital gain. Let's say you want to make a substantial $30,000 donation and you own stock with a $10,000 purchase price and $30,000 current value. You also have to take a $30,000 RMD from your IRA. If you donate the RMD, your income is unaffected. You do not add the $30,000 to your AGI, and you do not claim a charitable donation. The fact that your AGI doesn't increase will help you save some taxes around the edges, but you will eventually sell the appreciated stock and incur a combined federal and state capital gains tax of roughly $5,000.

You will come out substantially ahead by taking your $30,000 RMD into income and donating the $30,000 of appreciated stock. The negative aspects of the higher AGI will cost a few hundred dollars, but you still get an offsetting $30,000 charitable donation and you avoid the $5,000 capital gains tax, when the charity (not you) liquidates the stock. And if you want to continue owning that stock, use the $30,000 RMD to buy new shares with a higher cost basis.

Shopping Online for Term Life Insurance: The internet is changing the way term life insurance is being bought and sold. Up until a year ago, you would complete an application, meet with a nurse, give blood and urine samples and then wait a month for the insurance underwriters to collect and analyze your medical records. Now, if you're a low risk candidate (under age 45 and healthy) and looking for a relatively small policy (up to $1M), the process can be handled online in 20 minutes. Rather than giving bloods tests and going through the traditional underwriting process, this new method involves the use of computer algorithms that pull in the applicant's public health, credit and driving records. And in many cases, the prices are incredibly cheap. Healthy individuals in their mid-30s will spend only a few hundred dollars per year on up to $1M of insurance from reputable carriers.

To find out if you're being offered a competitive online price, do some comparison shopping. The websites FindMyInsurance.com, Quotacy.com and Term4Sale.com will give you a feel for what the fair prices will be. Then you can go to the online sellers such as MassMutual's HavenLife.com or Protective Life Corp's SoFi.com/life-insurance to begin your search.

Negotiating PPO Reimbursements: In case you weren't able to attend our recent Scottsdale, AZ seminar, here are some recommendations from practice management consultant, Bill Rossi. There can be a lot of money to be made if you handle this correctly:

1. Do your homework. To get a sense of your fee reductions, prepare a spreadsheet with vertical columns going left to right listing first your top production generating procedures. The second column will be your full fee for each procedure. The remaining columns are for each PPO plan and their allowed fee for each procedure. Add the totals at the bottom of each column to see how much of a percentage discount you're taking in the aggregate from each PPO.

Raise your fees before negotiating if you haven't done so recently. This will give you more room to argue that the PPO reimbursements are too low.

If you are aware of other doctors' PPO fees, use it to your advantage against the insurance companies. For instance, an office employee who used to work in another office may tell you that the other doctor's reimbursements are higher than yours. While the insurance companies don't like transparency, these are not trade secrets.

2. Call and negotiate. The doctor should be the one making the call, not an office manager and not an out-of-state management consultant. You will be the most effective, as you are the one who can make a credible threat of dropping that plan.

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If you call saying you want to renegotiate, you may be given the run-around. You want to talk to the "Network Manager" of "Provider Relations." Every insurance company has someone recognized and responsible for building and maintaining their provider network. Insist on talking to him or her.

Do not be demanding or argumentative. Use the likeable style of detective Columbo and use the following lines: "Maybe I'm missing something, but I have to ask, is it true you are paying others more for the exact same procedures?" and/ or "Delta is paying $800 for a crown and Aetna is paying $750. That's more than what you're paying. I'm evaluating my PPO participation and checking with various plans. Can you do any better? Can you help me with this?"

Use specific fees to make your case, and then ask them to review all of your reimbursements. Then, pin them down. Take their name, when you should expect to hear from them and how you can follow up with them in the future. Finally, review the results to verify that they didn't raise some reimbursements but lower others and that they follow through on their promises.

3. Odds of success. In Bill's experience, you might be successful one-quarter to one-half of the time, even with Delta (although Delta is tough and it varies around the country). It is well worth the effort. If for example, Aetna represents 15% of your practice and you can get a 10% raise, then on $100,000 of monthly production, you will earn an additional $1,500 of "free money" each month and year going forward. These dollars are extra sweet, and there is no risk or cost in trying. Get into the habit of doing this with each of your plans each year.

In the next Newsletter, we will summarize Bill's recommendations for dropping a lousy PPO and limiting the fallout.

IRS Targets Syndicated Conservation Easements: A conservation easement is a legitimate charitable gift. The taxpayer donates easements promising not to change the character of the property (historic building, park land, etc.) to a charitable organization which preserves the property in its current form. But as with anything that can create a deduction, the concept is subject to abuse. The IRS recently issued Notice 2017-10 which treats syndicated conservation easements as "listed transactions" (targeted tax shelters). The promoter finds investors to put money into a new partnership or LLC that will purchase cheap land. Then the promoter creates some grand plan to develop the property and gets a new astronomical appraisal that's much greater than what was paid for it. They then create a conservation easement that generates a tax deduction for the investors that was far greater than their initial investment.

These are obvious shams and should be avoided. As a listed transaction, the promoter and the investors are all required to notify the IRS of the details giving the IRS all the ammunition it needs to deny the deductions and assess interest and penalties. If a deal looks too good to be true...

Employment Discrimination Case Shows the Value of Employee Handbook and Employment Practices Liability Insurance: In a recent New England-area case, the associate dentist was terminated for tardiness and insubordination. She sued, alleging that she was fired because she was pregnant. She gave a laundry list of federal and state employment violations and claimed the employer breached her employment agreement.

The court tossed out the case because the allegation was not supported by the evidence. The employer made reasonable accommodations such as keeping her away from X-ray radiation, allowing her to start her workday a half hour later and relocating her to an office with more dentists and support. In addition, the employer informed her on several occasions that the practice was unhappy with her tardiness, complaints from patients and unprofessional interactions with staff. The court found no violation of the employment discrimination statutes and gave deference to the employment handbook which was adhered to in the termination process. (Case citation withheld).

The employer behaved reasonably, but was sued anyways. The defense costs, even in cases that get thrown out, can run between $70,000-$100,000. For practices with many employees (if not all practices) we continue to recommend employment practices liability insurance that will cover these defense costs.

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