Top 50 Year-End Tax Planning Strategies

As year-end approaches, now's the time to implement changes that can cut your taxes in 2018 and 2019. Here are our top 50 year-end tax planning strategies, as an added "bonus" to this month's issue:

____1. Contact your tax advisor now to determine how to maximize the new 20% of qualified business income deduction available under Section 199A. If your taxable income exceeds the phase-out levels ($207,500 single or $415,000 married), consider strategies to increase deductions in order to qualify.

____2. Finalize any divorce/separation agreement on or before December 31, 2018, to be able to deduct future alimony payments.

____3. Make maximum use of the Section 179 expensing election to immediately write off new or used equipment purchases of up to $1,000,000 made during 2018.

____4. Use 100% bonus depreciation to write off the cost of other new assets purchased in 2018, including qualified leasehold improvements made to the interior of office buildings.

____5. Consider purchasing a new business car in 2018, to take advantage of below-market financing and bonus depreciation allowing deductions of up to $18,000 this year.

____6. Get an even bigger write-off by purchasing an SUV rated at 6,000 pounds or more fully loaded on or before December 31, 2018. Use the $25,000 expensing election (if business use is at least 50%), and bonus depreciation to deduct 100% of the purchase price this year, assuming 100% business use. Qualifying SUVs include the BMW X5 and X6, Buick Enclave, Cadillac Escalade and SRX, Lincoln Navigator, Chevrolet Suburban, Trailblazer (Model SS) and Tahoe, Ford Expedition, Explorer, and Excursion, GMC Yukon, and Acadia, Envoy Denali, Hummer H1, H2, and H3, Mercedes M, G, GL, ML and R-Class, Range Rover, Toyota Land Cruiser, 4 Runner, and Sequoia, Land Rover LR4, Lincoln MKT, Porsche Cayenne, Volkswagen Touareg, Jeep Grand Cherokee SRT8 and Overland, Mercury Mountaineer, Nissan NV, NVP, Armada, and Pathfinder, Dodge Durango, Audi Q7, Chrysler Aspen, Infiniti QX56, Tesla Model X, Volvo XC90, and the Lexus LX570 and GX460.

____7. Write off the entire cost of a new/used large pickup (over 6,000 pounds with a cargo bed at least 6 feet long and not accessible from the cab), in the first year using Section 179 expensing, assuming 100% business use! Full-size pickups that qualify include the Dodge Ram 1500, Chevrolet Silverado, GMC Sierra, Ford F-150, Toyota Tundra, Nissan Titan, Chevy Colorado, GMC Canyon, Toyota Tacoma, and Nissan Frontier.

____8. Going electric? Take advantage of tax credits of up to $7,500 if you buy a new qualifying electric vehicle. Since the credit is phased out once a manufacturer sells its 200,000th vehicle, you'll need to act by December 31 to get the full credit if purchasing a Tesla.

____9. Looking to maximize tax-deductible retirement plan contributions (more than $122,000 annually)? Doctors over age 40 with a younger staff can now fund a combined "safe harbor" 401(k) profit sharing plan (with a 6% match) and cash balance defined benefit pension plan, to save thousands in federal and state income taxes, says Jared Hollands of PenSys, an Ascensus company (888.440.6401).

____10. Looking for slightly smaller tax-deductible contributions ($122,000 or less)? Doctors over age 40 with a younger staff should consider a 401(k) cross-tested (age-weighted) profit sharing plan, to maximize tax-deductible contributions for the doctor and spouse, while limiting staff funding costs.

____11. Switch to a qualifying High Deductible Health Plan (HDHP) during your next open enrollment period, if you have not yet done so, in order to qualify for tax-deductible Health Savings Account (HSA) contributions.

____12. Doctors covered under a qualifying High Deductible Health Plan (HDHP) should make the maximum tax-deductible HSA contribution to cover future medical expenses. Doctors can deduct up to $3,450 for a single policy and $6,900 for a family policy in 2018. In addition, doctors and spouses age 55 or older can make additional tax-deductible "catch up" contributions of $1,000 each.

____13. Minimize or eliminate the 3.8% Medicare payroll tax on personal investment income by increasing retirement plan and IRA contributions, increasing salaries paid to employed children, gifting investment assets to lower bracket family members or charity, investing in tax-free bonds, and reducing capital gains through tax-free exchanges and harvesting capital losses.

____ 14. Contact your tax advisor to determine if you will save taxes by electing Subchapter S corporation status for your practice, effective January 1, 2019. In most states, doctors will be able to significantly reduce payroll taxes (including the 3.8% payroll tax on personal investment income) by taking a lower salary, with the remaining profit distributed as a dividend (not subject to payroll taxes). S status can also reduce income and payroll taxes on the practice sale, and lower IRS audit risk and exposure. However, if you're unincorporated with taxable income less than $157,500 (single) or $315,000 (married), you'll likely find that the Section 199A income tax savings from remaining unincorporated will outweigh the payroll tax savings from operating as an S corporation.

____15. Implement a cost segregation study if you have purchased, constructed, or renovated an office building costing $500,000 or more after 1986, in order to reclassify some costs as non-structural for faster depreciation write-offs.

____16. Increase tax-free income through employee awards and by renting your personal residence and vacation home for up to 14 days each year. If not otherwise rented, rent your personal residence and vacation home to your corporation for board of director, shareholder, staff retreats, staff training, or other business meetings. The rental paid by the practice will be tax-deductible, while up to 14 days of rental income can be received tax-free pursuant to Section 280A(g).

____17. Utilize a Section 1031 tax-free exchange to avoid federal and state income taxes on the sale of your office building or other real estate held for business or investment purposes, if you plan to reinvest the proceeds.

____18. Have your practice pay and deduct all travel, meals, business car expenses, tax return fees, safety deposit box rentals, dues and subscriptions, continuing education, investment expenses, etc. If you paid these personally, have the practice reimburse you before December 31. Otherwise, these expenses are no longer deductible on your individual income tax return under the new law.

____19. Increase tax-free income by making sure that the practice is paying all medical insurance premiums for you and your family. Medical insurance (including Medicare for doctors 65 or older) premiums remain 100% deductible for all doctors (C corporation, S corporation, unincorporated, etc.), even if no staff coverage is provided, since the Obamacare non-discrimination rules are not yet in effect.

____20. Make sure that the practice takes advantage of the Disabled Access Tax Credit of up to $5,000 annually for building improvement costs incurred to make your practice facility more accessible (such as expansion of hallways, repaving parking area, installing wheelchair accessible ramps, new ADA-compliant bathrooms, or adding new carpet or floor coverings), or for equipment purchased to provide services to persons with disabilities.

____21. Make sure that the corporation fully utilizes the $15,000 expensing election under Section 190 for expenditures made to remove architectural and transportation barriers to provide services to persons with disabilities and the elderly.

____22. Separate fully (100%) deductible travel, lodging, and continuing education expenses from meal expenses (50% deductible) for tax reporting purposes. In addition, make sure that all food and beverage expenses for staff meetings, functions, and outings and those provided in-house for patients or prospective patients are classified as "office expenses" since they remain fully deductible under Section 274(n) of the Internal Revenue Code under the new law. Unfortunately, entertainment expenses are no longer deductible.

____23. Increase business deductions through purchasing artwork for the practice and business luggage through the practice with tax-deductible dollars. Maximize business-related dues and subscriptions to magazines, newspapers, and other periodicals paid through the practice.

____24. Make sure that all travel is business-related (continuing education meetings, consults with colleagues, board of director meetings, etc.) in order to eliminate non-deductible personal travel costs. In order to document consults with colleagues, send a letter to the doctor confirming your visit, as well as a follow-up letter thanking him for the opportunity, outlining what you learned from the four hour in-office visit, and inviting him or her to visit your practice.

____25. Deduct the cost of business computers and other office furniture and equipment purchased through the practice and used at home for confidential duties such as practice accounting, payroll, and personnel matters.

____26. Reduce your regular C corporation's taxable income to zero at year-end by paying a bonus to yourself and making retirement plan contributions, if appropriate. Retaining earnings in your C corporation makes sense only to the extent necessary to fully utilize existing net operating losses and the tax credits discussed above.

____27. Pay all operating expenses for your business automobile through your practice and deduct the actual cost of operation, rather than the $.545 per mile rate in 2018. The auto expenses which should be paid through the practice include gas, oil, maintenance, repairs, taxes, tags, licenses, and insurance. Keep a log on a three-month basis, and show any personal usage as income on your W-2.

____28. Employ your spouse through the practice and pay him or her an annual salary of $3,000 (generally) in order to qualify your spouse for minimum Social Security benefits, the child care credit, as well as fully deductible practice travel and fringe benefits, while minimizing payroll taxes. However, if your family has two or more children under the age of 13, and child care expenses exceed $3,000 annually, increase the annual salary to equal the annual child care expenses, up to a maximum of $6,000 annually. Moreover, if your practice operates a SIMPLE-IRA retirement plan, increase the spouse's salary to $14,000 ($17,000 if age 50 or older), in order to qualify the spouse for the maximum SIMPLE-IRA deferral of $12,500 ($15,500 if age 50 or older). If your practice sponsors a 401(k) profit sharing plan, increase your spouse's salary to $20,500 ($26,550 if age 50 or older) to qualify for the maximum deferral of $18,500 per year ($24,500 if age 50 or older). If the practice operates an age-based retirement plan (target benefit pension plan, cross-tested or age-weighted profit sharing plan, or defined benefit pension plan), pay the spouse the highest reasonable salary in exchange for his or her services in order to generate a larger tax-deductible retirement plan contribution.

____29. If you do not have a practice retirement plan, set one up on or before December 31 in order to qualify for a 2018 tax deduction. Procrastinators have until April 15, 2019 (or October 15, 2019 if extension filed), to establish a SEP-IRA and still deduct contributions on your 2018 return.

____30. Make sure your corporation utilizes the tax credit for small employer pension plan startup costs of up to $500 annually for the first three years of a new plan.

____31. Contribute an amount to your practice's retirement plan to assure that you receive the maximum contribution allocation possible ($55,000 in 2018; $61,000 if age 50 or older), as long as at least 70% of the amounts are allocated to your family. If receiving less than 70% of the total amounts allocated, contact Jared Hollands of PenSys, an Ascensus company at 888.440.6401 to have a plan design analysis performed to determine what retirement plan will prove most cost-effective for your practice.

____32. If you or your spouse operate a separate full-time or part-time sideline business, establish a separate retirement plan for that business and maximize tax-deductible contributions to it.

____33. Fund non-deductible IRA contributions for you and your spouse of $5,500 per spouse ($6,500 if age 50 or older), to avoid the 3.8% tax on personal investment income. Establish these as tax-free Roth IRA accounts for married doctors with less than $189,000 of modified AGI, or as regular nondeductible IRA accounts otherwise.

____34. Roll taxable IRA amounts into your existing retirement plan (if permitted) to avoid income taxes on Roth IRA conversions.

____35. Convert your regular IRAs (non-deductible contributions only) into Roth IRAs each year so that all future earnings will grow tax-free.

____36. Convert a portion of your taxable IRAs into Roth IRAs following your practice sale, in an amount equal to your itemized deductions, plus the 10% /12% tax bracket amount ($38,700 single or $77,400 for married doctors).

____37. Employ children age 6 or older through your practice in order to fund college savings, private school costs, etc., on a tax-deductible basis. Each child can earn up to $12,000 tax-free in 2018 in exchange for services actually rendered, and earnings in excess of that are taxed at only a 10% rate on the next $9,525 and 12% rate up to $38,700 in 2018.

____38. Establish and fund the maximum annual contribution of $2,000 per year to a Coverdell Savings Account (formerly known as Education IRAs) for each child in order to shelter investment earnings for future tax-free payouts to cover college and/or private school costs.

____39. Establish a Roth IRA for each employed child and contribute an amount equal to their earned income, up to a maximum of $5,500 for each in 2018. While these contributions are nondeductible, principal can be withdrawn tax-free for college, and all future earnings will be tax-free when withdrawn after age 59½.

____40. Reduce income taxes further by shifting income-producing property (dental and office equipment, office building, etc.) into a family limited partnership (FLP), Subchapter S corporation, or limited liability company (LLC), set up on behalf of your children age 19 or older, or children who are full-time students age 19-23. This income will be taxed at their lower rates if their earned income equals more than half of their support.

____41. Transfer appreciated property (e.g., stocks, bonds or real estate) that you plan to sell, to your children age 19 or older, or children who are full-time students ages 19-23, or to an FLP or LLC set up for their benefit. Thereafter, they can sell this appreciated property and have the capital gain taxed at rates as low as 0% if their earned income equals more than half of their support, avoid the 3.8% net investment income tax, and use the proceeds to fund educational costs.

____42. Increase the rent charged to your practice for use of the professional office building and/or equipment to the highest reasonable rate if this property is owned by a FLP, LLC, or Subchapter S corporation on behalf of your children, to increase the income shifted to their lower tax brackets.

____43. Have the FLP/LLC loan funds to your corporation for working capital or for capital improvement, at a high interest rate (15%), or begin operating an in-house lab and/or records business, in order to shift additional income from your highest bracket to your children on a tax-favored basis.

____44. Do not claim any college-age children as dependents on your federal or state income tax returns. Rather, have them pay for their college education and living expenses from their own funds, custodial accounts, or by taking distributions from a family limited partnership. Through this strategy, your children will become eligible for the American Opportunity educational tax credit ($2,500 a year during the initial four years), and Lifetime Learning credit ($2,000 educational tax credit during remaining years).

____45. Increase charitable contribution deductions by making gifts of property, such as stocks, bonds, artwork, or real estate that have gone up in value, in lieu of cash donations, to qualified charitable organizations. The full fair market value of the property is tax-deductible as a charitable contribution if held for at least 12 months, and the gain is not subject to income tax, while you hang on to your cash.

____46. Increase charitable contribution deductions by donating a qualified conservation easement or remainder interest in a personal residence or farm to charity.

____47. Establish a donor advised fund (DAF) and make charitable contributions of appreciated stocks to it, in order to receive an immediate charitable contribution income tax deduction equal to the value of the stocks gifted, while distributions to charities occur in the future. This can allow you to accumulate funds for future large gifts, pre-fund contributions during high tax years to be paid out in low tax years (retirement), and facilitate planning to avoid estate taxes.

____48. Defer income into 2019 by delaying billing and collection activities in December.

____49. Accelerate personal tax deductions into 2018 by paying any state estimated income tax payments due in January before year-end; if incorporated, increase your state income tax withholding on your corporate salary or bonus before December 31. Also, prepay your home mortgage payment due January 1, and pay all real estate and personal property taxes due, before December 31. However, under the new law, deductions for state and local taxes are limited to no more than $10,000 annually if you itemize your deductions.

____50. Use the following strategies to minimize the impact of the $10,000 cap on state and local taxes: unincorporated doctors should deduct property taxes on their office building and equipment on Schedule C; incorporated doctors who lease their office building to their practice should deduct building property taxes on Schedule E. Own a second home? Consider converting it into a rental property so that you can deduct the related property taxes on Schedule E.