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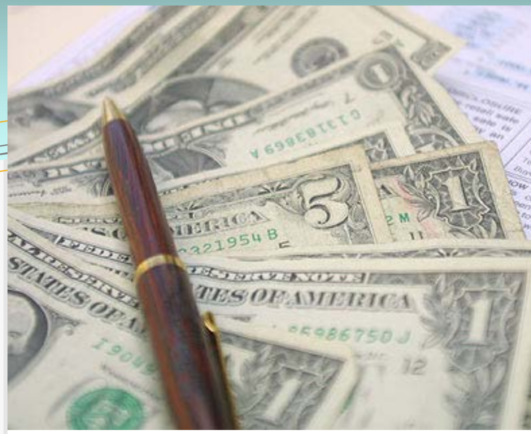
WSDA WASHINGTON STATE DENTAL ASSOCIATION PREFERRED

The Successful Dentist™

Dental Tax and Finance



Helping Dentists Make Smart Decisions about Money

Deadlines & Misc.

Third Quarter Estimated Tax Payments are due by Friday, September 15, 2017. See Page 4.

Upcoming Due Dates

Extended Corporate and Partnership returns and any related retirement plan funding must be completed by September 15th.

Individual Returns on extension and related retirement plan funding are due by Monday, October 16.

UPCOMING EVENTS

October 19, 2017 – **University of Washington Graduate Orthodontics Presentation**

Friday, October 27 – **Mid-career to Life After Dentistry**

How to proactively plan for retirement and transition of your practice. A great review of how financial planning, tax planning and transition planning can be brought together to leverage your long-term success into your post dental practice lifetime. Call or Email Jennifer Paine to reserve your seat(s). 425.216.1612 or Jennifer@cpa4dds.com.

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Proactive Tax & Profitability Solutions℠
A DENTAL GROUP COMPANY

YEAR-END TAX PLANNING STARTS NOW!

There are two types of year-end planning: Strategic and last minute. The latter category generally involves paying all year-end bills and perhaps pre-paying certain next-year bills in order to push the income out another year. Although something of a silly game, it does reduce the current payment of tax and reduces the required estimated tax payment or withholding for the coming year. Practiced over a lifetime, there is a significant time value savings.

Strategic year-end tax planning requires actual planning and forethought. This often takes the form of investing in your practice. With lead-times for ordering equipment and technology, September is a great time to begin planning any investments in the practice for the remainder of 2017.

Equipment Deductions – "Placed in Service"

Virtually all private practice dental offices operate on the modified cash basis of accounting for income tax purposes. This means in general, that when cash is received, it is treated as income and when cash is paid out it is treated as an expense. However, there are some major exceptions to that latter rule, especially as related to equipment.

Placed in Service: Equipment and other "fixed assets" are generally described as tangible assets that will last well beyond one year and for income tax purposes and generally cost at least $500. Unlike the "cash basis" described above, the rule for when you can deduct equipment or other fixed assets is 180 degrees opposite. Tax law does not care when you pay for the asset; rather, tax law requires that the asset be "Placed in Service".

Placed in Service means that the item in question is in a state of readiness to use. Generally, this means the item must be delivered to your office, and readied for use. If there are electrical, plumbing or cabling requirements, then these too must be in place. The asset must be ready to use, but does not have to be used in order to qualify. For example, your new computers need to be unpackaged, plugged in, started up and perhaps attached to your network by the end of the day December 31 in order to be deducted this year.

Lead Times: Given the need for assets to be delivered and Placed in Service, early fall is a good time to consider your upcoming needs. Order lead times and installation appointments are much easier to address with ample planning. Further, if you are ordering new technology, you can plan ahead to schedule training: Offices that acquire technology and plan out their training tend to achieve much higher production than offices that do not. *DG*

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Equipment and Other Asset Write-offs - 2017

Section 179 - Expensing Election: This election has been made permanent at the $500,000 level and will be indexed for inflation. Further, the phase-out level has also been restored to $2,000,000 of qualified purchases in each year (fully phased out at $2,500,000).

The primary requirements for Section 179 treatment is that it be a qualified asset purchase from an unrelated party and be placed in service by December 31 to be deductible this year. It is also required that there be "income" against which to take the deduction. If practicing in an S Corporation and planning major purchases, you also need to work with your tax advisor to make sure you have S Corporation Basis against which to take your deduction. The latter is a complex area but should always be monitored – especially when contemplating a significant transaction.

Bonus Depreciation Restored: An alternative to Section 179, especially when you don't necessarily want to write everything off in one-year, bonus depreciation has been extended from 2015 through 2017 at the 50% level; 40% in 2018 and 30% in 2019. One nice feature of Bonus Depreciation is that is eliminates Alternative Minimum Tax depreciation inclusion on not just the portion you expense but on the entire cost of the equipment or assets that you purchase.

Tax Bracket Optimization: When you make a major investment in your practice, the default has often been to take all the deductions you can in the year of the investment. However, if this drives your marginal tax bracket down one or more brackets, you may be giving up tax savings in the future at higher brackets. There are several ways to "optimize' your use of deductions against your highest or perhaps highest two brackets. One is to consider staging your investment over two tax years. This can be very effective as long as the investment is compatible with a staged deployment. Alternatively, mixing Bonus Depreciation with or without some Section 179 expensing can potentially "dial in" the optimum deduction for this year while saving additional write-offs in future years at higher brackets.

Qualified Leasehold Improvements: This rule allows qualified leasehold improvements to be depreciated over a 15-year period instead of the default 39-year method. This has also been restored retroactively and made permanent. To qualify, generally, the tenant and the building owner must not be 80% or more related and the building must have been placed in service at least three years prior to the date of the improvements. For example, if you own 100% of your practice and 100% of your office space, you will not qualify. However, if A&B (otherwise unrelated) each own 50% of the practice and A owns 100% of the office space, A&B are qualified to use the 15-year life on Qualified Leasehold Improvements.

Uncertainty: 2017 Tax Changes?

It is still possible that we will have a change in tax policy before the end of 2017 and such change could take effect retroactively or be phased-in over some time-period. **What do we expect?** The House Republicans Tax Reform Task Force document has much in common with President-elect Trump's proposals made on the campaign trail. Here are a few bullet points:

- Reduce current 7 tax brackets to just three and reduce the rates to 33%, 25% and 12% respectively

- Elimination of the “Marriage Tax Penalty” which impacts two-earner married couples
- Eliminate personal exemptions but expand the child tax credit
- Eliminate most itemized deductions, but maintain the deductions for mortgage interest and charitable donations

We will continue to monitor the various proposals and keep you posted accordingly. DG

DOMESTIC PRODUCTION ACTIVITY DEDUCTION

Internal Revenue Code Section 199 as Applied to Dentists

Do you “manufacture” in your Practice? You may be entitled to an “extra” deduction. Congress has provided an incentive deduction for domestic production activities. In general, the deduction is 9% of the lesser of qualified production activities income for the year or overall taxable income.

Manufacturing in the Dental Practice: Guidance, primarily in the form of rulings and court cases, have developed a very broad range and interpretation of qualifying activities. The following activities qualify or likely qualify as domestic production activities within a dental office:

1. Manufacturing of crowns, onlays and inlays, especially CAD CAM (CEREC, E4D, etc.)
2. Manufacturing of in-house retainers (night guards, other appliances)
3. Orthodontic Bonding (assembling and bonding bracket components)
4. Other manufacturing or assembly activities

From the list above it is clear that most, if not all orthodontists, as well as those using CEREC or E4D will have significant domestic production activity revenue – the first step in the deduction process.

On the other hand, we believe that the majority of general practices and non-orthodontic specialty practices will not have sufficient revenue from domestic production activity to develop a tax deduction significant enough to warrant the time and cost of recordkeeping and tax preparation.

Here are some general guidelines:

Section 199 Deduction Rules of Thumb	Sole Proprietors and Certain Partnerships	S Corporations and Certain Partnerships	C Corporations
Minimum Revenue	$25,000	$40,000	Most likely N/A

If you do manufacture or assemble in your practice and have not previously addressed the Domestic Production Activity Deduction, reach out to your DG Advisor/Manager to determine if you are a good candidate and discuss recordkeeping requirements.