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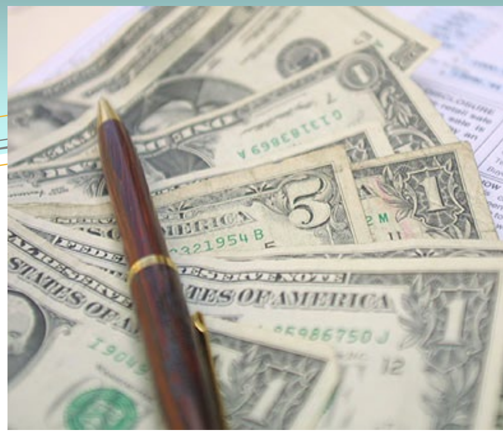
WSDA WASHINGTON STATE DENTAL ASSOCIATION PREFERRED

The Successful Dentist™

Dental Tax and Finance



Helping Dentists Make Smart Decisions about Money

Deadlines & Misc.

First Quarter Estimated Tax Payments are due by Monday, April 15, 2019. See Page 4.

DEADLINES

Monday, April 15th is the deadline for timely filing or extending individual income tax returns. In order to avoid penalties and/or interest, 2018 tax due must be paid with the filed return or extension by April 15th.

PERSONAL PROPERTY TAX

First half taxes are due on or before April 30, 2019. Personal property affidavits are also due April 30, 2019

STUDY CLUBS

If you would be interested in having us speak at one of your upcoming Study Club events, we would be happy to do so. We can cover a variety of topics including long-term financial planning, transition planning and most popular the new Tax Act – and how it is impacting dentists.

Contact our office for more details. 425.216.1612 or mail@cpa4dds.com

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TAX-CUTS & JOBS ACT – 2018 IMPACT ON DENTISTS

A whole lot of new tax laws take effect in 2018 and many will have an impact on dentists. Most dentists are expected to see a net benefit; some will receive a substantial benefit and a few may see a net increase in tax (all things being equal).

QUALIFIED BUSINESS INCOME: QBI is perhaps the single biggest benefit available in the TCJA for those dentists who qualify. The QBI deduction is up to 20% of Qualified Business Income – which includes your dental practice – unless you are phased out by your income level.

The income level is based on your taxable income and the phase out begins at $315,000 for joint returns and $157,500 for single returns. The benefit is phased out completely at taxable income of $415,000 or more ($207,500 single) (continued)

New phone scam uses Taxpayer Advocate Service numbers

While they say there is nothing new under the sun, IRS has warned taxpayers about a new twist on the IRS impersonation phone scam under which criminals fake calls from the Taxpayer Advocate Service (TAS), an independent organization within IRS.

Background. The Taxpayer Advocate Service (TAS) is an independent organization within IRS whose employees assist taxpayers who are experiencing economic harm, who are seeking help in resolving tax problems that have not been resolved through normal channels, or who believe that an IRS system or procedure is not working as it should.

IRS advises. In IR 2019-44, 3/15/2019, IRS cautioned that similar to other IRS impersonation scams, thieves make unsolicited phone calls to their intended victims fraudulently claiming to be from IRS. In this most recent scam variation, callers "spoof" the telephone number of the IRS Taxpayer Advocate Service office in Houston or Brooklyn. Calls may be 'robo-calls' that request a call back. Once the taxpayer returns the call, the con artist requests personal information, including Social Security number or individual taxpayer identification number (ITIN).

Qualified Business Income – 20% Deduction Continued

It is important to distinguish between practice income and taxable income. For example, Judy has a practice that nets $425,000, but Judy's taxable income, after deducting 401k/profit sharing, self-employed health insurance, 50% of self-employment tax and all of the other itemized deductions, is $305,000 on her joint return with spouse Bob.

Because Bob and Judy's taxable income is below $315,000, they are fully eligible for the 20% deduction. The deduction is computed on the lower of, Qualified Business Income, Taxable Income or $315,000. In this case, Bob and Judy would receive a $61,000 deduction based on 20% of $305,000 taxable income.

Between joint taxable income of $315,000 and $415,000 the deduction is phased out. Further, the computation becomes more complicated in that it also involves a percentage of wages paid by the business and/or depreciable assets acquired in the past ten years.

The QBI deduction applies to S Corporations, Partnerships, LLC's or PLLC's operating as S Corporations or Partnerships and Sole Proprietors. There is some question as to whether all of these entities are treated the same for purposes of the QBI deduction – as the language that Congress used can be interpreted in more than one way – one way that would suggest all of these entities are on a level footing and another way that would suggest sole proprietors have a better deal than S Corporations or Partnerships. **This is one of the many issues the Internal Revenue Service will need to provide guidance on over the course of the year and beyond.**

The Negative Side: How Does the TCJA Potential Harm Dentists

Entertainment expenditures, which previously were 50% deductible if documented and tied to legitimate business activities. This deduction is now entirely gone – no deduction for entertainment.

Business Meals: Unfortunately, it appears that congress threw out the Business Meal deduction along with the Entertainment bathwater. We wondered about this and it turns out that congress did not intend to end the 50% deduction for documented business meals. We expect congress, through a technical corrections bill or the IRS through other means will reinstate this deduction – so be certain to continue to run business meals through your practice and be sure to keep the required documentation for each expenditure – chiefly, who, what topic(s), how related to your business or profession.

Personal Exemptions Eliminated: For a family of four, this means the loss of a $16,200 deduction. For very high-income dentists, this is a non-event as you were previously phased out of this deduction.

Personal Itemized Taxes are Capped: We are used to deducting real estate tax on our residence and any other non-business real estate along with sales tax and in some cases auto-tab taxes as part of our itemized deductions. These all remain deductible but the personal tax expense is limited to $10,000 per year.

Mortgage Interest: Effective with new mortgages taken after December 14, 2017, the maximum amount on which you can deduct interest is $750,000 instead of previously $1,000,000. The $1,000,000 acquisition mortgage rule is grandfathered for all mortgages in place prior to December 15, 2017. The grandfathering also covers refinancing – but only to the extent of existing grandfathered mortgage balance.

Home Equity Loans: The interest on home equity loans are no longer deductible at all unless they were also part of the acquisition cost of the home and stay under the applicable limit when combined with home acquisition debt - $1,000,000 prior to December 15, 2017 and $750,000 after. Consequently, if you have a pre-existing home equity loan that was used for anything other than acquiring or improving your home – the interest will no longer be deductible as of 2018 and forward.

These and many more new tax provisions and planning related thereto are on the agenda for our upcoming seminar on May 4th; consider registering today! Can't make it? Let us know as we are planning on a second session at a date to be determine due to high demand.

More Topics to be Covered:

- Elimination of Entertainment Expenses
- Elimination/Reduction of Meals Expenses
- Personal Exemptions Eliminated
- Personal Real Estate and Sales Taxes Capped
- Mortgage Interest: Lower Caps on New Loans
- Home Equity Loans: Only deductible if Related to Purchase/Build
- Elimination of Miscellaneous Itemized Deductions
- Elimination of Moving Expenses
- Alimony No Longer Deductible (after 2018)
- Elimination of Roth Recharacterization
- Elimination of the Net Operating Loss Carryback
- Elimination of the 9% DPAD Deduction
- Like Kind Exchanges Limited to Qualified Real Estate

How Does the TCJA Potentially Help Dentists?

- Reduction in C Corporate Rate to 21%
- 20% Qualified Business Income Deduction
  - Who's In, who's not and what can be done?
  - Complicates S Election Decision
  - Other Activities
- Drop in Tax Rates for Most Dentists
- Expansion of the Section 179 Expensing Election
- Extension and Expansion of Bonus Depreciation
- Improved Deduction on Automobiles
- Major improvement in Alternative Minimum Tax
- Big Increase in Standard Deduction
- Major Increase in Income for Child Tax Credit
- Change in Kiddie Tax
- ACA Mandate Repealed
- Other Newer Tax Laws to Address
- Capital Gains Rates
- Cost Segregation Projects – Major Savings
  - Impact on Practice Sales
- Leveraging Tax Savings with More Tax Savings
- The Best Retirement Plan and Features – For You Now
- Deduct More of What You Spend
- Exploiting the S Corporation Election
- Roth Conversion – When and Why
  - Back-Door Roth Conversions Alive and Well