Don't Let another April 15th be Rainy for You:

4 Tax-Saving Ideas You Can Do Now

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As a physician, do you realize that – between income, capital gains, Medicare, self-employment and other taxes, you spend 40 to 50% of your working hours laboring for the IRS and your state? That is a lot of time with patients for someone else's benefit. Given the significance of this fact, shouldn't your advisors be giving you creative ways to legally reduce your tax liabilities? How many tax-reducing ideas does your CPA regularly provide you? If you are like most physicians, you probably get very few tax planning ideas from your advisors.

Given these sobering facts, the purpose of this article is to show you five ways to potentially save and possibly motivate you to investigate these planning concepts now, before the end of the year. Let's examine them now:

1. Use the Right Practice Entity/Payment Structure/Benefit Plans

These areas are where the vast majority of tax mistakes are made by doctors today – and where many of you reading this could benefit by *tens of thousands of dollars* annually with the right analysis and implementations. Issues here include:

- Using the legal entity with maximum tax/benefits leverage – whether that is an "S" corporation, "C" corporation, LLC taxed as "S", "C", or partnership
- Using a multi-entity structure to take advantage of 2 types of entities and their tax/benefit advantages
- Managing the payment of salary, bonus, distribution, partnership flow-through to take advantage of maximum retirement benefits and minimize income, social security and self employment taxes
- Having a game plan in place if the tax proposals of the new President are enacted

2. Don't Lose 17-44% of Your Returns to Taxes -- Explore Investment Managers who Manage with Taxes in Mind

It is quite well known that most investors in mutual funds have no control of the tax hit they take on their funds. What you might not know is how harsh this hit can be. According to mutual fund tracker Lipper (quoted on CNN/Money.com 4/17/07), **"Over the past 20 years, the average investor in a taxable stock mutual fund gave up the equivalent of 17% to 44% of their returns to taxes."** **17-44%!** Obviously, over 20, 30+ years of retirement savings, losing one sixth to about half of your returns to taxes should be unacceptable to you. Nonetheless, too many physician investors settle for this awful taxation. Even worse is what most of you mutual fund investors will experience April 15th, 2009 – when you will pay significant taxes on the transactions within your mutual fund even though you lost 30% or more of your fund values. **Is there anything worse than seeing your wealth decimated by a 30%+ value collapse and then having to pay taxes on it?** Although this will be a subject of a separate article, consider a few mutual funds from the country's largest funds that have already announced their estimated tax costs to investors (Dec 15, 2008) and their to-date 2008 losses:

•Fidelity Select Energy Portfolio, down 57% this year, will pay an estimated $2.85 per share in long-term capital gains — about 10% of its share price.

•Vanguard Health Care fund (investor class) will pay about $8.07 per share in gains, equal to 7.7% of its share price. The fund has fallen 24% this year.

•American Funds' New Perspectives fund, down 41%, will make gains payouts of 7% to 9% of its share price. It didn't provide a dollar figure.

How to avoid this problem? Consider working with an investment firm that designs a tax – efficient portfolio for you and communicates with you each year to minimize the tax drag on that portfolio. In a mutual fund, you have only "one way" communication – the fund tells you what your return is and what the tax cost is. Working with an investment management firm, you get "two way communication" -- as the firm works with you to maximize the leverage of different tax environments, offset tax losses and gains, and other tax minimization techniques. It is not by coincidence that we have two CPAs in our wealth management firm working on these issues with clients.

3. Asset-Protect Your Practice's Most Valuable Asset and Reduce Taxes

As a physician, you face malpractice liability as well as general business risks (employee liability, etc.). What you may not realize is that a claim by a patient or employee will likely threaten ALL of your practice's accounts receivable, including those you earn. Typically, this is a medical practice's most valuable asset.

For this reason, physicians implement strategies for asset-protecting their receivables. While the details of the options go beyond the scope of this article, it should be mentioned here that one of these strategies may allow the practice to reduce its income tax burden as well. Thus, if asset protection is a concern of yours, in addition to tax reduction, we recommend that you investigate your practice's options in this area.

4. Gain Tax-Deferral, Asset Protection through Cash Value Life Insurance

Above you learned about the 17-44% tax hit most investors take on their investments in stock mutual funds. Similar funds within a cash value life insurance policy will generate NO income taxes – because the growth of policy cash balances is not taxable. Also, nearly every state protects the cash values from creditors – although there is tremendous variation among the states on how much is shielded. Contact the authors at (800) 554-7233 to find out how much.

Conclusion

This article gives you a few ideas for how to save taxes. For larger practices with $5,000,000 or more of revenue, there are additional techniques that could offer significantly greater deductions. These are outside the scope of this article, but are mentioned in the articles on our website and are topics of our free e-newsletter. If you want to save taxes, the most important thing you can do is start looking for members of your advisory team who can help you address these issues in advance. Otherwise, you will be in this same position this April 15th…and next April 15th and the one after that.

The information contained in this article is general in nature and should not be acted upon in your specific circumstances without further details and/or professional advice. Contact your personal tax advisor for specific advice related to your tax situation.

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