Dynamic Chiropractic

I Want to Save You Money

Stanley Greenfield, RHU

Years ago, I did an article for Dynamic Chiropractic in which I stated it would be very strange if an I.R.S. agent ever showed up at your door and said, "I want to save you money." Well, stranger things have happened, and guess what? That is about to become a reality! Yes, believe it or not, the I.R.S. has a big tax deduction for you on an item that you are now not able to deduct, but are spending thousands of dollars on each and every year.

To qualify for this deduction, you must meet the following qualifications:

- be self-employed;
- have a spouse who is active in the practice;
- have fewer than three employees.

That's it! If you fit the above, you can have a potential tax savings this year of $2,450 -- not bad!

This tax savings falls under the Internal Revenue Code, section 105, which allows self-employed business owners a 100% deduction of family health care expenses. By the way, this includes health insurance premiums, as well as term life, disability and qualified long-term care premiums. In addition, noninsured medical, dental and vision care expenses are also deductible at 100%. This code section has been around since 1954, but has been a well-kept secret -- until now! By establishing the spouse as an employee, you can then offer the spouse-employee a benefits package. The plan establishes a "reimbursement" from the practice to all eligible employees, including an employed spouse, for all family medical expenses incurred. At tax time, the employer deducts the full amount of these reimbursements as an employee benefit expense. By the way, the spouse does not have to put in a full 40 hour week to qualify for this benefit.

Yes, there are other plans that work almost like the section 105 plan: the new MSAs (medical savings accounts), but they require that you buy a special insurance plan with a very large deductible, and put money aside to reimburse yourself at the end of the year. Section 105 allows you to keep your current plan and not change a thing.

One reason why most people have not taken advantage of section 105 is that it does require that you have a plan and have it filed properly with the I.R.S. In the past, this has been costly and did present some problems if the plan was not filed. I have recently found a firm that administers section 105 plans. They make sure that everything is done properly, and they will assume financial responsibility for any penalty and interest charges incurred as a result of an audit as it pertains to your plan. Quite a guarantee!

Let's take a look at an example of how section 105 can save you money. Dr. Jim is in solo practice. His wife, Mary, helps out in the office from time to time. Dr. Jim decides to put Mary formally on the payroll and take advantage of section 105. Dr. Jim decides to pay Mary in the following way:

1.Reimbursement of family health insurance premiums	$4,000	(fully deductible to business and nontaxable to Mary)
2. Reimbursement of family noninsured medical expenses	$3,000	(fully deductible to business & non-taxable to Mary)
3. W-2 wages	$3,000	
Total Compensation:	$10,000	

The $7,000 of reimbursed medical costs are now fully deductible as an employee benefit. Dr. Jim multiplies this $7,000 by 35% (I'm using just a 15% federal tax rate, plus a 5% state tax rate and a 15% self-employment tax). The results are a tax savings of $2,450. In contrast, a medical savings account would only generate a tax savings of $920. One reason is because only 40% of the health insurance premium is deductible in 1997.

Yes, you do have to include current employees in your plan, but there are ways to exclude the majority of them. For example, you can exclude all part-time and seasonal employees, and anyone under the age of 25. And any new employees that you hire must work for you at least three years before you have to add them to your plan. As I said, most employees can be excluded.

This program can be set up before December 31, and it will be as if you set it up on January 1, 1997. All expenses can be reimbursed and deducted this year. Can the government change this? Have you ever seen anything that the government can't change? Yes, this provision could be changed, and that is why it is imperative that you do this and do it soon.

If you are interested in saving some tax dollars this year, feel free to write me by mail, or you can contact me at the phone number listed below. If e-mail is your thing, I can be contacted at Powerprogm@aol.com. There you have it -- three ways to reach me and save thousands of dollars on your taxes this year. Bill Clinton and Congress may have enacted a new tax law, but Stanley still shows you how to save the big bucks and how to save them right now! What more can I say?

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