

Questions

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This will introduce a new heading for some of my articles, "Questions." I get lots of them each month after my article appears in Dynamic Chiropractic. Some of you write for copies of old articles that I have referred to in a new article, and some just have questions, looking for answers. I hope that is what this will give you, answers. I just know that as soon as this appears in print, I will get a letter asking why I didn't call this "Answers" if that is what it is supposed to do. That's a good question, and I don't have a good answer for that one. Let's see if I have some good answers to some other questions.

Question: What insurance premiums can I deduct on my income taxes? That is a very good question, and I think I can safely say the majority of people don't know the answer. You can deduct the cost of insurance for your practice as a business expense, if the insurance is an ordinary and necessary expense. There are some tricky parts to this answer: You may feel that it is a necessary expense, but the IRS does not. As with all such "ties," the advantage does not go to the "runner." The IRS wins every time.

You can deduct premiums for casualty insurance, such as fire and theft coverage, and insurance to cover your equipment and supplies. If you offer a group health insurance program to your employees, the premiums are deductible. Your malpractice insurance is a deductible expense, as is any liability coverage you have on your office and property. The cost of workers' compensation insurance is deductible, and contributions to any state unemployment insurance fund. If you bond any of your employees, that is a deductible expense.

Disability insurance I will cover in a separate area as one of those "tricky" questions, but if you have office overhead coverage, that premium is deductible. I am amazed how many chiropractors do not have this type of coverage. This should be on a "must have" list of coverages, and best of all, IRS supplements your cost by allowing you to deduct the premium. (By the way, such a "must have" insurance list does exist. Drop me a line and I will send it to you.)

Car insurance gets into the tricky area. You can deduct the cost of auto insurance if you use your car in your practice. That's where it gets tricky. If you claim that you use your car partially in your practice, then you can only deduct that percentage of your premium. Remember that driving to your office is considered "commuting" and is not deductible.

Life insurance premiums, for the most part, are not deductible. If you borrow money from a bank and they require that you have some insurance to cover the loan, and if you call your agent and buy a policy, is that premium deductible as a necessary business expense? After all, the bank said you must have it so it sure sounds like a necessary expense. Well, it may sound that way to you, but to the IRS, it's just insurance and is not deductible. I don't care how you dress it up, it's not deductible.

You say you have a clinic and you bought some "key-person" insurance on yourself so if something happens to you the clinic will have the cash to keep its doors open. That's wonderful, but is sure isn't

deductible. How about insurance to be used by a buy-out agreement between the partners or stockholders of that clinic? This is a smart business thing to do. I will agree that it is a smart business thing to do, and the IRS will agree that it's smart, but it isn't deductible.

If you have insurance as part of your qualified retirement plan, the premium is deductible, as part of the contribution to the plan. That is one way to make the cost of life insurance deductible. That is the one method to have insurance and the cost is deductible to you. You will have people tell you lots of other ways to make life insurance premiums deductible, but believe me, it just doesn't work. All it is, is a lot of smoke and mirrors. Now if the director of the Internal Revenue Service tells you that it is deductible and will put it in writing, I would say go for it.

Let's get back to disability insurance. The premium is not deductible, but you do receive the benefits tax-free? If you are incorporated, there is a way to sort of have your cake and eat it too. Have your corporation "bonus" you enough to cover your premium for disability coverage. The corporation can now "deduct" the cost of that coverage, but now you have to pay the tax on the bonus. Your corporation can "gross-up" the bonus so you now have enough to pay the premium and the tax. If you want, your corporation can pay your premium direct, and it will not be a taxable bonus to you; however, at claim time, the benefits you receive will be taxable.

This article is basically an addendum to my March 29 article called, "Best Game in Town." Both can save you money and aggravation when it comes time to do your taxes again. You say you misplaced that article. Fear not, follow the instructions at the bottom of this article and I will send you a copy. By the way, do you have any questions? If so, send them along and I will try to give you the answers and alternative ideas to make your life a little easier. Give it a try. What have you got to lose? After all, the stamp and the stationary are deductible!

Your comments and inquiries may be directed to:

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Please include a self-addressed, stamped envelope. Thank you.

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