Dynamic Chiropractic

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An Interesting Question

Kenneth Satin, JD

Most DCs pay a great deal of interest each year. If the DC would tally the amount of interest on December 31, he might be very surprised at the significance of the amount. For example, if an x-ray machine is financed, the interest deductions are substantial. A bank line of credit might exist with the lending institution also exacting its due. On the personal side, interest is typically paid on a Visa or Mastercard for automobile financing and, of course, for a home mortgage.

Under the revised tax code, however, not all interest is fully deductible; distinctions need to be made.

Personal Interest Now Rarely Deductible

Up until a few years ago, virtually all interest paid was deductible. Personal interest deductions are now extremely limited. What few benefits remain are disappearing quickly. Personal interest includes money borrowed in order to pay for matters of a personal nature, such as a child's education, a vehicle, or credit cards.

Professional Interests May Still Be Deductible

Let us suppose the doctor of chiropractic acquired the x-ray machine mentioned above and financed it with his bank. He should still be able to write off all of the interest paid if the equipment is necessary to his practice. There are areas of danger, however. It is this author's belief that it would be best to have a professional corporation acquire the asset and pay the payments as opposed to the DC personally acquiring the asset, making the payments to the bank directly, and obtaining reimbursement from his personal corporation.

Mortgage Interest Still Deductible

Interest on loans secured by a home remain deductible, but the residence securing the loan must be a primary residence (or one other home). The limitation, however, is up to one million dollars worth of debt to purchase the home, plus an additional $100,000 for a home equity loan. In other words, home equity loans are one of the few tax "shelters" left. That is the reason why the newspapers are full of advertisements touting their benefits. It must be remembered that it is only allowed on a maximum of $100,000 of that debt as a deductible item.

Investment Interest Is Limited

The government made a distinction in the revision of the tax laws between "active" and "passive" losses. Typically, investment income falls in the passive loss arena. The general rule is that investment interest is deductible, but the deduction cannot exceed the amount of investment income. In other words, it is an offset situation. Investment interest cannot typically be deducted against ordinary income as it was in the past. In 1990 there is also an allowable deduction of up to $10,000 investment interest in excess of investment income.

Kenneth A. Satin, J.D.
Newport Beach, California

Editor's Note:

Mr. Kenneth A. Satin,s law firm is located at 4000 McArthur Street, Suite #950, Newport Beach, CA. 92660 (714) 851-1163. We thank Mr. Satin for providing this series of articles for our readers.

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