

Getting the Jump on Year-End Tax Planning

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Tax planning should be a year-long event, but even medical practices that ignored the tax consequences of their actions during the previous eleven months can still benefit by taking the proactive steps listed below now.

Get Ready! When conducting the Practice's year-end tax planning, it is important that you do the following things:

- Obtain a year-to-date income statement and a balance sheet that reflects 10 or 11 months of transactions. Review the detailed general ledger and make any necessary adjusting entries.
- Project net operating income for the remainder of the year based on routine income and expenses plus any known non-recurring items such as purchase of fixed assets.
- Estimate any performance-based bonuses for employees.
- Determine whether there are any nondeductible expenses such as penalties or officers' life insurance.
- Determine whether any expenses are for capital items; if so, determine whether they qualify for the section 179 election; calculate depreciation on any remaining fixed assets.
- Determine whether any expenses are subject to special limitations, such as charitable contributions, meals, and entertainment expenses.
- Estimate the amount of any employer contributions to qualified retirement plans.
- Identify any bills that would normally be paid early in the next year - such as rent, health insurance, or even staff payroll - that could be paid before the end of the year.
- Review last year's tax return to see if there are any carryovers of section 179 deduction, net operating losses, or charitable contributions available to offset the current year's income.

Get Set! Determine the tentative taxable income of the practice. Then consider the following options;

- Whether to zero out the corporate income or accumulate income in the practice. If accumulating, decide how much. Develop a "target" taxable income.
- Whether to prepay or defer any expenses.
- Whether to defer or accelerate any income.

- Whether to make any discretionary employer contributions to a qualified profit sharing plan.
- Review the practice's cash available to fund these various options plus any bills that must be paid in the first few weeks of the new year. If there is a shortfall, consider whether to borrow from the bank, request loans from the shareholders, require additional capital contributions, or revise the target taxable income of the practice.

Go!

- Revise your projected taxable income before the year-end bonuses to the physician-owners.
- Calculate the amount of year-end bonuses necessary to arrive at your target taxable income.
- Develop a plan and coordinate the mechanics of deciding which bills to pay, monitoring cash receipts, calculating bonuses, and planning bonus withholdings.
- Implement the plan by December 31.

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