Tax Cuts and Jobs Act of 2017
Impact for Independent Physicians

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Survey

1. Does anyone not operate their practice as a corporation?
2. Does anyone have a year end other than 12/31?
3. Does anyone have part of their business assets – such as real estate – in a partnership?
4. Does anyone provide employees with paid family or medical leave?

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General considerations & highlights

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Tax Cuts and Jobs Act of 2017
General highlights and considerations

- Reduces corporate tax rate from 35% to 21%, effective in 2018
- Repeals corporate alternative minimum tax (AMT)
- Generally lowers individual tax rates on a temporary basis
- Provides some passthrough owners with effective tax rates lower than what the individual side of code would generally provide (with exceptions including for health)
- Implements 100% immediate expensing of qualified fixed assets for 5 years, with a phase-out thereafter and changes some of the listed property rules affecting depreciation/ substantiation
- Limits business interest deductibility
- Modifies treatment of net operating losses
- Repeals/limits various business tax incentives
- Reduces corporate dividends received deduction

Implications of the tax reform bill will vary based on the physician practice's legal entity type(s) and income level.

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Actions required "now"

- Payroll changes (see employment tax slides starting at slide 19)
  - Withholding table changes have been issued by IRS
  - Supplemental withholding rates are now 22% (<$1M) and 37% (>$1M)
  - Plan for update to pay codes for items that are no longer exempt from income tax as well as strategy for moving expenses which are no longer excluded from income of the individual
  - Consider any necessary communications with employees
  - W-4s on file may continue to be used, but employees may provide new W-4s in order to manage their own withholding under the new tax laws.
    - IRS will issue new W-4 forms

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Slide 6

LB30 double check still correct when deck is finalized since guidance may come out before presentation
Boyce, Lori, 2/8/2018

Actions required "now" (continued)

- Considerations for increasing deductions in 2017 tax year:
  - 100% bonus depreciation of qualifying property acquired and placed in service after 9/27/17
  - Automatic accounting method changes (those that require IRS permission (non-automatic method changes) were required to be filed before the taxable year end)
  - Calendar year taxpayers: Corporation NOLs from 2017 and prior are more "valuable" than losses arising after 2017 due to latter having 80% limitation on use against future income. Additionally, 2017 and earlier NOLs can be carried back 2 years, 2018 and future losses cannot be carried back.
  - Consider specific write-off of receivables in closing of the 2017 books to obtain tax deduction for accrual method taxpayer
  - Consider additional contributions to pension plan (within allowable limits) within 8 ½ months of year-end (for minimum funding) and potentially an extra month if you are a corporation for additional amounts paid generally before filing your timely return*
  - Consider timing of year end accruals of bonuses and related payment within 2 ½ months**

*Some differences of opinion on this within IRS

** Provided other conditions for deduction are met

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Actions required "now" (continued)

Consider and set up appropriate accounting systems to capture expenses that may no longer be deductible in whole or in part. It is easier to capture up front than to try to go back and identify.

Consider whether changes to form of entity/ how assets are held given significant differences in rates between corporation/ individual and potential for pass-through deduction regarding real estate but generally not health services. Note, there could be tax consequences associated with the changes to entity type as well- so tread carefully and think through all the ramifications.

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Business taxation

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Tax Cuts and Jobs Act of 2017
Business taxation

	Previous law	New law	Notes & observations
Corporate income	*35% top rate*	21% flat rate, effective for tax years after 12/31/17	
Corporate dividends received deduction	*70% deduction; 80% if received from 20%-owned corporation*	Reduced to 50% deduction and 65% deduction	
Corporate AMT	*20% on alternative minimum taxable income*	Repealed • Credit available to offset regular tax liability for any taxable year • AMT credit refundable for any taxable years 2018-2021 at 50% (100% beginning in 2022) of the excess of the AMT credit for the year over the amount of the credit allowable for the year against regular tax liability	AMT credit carryovers may be used over the next few years and any amounts still remaining may be taken as a credit in 2021. Regular tax liability may be offset in full by AMT credit carryovers. Beginning after 2018, may obtain refund for ½ the remaining credit over the amount allowed against regular tax liability. In year 2021, may take the remaining AMT credit carryover.
Net operating loss deduction	*2-year carryback and 20-year carryforward allowed to offset taxable income*	Limited to 80% of taxable income deductible • Repeals carrybacks except for farms in certain casualty and disaster situations • Carryforward period made indefinite	• Differs from individual and trust NOL rules • Property and casualty insurance companies exempt from changes

Notes: These are general summaries, and many of the provisions include exceptions and effective dates that should be read carefully. Unless otherwise stated, provisions are generally effective for tax years beginning after 12/31/17.

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Tax Cuts and Jobs Act of 2017
Business taxation (continued)

	Previous law	New law	Notes & observations
Capital expensing	*MACRS/ADS with bonus depreciation, or accelerated use of AMT credits; additional first-year depreciation deduction allowed equal to 50% of adjusted basis of qualified property acquired and placed in service before 1/1/20, with phase-down for most property placed in service after 12/31/17*	100% immediate expensing for qualified property through 2022, then phased down each year through 2026 (2023 = 80%, 2024 = 60%, 2025 = 40%, 2026 = 20%) Shortened life for qualified leasehold improvement property to 15 years	• Applies to new and used qualified property acquired and placed in service after 9/27/17 • Exemption for real estate • Required unless elect out
§179 expensing	*Allows current deduction for eligible property; $500k limit in a given year, phased out when cost of qualifying property >$2M*	Increases maximum amount of deduction to $1M and raises phaseout threshold to $2.5M • Expands definition of eligible property (e.g., now includes leasehold improvements)	
Business interest payments	*Generally deductible, with some limits in Section 163(j)*	Limited to business interest income + 30% of EBITDA through 2021, then 30% of EBIT • Indefinite carryforward for disallowed amounts • Determined at "entity" level (EBITDA=earnings before income taxes, depreciation and amortization)	• Exemption for businesses <$25M avg. annual gross receipts • Exemption for real estate indebtedness • Limitation changes after 2021 • For entities other than corporations, investment interest is not subject to these limitations • Potential for investment interest received by corporation from a pass through entity could be subject to the business interest limitations at the corporation itself.
Like-kind exchanges	*No gain or loss recognized for wide range of property held for productive use or investment; different classes of property include (1) depreciable tangible personal property; (2) intangible or nondepreciable personal property; and (3) real property*	Allowed only for real property	Exchanges of personal property permitted to be completed if begun before 12/31/17

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Business Interest Expense Limitations Overview

- New section 163(j) applies to every business – regardless of its form – and disallows the deduction for business interest expense in excess of the sum of (i) "Business Interest Income", (ii) 30% of the business's "adjusted taxable income" ("ATI"), and (iii) floor plan financing interest ("FPFI"), defined in section 163(j)(9) and generally comprising of interest expense related to the acquisition of motor vehicles, including boats and farm equipment, for sale or lease.
  - Business Interest Income is defined as any interest income "properly allocable to a trade or business" and does not include investment income (within the meaning of section 163(d)). Similarly, business interest expense does not include investment interest expense. However, per the legislative history interest expense incurred by corporations is deemed to be business interest expense.
  - ATI is defined as the taxable income of the taxpayer, excluding (i) items of income, gain, deduction, or loss not properly allocable to a trade or business, (ii) business interest expense or income, (iii) net operating loss deductions under section 172, (iv) deductions allowed under section 199A, and (v) only for tax years beginning before January 1, 2022, depreciation, amortization, or depletion deductions.
  - Any deductions disallowed can be carried forward indefinitely.
  - Special rules apply to partnerships and S corporations.

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Business Interest Expense Limitations Overview (cont.)

- Identifying "Business Interest" expense
  - It is necessary to determine whether any interest paid or accrued is on indebtedness properly allocable to a trade or business *(i.e.*, whether such interest is "Business Interest").
  - This provision generally does not apply to (1) businesses with average gross receipts of $25 million or less as applied under section 448(c); (2) certain utilities, farming, and real property trades or businesses; or (3) investment interest expense. Note that section 448(c) contains cross-references the commonly controlled trade or business rules of section 52, and it appears that the partnership may need to take into consideration the gross receipts of certain related parties for purposes of this exception.
  - Further, special rules apply to how the limitations are determined for pass-through entities.

Caution: Limitation applies to debt owed to a partner or to a related partnership

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Business Interest Expense Limitations Overview (cont.)

- **Specifically related to partnerships:**
  - The 30% Business Interest Limit is applied at the partnership level.
  - A partner's distributive share of any items of income, gain, deduction or loss of such partnership is not included in determining such partner's own ATI under the new rules. However, each partner's own ATI is increased by the partner's distributive share of the partnership's "Excess Taxable Income."
  - Excess Taxable Income equals:

$$\text{Partnership ATI} \times \frac{\text{Business Interest Expense Limitation (ATI x 30\%)} - \text{Net Business Interest Expense (Business Interest Expense, less FPFI, less Business Interest Income)}}{\text{Business Interest Expense Limitation (ATI x 30\%)}}$$

  - To the extent that a partnership has disallowed Business Interest Expense in a tax year, such amount is allocated among the partners and treated as a carryforward at the partner level. Such amounts, referred to as "Excess Business Interest", can only be offset by a future allocation of Excess Taxable Income of that partnership (mechanics unclear).
  - Each partner's share of partnership Excess Taxable Income is determined in the same manner as the partner's distributive share of non-separately stated income.
  - If a partner, after first offsetting all of its Excess Business Interest, has remaining Excess Taxable Income, such Excess Taxable Income can be used to increase the partner's "standalone" ATI.

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Tax Cuts and Jobs Act of 2017
Business taxation (continued)

Some other provisions of note:

- Repeal deduction for local lobbying expenses[1]
- Repeal deductions for entertainment, amusement or recreation activities, facilities, or membership dues, and most transportation fringe benefits provided to employees; 50% limitation through 2025 on food provided on site for employer's convenience (then repealed)
- Excise tax on certain executive compensation of more than $1M on tax-exempt organizations but exception for physicians, nurses, vets for their provision of medical services
- Denial of deduction for certain fines, penalties, and settlement costs
- Temporarily allow tax credit for paid family and medical leave[2]
- Create qualified opportunity zones[1]

[1] Effective for tax years after 12/31/21
[2] Effective for tax years 2018 and 2019

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Tax Cuts and Jobs Act of 2017
Transportation fringe benefits

Costs of providing certain transportation costs, including parking to employees is no longer deductible (unless provided for safety of employee). What may not be deducted?

- The portion of wages that employees use to pay for parking that is not subject to income tax
- The cost of parking passes for non-owned lots
- The cost of parking for employees that is included in building leases or are otherwise leased by the organization
- The cost of maintaining a parking lot that is used by employees:
  - Depreciation
  - Maintenance
  - Snow removal, lighting, security, and more

  But, what about lots that are used by both employees and patients? Theoretically costs associated with parking for patients would still be deductible.

  Consider accounting records needed to capture these non-deductible costs association with employee transportation and parking

  CAUTION: The understanding of this provision is evolving and some of these items may ultimately be exempt from the non-deductibility provisions or planning ideas may emerge.

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Tax Cuts and Jobs Act of 2017
Entertainment and food and beverage costs

Deductions for the following are disallowed:

- Sporting event tickets and luxury boxes

50% deduction:

- Business meals
- Meals of employees while traveling on business
- Meals provided to employees through an onsite eating facility that meets the requirements for de minimis fringes and for meals provided for the convenience of the employer (through 12/31/2025 and then becomes fully non-deductible)

May still deduct:

- Holiday parities and occasional recreation for employees

Revisit accounting systems to separate out the costs for entertainment, and for meals and between fully deductible, 50% deductible and non-deductible

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Pass-through considerations

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Tax Cuts and Jobs Act of 2017
Taxation of pass-through income

	Previous law	New law	Notes & observations
Pass-through income	*Taxed at owner's individual rate*	20% deduction for qualified business income through 2025, limited to greater of a) 50% of W-2 wages, or b) 25% of W-2 wages + 2.5% of capital assets • **Specified personal services businesses not eligible,** except for taxpayers with taxable income <$157,500/$315,000 (deduction phased out over next $50k/$100k) • Taxpayers with taxable income <$157,500/$315,000 not subject to wage limitation (limitation phased in over next $50k/$100k)	• First time that pass-through entities will be separated from individual rate schedule • **Personal services businesses include healthcare**, law, consulting, accounting, athletics, financial services, brokerage services, investing, investment managements, or any business where the principal asset is the reputation or skill of its employees or owners; it does *not* include engineering or architecture services, as in earlier proposals • Special rules apply to certain income from PTPs (publicly traded partnerships) and dividends from REITs and cooperatives

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20% Deduction for Certain Business Income

In general

Under new code section 199A, an individual, estate, or trust generally may deduct 20 percent of qualified business income from a partnership, S corporation, or sole proprietorship, as well as 20 percent of qualified REIT dividends, qualified cooperative dividends, and qualified publicly traded partnership income.

- *Qualified business income* is determined for each qualified trade or business of the taxpayer. **A qualified business is a business *other than*–**
  - (i) a **"specified service trade or business"** described below, or
  - (ii) the business of performing services as an employee.
- Qualified business income for a taxable year means the net amount of ***qualified items*** of income, gain, deduction, and loss with respect to the taxpayer's qualified businesses. Items are treated as qualified items only to the extent they are effectively connected with the conduct of a trade or business within the United States.

Specified service trade or business means any trade or business -

- Involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of that trade or business is the reputation or skill of one or more of its employees or owners, or
- Which involves the performance of services that consist of investing and investment management, trading, or dealing in securities (as defined in section 475(c)(2)), partnership interests, or commodities (as defined in section 475(e)(2)).

Exception: Specified services trade or business can qualify for the deduction in whole or in part IF taxable income of the partner is less than $315K MFJ and $415K MFJ, respectively (indexed for inflation).

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20% Deduction for Certain Business Income
Special Considerations

Computations have limits within limits through calculating the lesser of two items

Personal taxable income impacts the limits in some circumstances

- Generally if MFJ taxable income is less than $315K some limits don't apply
- Generally if MFJ taxable income is more than $415K, the articulated limits fully apply

Potential deduction is first computed based on each trade or business. Then, these are combined at the individual partner level where further potential limits may apply based on the taxpayer's taxable income less certain items such as net capital gains.

- Losses of a qualified trade or business can adversely impact the deduction claimed on the individual's return with respect to other trades or businesses.

Certain items within the pass-through entity may not count in determining qualified business income, many of these are investment-type income (such as interest, dividends etc.)

Deduction is only for federal income tax purposes and does not reduce self-employment income

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Pass-through deduction
VERY SIMPLE example for real estate

Assumed partnership Facts:

$200K qualified business income (QBI)

$5M in unadjusted basis of assets

Zero wages paid

Potential Deductible Amount:

Lesser of: 20% of QBI ($40K) or, since no wages, 2.5% of unadjusted basis of assets ($125K) = $40K

Assumed partner facts:

Married filing joint with taxable income before this calculation in year 1 of $250K and in year 2 of $500K

Pass-through deduction amount:

Year 1: Since under threshold amount of $315K, the deduction is the lower of 20% of $250K ($50K) or the $40K potential deduction, deduction here is $40K.

Year 2: Since individual taxable income is above the fully phased in threshold amount of $415K, the deduction is reduced to zero.

If income is between $315K and $415K a partial deduction is permitted based on required calculations.

Caution –if there had been wages paid by the pass-through entity (to anyone) , calculations are much more complex for purposes of determining the potential deductible amount

Need to determine if trade or business and if so, if separate from your "health" trade or business – need guidance

Observation: Designed for lower income partners

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Individual taxation

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Tax Cuts and Jobs Act of 2017
Individual taxation

	Previous law	New law	Notes & observations
Individual income	*7 brackets* *Top rate of 39.6% on income >$418,400/$470,700 (single/married filing jointly), plus 0.9% Medicare tax on income >$200k/$250k*	7 brackets Top rate of 37% on income >$500k/$600k, plus 0.9% Medicare tax on income >$200k/$250k Sunsets 12/31/25	• Income thresholds indexed for inflation based on chained CPI instead of CPI (change does not sunset) • Creates significant marriage penalty • Does not include House's bubble rate
Standard deduction	*$6,350/$12,700*	$12k/$24k through 2025	Indexed for inflation based on chained CPI after 12/31/19
Personal exemption	*$4,050 exemption for each member of household, phased out for higher AGIs*	Repealed through 2025	
Limitation on itemized deductions	*Pease limitation for AGI >$261,000/$313,800*	Repealed through 2025	
Child tax credit	*$1k credit per child under age 17; phase out for AGI >$75k/$110k*	$2k credit per child under age 17 (refundable up to $1,400) and $500 per non-child dependent (non-refundable), through 2025 • Phase out increased to $200k/$400k • SSN required for each child, but not for non-child dependents	Indexed for inflation based on chained CPI

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Tax Cuts and Jobs Act of 2017
Individual taxation (continued)

	Previous law	New law	Notes & observations
AMT	*26%/28% on alternative minimum taxable income (AMTI); 2017 exemption $54,300/$84,500 (single/married filing jointly); phased out for AMTI >$120,700/$160,900*	Exemption increased to $70,300/$109,400 and phaseout thresholds increased to $500k/$1M, through 2025	
Estate tax, generation-skipping tax, and gift tax	*40% top estate, gift, and generation-skipping tax rate; exemption $5M/$10M, adjusted annually for inflation ($5.6M/$11.2M in 2018)*	40% estate and gift tax after exemption of $10M/$20M; increased exemption sunsets 12/31/25	• Stepped-up basis maintained • Modified exemption indexed for inflation after 2011 • No change made to generation-skipping tax
State and local tax (SALT) deduction	*State and local income and property taxes or sales taxes fully deductible*	Up to $10k of SALT deductible (any combination of property, income, sales taxes) • Deduction still allowed for taxes accrued in business • $10k not inflation indexed • Sunsets 12/31/25	• Prepayments of 2018 income taxes in 2017 treated as paid in 2018
Mortgage interest deduction	*Deduction on first $500k/$1M (married filing individually/all others) of debt used to secure primary or secondary residence, or first $50k/$100k of home equity debt*	Interest deductible on first $375k/$750k of acquisition indebtedness incurred after 12/14/17; home equity debt not deductible • Changes sunset 12/31/25, after which debt incurred at any time will be subject to current law	• Higher limitation than in House bill, and not limited to primary residence only

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Tax Cuts and Jobs Act of 2017
Individual taxation (continued)

	Previous law	New law	Notes & observations
Affordable Care Act	*Those who fail to maintain health coverage owe penalty of 2.5% of AGI, or $695 per adult/$347.50 per child in 2017*	Penalty lowered to $0, effective for months beginning after 12/31/18	Unlike most individual income tax provisions, does not sunset after 2025
Carried interest	*Taxed as long-term investment income*	Adds holding period requirement of 3 years for gains with respect to carried interest in an investment or real estate interest	

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Tax Cuts and Jobs Act of 2017
Individual taxation

Some other provisions of note:

- Permanent increase in charitable giving deduction from 50% of income to 60% (no sunset)
- Suspension of deductions for most personal casualty losses, tax preparation, unreimbursed business expenses, expenses for the production or collection of income, moving expenses (other than members of the armed forces), effective for tax years 2018-2025
- Permanent repeal of deduction for alimony payments, for agreements executed after 12/31/18 (no sunset)
- Temporarily lower floor for medical expense deduction, effective for 2017 and 2018

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Impact of US Tax Reform on employment tax

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Employment tax impact of US tax reform
Overview

- The Act is expected to impact the following payroll items:
  - Withholding amounts (personal exemptions eliminated, standard deductions doubled and tax rates, both supplemental and brackets, adjusted); and
  - Repeal of the exclusion from income tax for certain non-cash fringe benefits, the most significant (by dollar amount) being the change in the tax treatment of employer paid or reimbursed moving expenses.

- Employers will initially be most concerned with the withholding changes they need to adopt and when they need to adopt them. The Internal Revenue Service (IRS) issued withholding guidance in early January [IRS Notice 1036] which employers will be expected to implement by February 15, 2018. Prior to this guidance being issued, existing 2017 withholding tables and systems were to continue to be used, according to a late-December statement provided by the IRS.

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Employment tax impact of US tax reform
Impact to Forms W-4

- The Act repealed individual income tax exemptions effective from January 1, 2018. The withholding regime takes these exemptions into account through the use of Forms W-4 in order to arrive at the correct amount of withholding each pay period.

- The withholding guidance issued by the IRS in early January (to reflect the US tax reform changes) are intended to be designed to work with the existing Forms W-4 that employees have previously provided to employers. Employees will not need to complete new Forms W-4 for 2018 to accommodate the US tax reform changes.

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Employment tax impact of US tax reform

Impact to supplemental rates

- US tax reform includes revisions to individual income tax rates, and this has a direct impact to supplemental wage tax rates.
- The mandatory flat rate of withholding for supplemental wage payments exceeding $1 million USD will be reduced to a flat rate of 37%, effective January 1, 2018.
- For supplemental wage payments which are less than $1 million USD and separately identified and you withhold on the employee's regular wages, then the supplemental wage withholding rates is a flat 22% or may add to regular wages paid "concurrently". See the notice for more details.
- Backup withholding rate is 24%.

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Employment tax impact of US tax reform

Impact to fringe benefits and expenses

- US tax reform has repealed the exclusion from income tax for employer-paid or reimbursed moving expenses for employees (with an exception for members of the armed forces on active duty), as well as the exclusion for bicycle commuting expenses.
- Beginning January 1, 2018, employers should include in income relocation costs paid on behalf of employees as well as any reimbursement for bicycle commuting expenses. This will require payroll departments to:
    1. Adjust payroll codes for taxable earnings and apply withholding taxes (with or without gross up, depending on how the tax costs will be met).
    2. Create processes to capture the compensation as it is earned and process to payroll (either as manual payments or via an interface).
    3. Consider if any new imputed wages should be considered for 401K deferral purposes under qualified plan rules.
    4. Consider how the tax and FICA costs on these reimbursements will be withheld from employee wages and/or grossed up by the Company. These discussions should also include an employee communications strategy in the event questions arise when employees receive their paychecks.

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Employment tax impact of US tax reform
Steps to take immediately

- Implement withholding guidance for normal wages as issued by the IRS in Notice 1036.
- Adjust supplemental withholding rates.
- Implement a strategy for relocation expenses and other fringe benefit items no longer exempt from income tax. Make adjustments to payroll wage codes for items that are no longer exempt from income or employment taxes.

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LB28

Effective dates

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Slide 34

LB28 need to be consistent with other divider slides

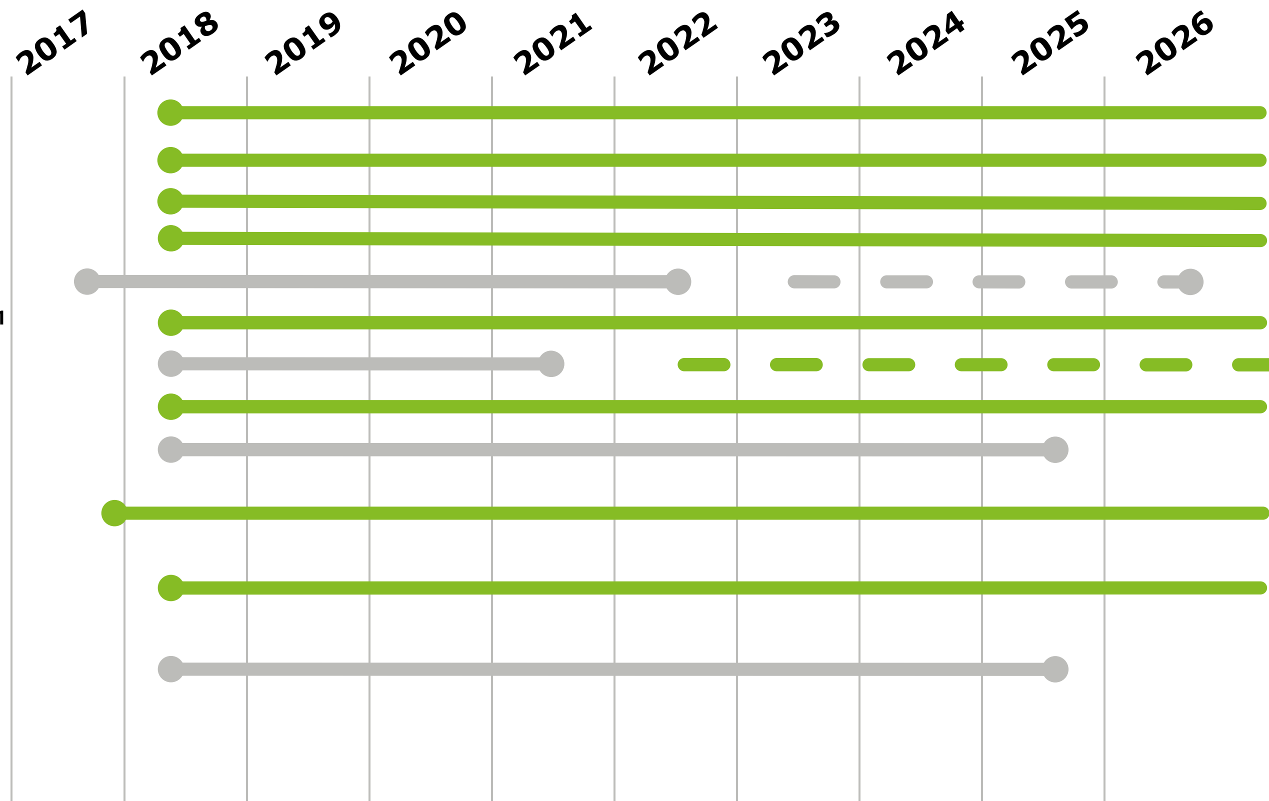
Boyce, Lori, 1/6/2018

Tax Cuts and Jobs Act of 2017

Business taxation – Effective dates

Permanent
Temporary

Lower corporate rate
Lower dividends received deduction
Repeal of AMT
Net operating loss deduction limitation
(losses generated beginning in…)
Immediate write-off for capital investment[1]
Higher §179 expensing cap and phaseout
Limitation on interest payment deduction[2]
Limitation on like-kind exchanges
20% deduction for passthrough income
Repeal of deduction for local lobbying expenses
Repeal of deduction for certain employer-provided fringe benefits
Allowance for limited deduction for employee food provided on-site



[1] Permitted first-year write-off phases down 2023-2026
[2] Stricter limitation after 2021

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Tax Cuts and Jobs Act of 2017

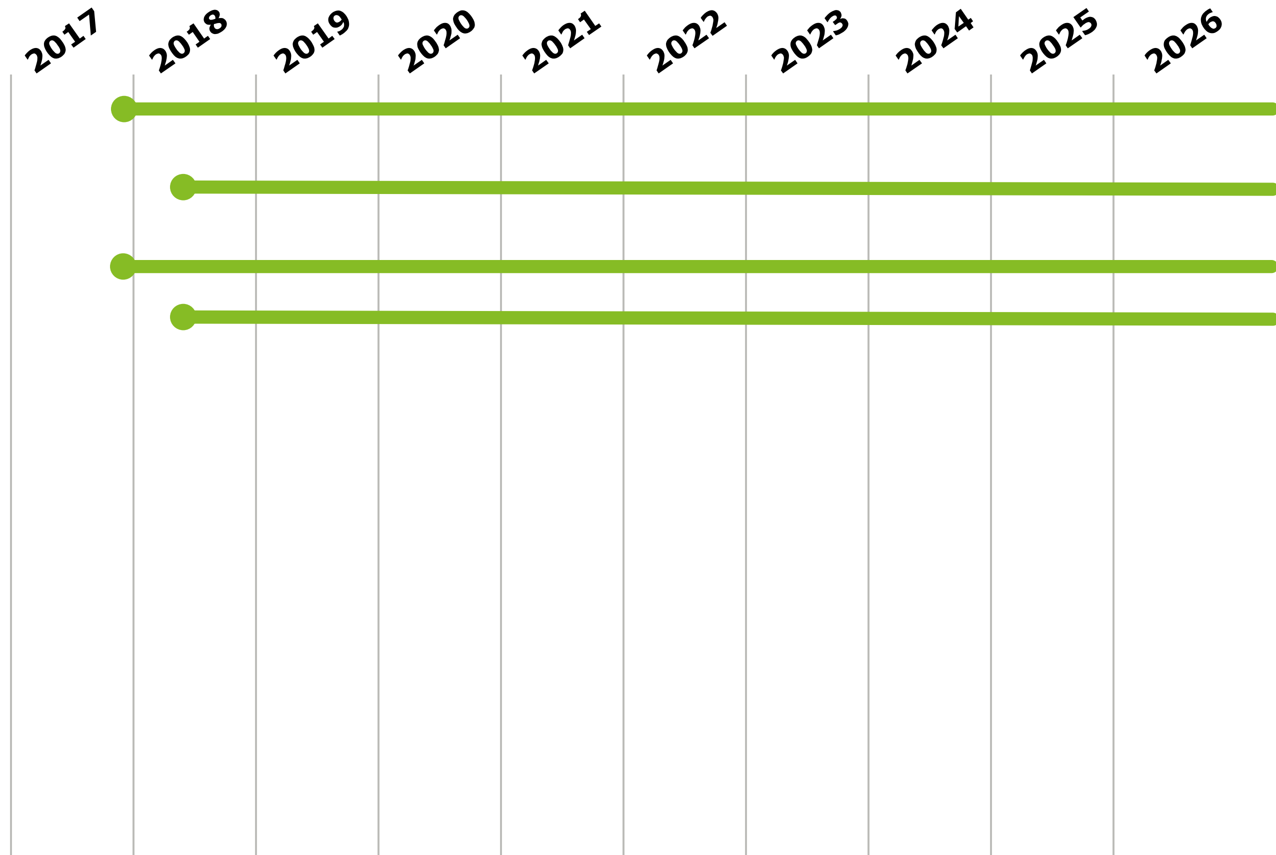
Business taxation – Effective dates (continued)

Permanent
Temporary

Change in treatment of contrib. to capital

Stronger limits on deduction for executive compensation >$1M; excise tax on certain executive compensation

Denial of deduction for certain fines, penalties, and settlement costs



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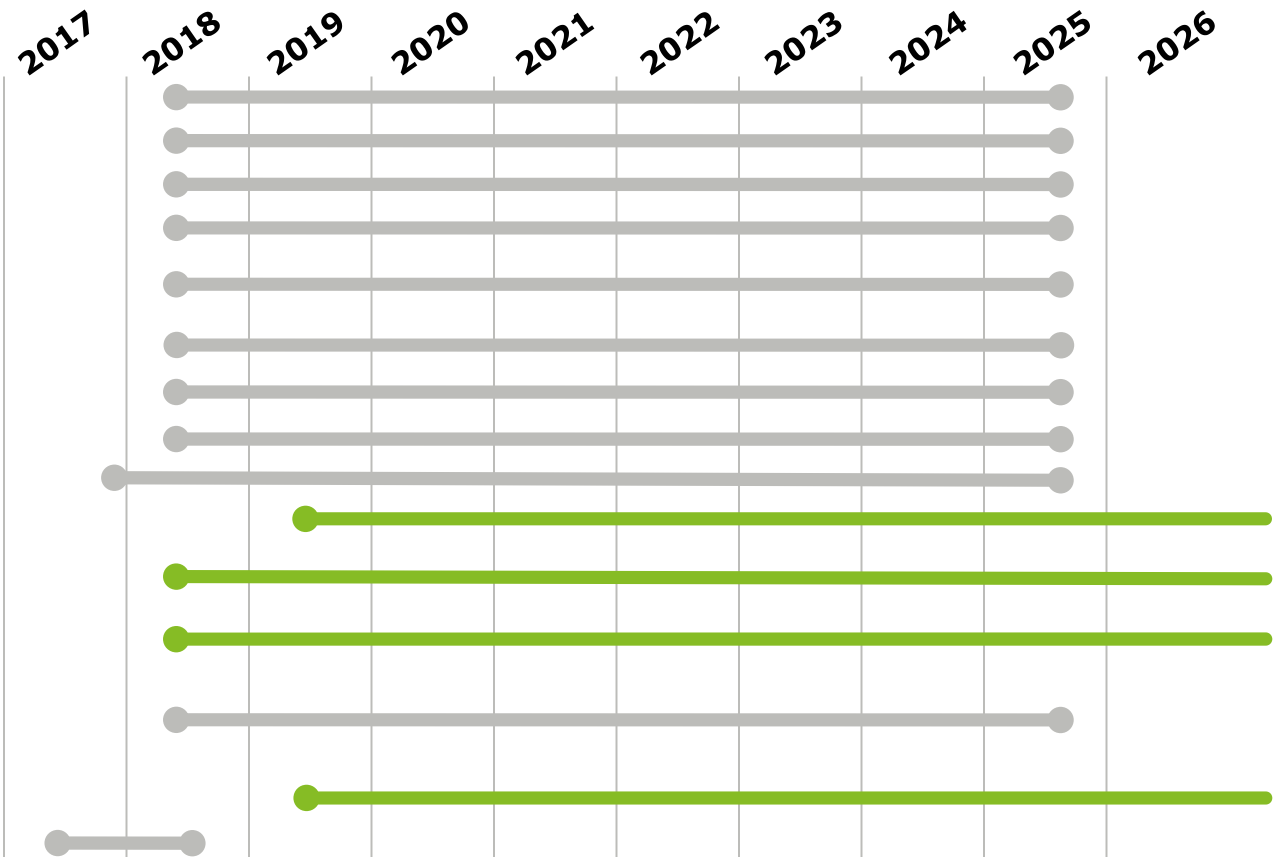
Tax Cuts and Jobs Act of 2017

Individual taxation – Effective dates

Permanent
Temporary

Individual rates/brackets
Higher standard deduction
Repeal of personal exemption
Repeal of Pease limitation
Higher child tax credit & non-child dependent credit
Higher AMT exemptions/phaseout
Higher estate & gift tax exemptions
SALT deduction limitation
Mortgage interest deduction limitation
Elimination of ACA individual penalty
Longer holding requirement for carried interest gains
Higher charitable giving deduction limit
Repeal of deductions for personal casualty losses, tax prep, business expenses, & moving expenses
Repeal of deduction for alimony payments
Lower floor for medical expense deduction



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Planning considerations

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Rate reduction planning
Overview

- Rate reduction benefit example
- By accelerating deductions into pre-reform years / deferring revenue into post-reform years, taxpayers will likely receive a permanent tax benefit

Potential reduction in business taxable income	Tax savings if deducted in 2017 at 35% rate	Tax savings if deducted in 2018 at 21% rate	Permanent tax benefit of accelerating deduction into 2017
$100,000,000	$35,000,000	$21,000,000	$14,000,000
$1,000,000	$350,000	$210,000	$140,000

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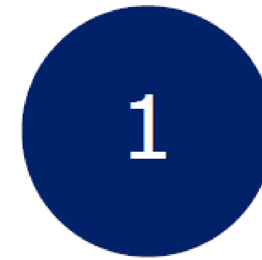
Tax accounting planning
Automatic method changes for acceleration of deduction and deferral of revenue

- Deduct bonuses and vacation pay
- Inventory –Lower of cost or market/subnormal goods/reduce UNICAP costs/LIFO enhancements
- Depreciation changes
- IBNR (incurred but not reported) –self-insured medical; medical services included in workers' compensation
- Changes to comply with Treas. Reg.§1.263(a)-4 including prepaid expenses
- Advanced deduction of payroll taxes
- Defer advance payments –Rev. Proc. 2004-34
- Single item cash to accrual (does not include prepayment liabilities)
- Deduct rebates and allowances under recurring item exception



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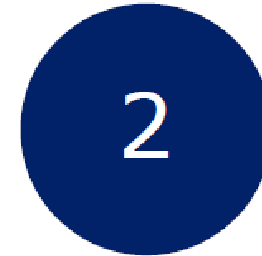
Tax accounting planning
Category 2: Fact changes, including prepayment planning

Items not requiring a method change

- Inventory –expand or adopt LIFO, identify LCM write-downs
- Identify casualty and abandonment losses
- Write-off of worthless intangibles
- Accelerating payment liabilities on the sale of a business
- Disputed sales and other exclusions from income
- Depreciation –analyze placed in service dates; bonus depreciation
- Identify partially and wholly worthless bad debts
- Disposition of property through transfer to a supplies/scrap account
- Fix equity compensation deductions



Prepayment planning (N/A for 12/31 year-end taxpayers)

- Prefund pension
- Prefund VEBA
- Make payment to Captive
- Prepay service contracts and payment liabilities

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Conclusion

Numerous changes – some create tax savings, while others increase tax liabilities

Many of the provisions are very complex and nuanced

Some of the provisions require new recordkeeping to capture the information necessary to comply with the new rules

Some provisions are permanent while many are temporary

There are still potential planning opportunities to get a permanent tax benefit from accelerating deductions into 2017 or deferring revenue into a later tax year

Don't be surprised – model out the effects on your business and consider tax planning strategies for the transition as well as for the future. Be expansive in your considerations – including potential to separate out non-health service businesses from your practice to potentially take advantage of the pass-through deduction.

There are many other changes in the tax reform bill that were not discussed here that could apply to you – we tried to highlight those that are most likely to impact your individual practices.

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Question and answer session

Please limit your questions to those related to your medical practices

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