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In This Issue...

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A Retirement Plan Deadline is Fast Approaching: This is an item that could apply to some readers who are thinking of upgrading or redesigning their plans. If you are interested in starting a new profit sharing plan for 2015 that has the safe harbor 401(k) feature (or adding the 401(k) feature to a pre-existing profit sharing plan), the deadline is October 1st. Normally, the staff must have a full year to make 401(k) contributions. But there is an exception for the first year of operation. That first year must be at least three months long. Missing the deadline means that the 401(k) starting date will be January 1, 2016.

For 2015, the annual maximum is $53,000 and the maximum 401(k) salary deferral is $18,000. Remember, the 401(k) contribution is part of the $53,000, not in addition to it. Adding the 401(k) feature will make sense in some circumstances. For example, if the doctor's spouse can go onto the practice payroll and earn $18,000 (plus payroll taxes) during October through December, then the spouse may be able to defer up to the entire $18,000 as a tax-deductible contribution. Another nice option is that for doctors and spouses age 50 or over, the maximum deferral jumps from $18,000 to $24,000 -- and the excess $6,000 **is** in addition to the $53,000 maximum. So, it may be possible for one or both spouses to contribute up to $59,000/$118,000 for this year.

If you are interested in this last minute update, call our office to discuss the details. Depending on how much time is available, we may be able to help implement the last minute change.

October 1st is Important for Another Reason - It's the Start of the New Credit Card Processing Rules: Are you curious about why all of your credit cards have recently been replaced with new ones containing the so-called EMV chip? The reason is that it's been mandated by the Payment Card Industry Security Standards Council (PCI). PCI sets the rules that the parties involved in credit card transactions are required to follow. EMV chips have been used for years in Europe, and they are more secure than traditional cards. Unlike traditional cards that can be stolen and counterfeited, EMV chips contain encrypted data about the customer that is much harder to reproduce.

One other major new rule is that starting October 1, merchants who accept cards containing an EMV chip must process those cards on new chip terminals. **Merchants that fail to update their terminals will be liable for the fraudulent transaction, not the bank that issued the card**. Despite years of advance notice, the card processing industry has been slow to drive the migration to the new standard. Even at this late date, most merchants are probably unaware of the new requirement.

Is Liability for Fraudulent Transactions a Realistic Problem for Doctors? Not really. While it's conceivable that some new patients might be crooks, we can't recall a single instance of a patient who used a phony credit card to pay for a dental procedure. However, there is no sense in taking on a new risk when there is no offsetting benefit. Eventually, the new standards will become widely adopted, at which point PCI will likely start imposing annual fines on the non-adopters.

Opportunists Will Take Advantage of the Confusion Surrounding the New Standards: You may get calls from companies trying to convince or frighten you into buying or leasing expensive new EMV chip terminals. The terminals will likely come bundled with an expensive new card processing contract including big early termination penalties. This is how the game is going to be played, and the victims will be the uninformed.

Our Recommendations: First off, even though the rules will change on October 1st, you do not have to take immediate action. This is not a deadline by which you have to act. It is the deadline for shifting some liabilities from the banks to the merchants. These risks are relatively minor, but with no upside and only downside, you should be upgrading your terminal. As we have recommended in the past, contact a credit card broker who can set your practice up on a **lower cost plan**. This is often referred to as a **"cost plus"** or **"interchange plus"** plan and will likely save you 25%-30% in annual credit card fees from the traditional pricing that most practices pay. We work with Dental Card Services Alliance out of North Carolina, and have been pleased with their services, but there are plenty of other merchant services brokers that can quote you new pricing terms. Your new processing company should include the EMV terminal for free and even waive its early termination fees. If you've already switched to a lower cost plan, then call the processing company and ask them to send you a free EMV chip terminal. You might even make a veiled threat to switch companies if they don't. One of life's oldest maxims continues to apply: **If you don't ask, you don't get**.

Foreign Trained Professionals Cannot Deduct The Costs of Retaking the Same Curriculum in the U.S.: The traditional rule has been that educational expenses may be deducted as ordinary and necessary business expenses if the education maintains or improves skills required in the taxpayer's employment. If the courses qualify the taxpayer for a new trade or business, then they are considered personal expenses and not deductible. The IRS confirmed this principle in its great 1974 Revenue Ruling (No. 74-78) when it allowed a practicing general dentist to deduct the cost of his fulltime orthodontic training. He maintained his general practice on a part time basis while in school and thereafter limited his practice to orthodontics. The issue was whether his orthodontic training qualified him for a new "trade or business" (orthodontics) or was the improvement of skills for the one he was already in (dentistry). Happily, the IRS ruled that the orthodontic training did not qualify him for a new profession and was, rather, improving his skills as a dentist.

This past August, the Tax Court disallowed the deduction for the taxpayer's law school costs (O'Connor v. Commissioner, TC Memo 2015-155). He was a foreign trained lawyer who was required to graduate from a U.S. law school in order to take the Ohio bar exam. Unfortunately for him, the

Tax Court ruled that the U.S. law school costs enabled him to enter a new profession, namely the practice of law in the U.S. The same logic would seem to apply to a foreign trained dentist who must retake a U.S. dental school curriculum in order to take the board exams and earn a U.S. license. As discussed below, we think the results will be more favorable in the case of the individual pursuing an advanced degree within their chosen profession.

To Be Deductible, the Taxpayer Must be Working: An issue we often see is a doctor's child who is in medical or dental school and then continues on into a graduate specialty program. A key lesson from the good 1974 IRS Ruling (general dentist continues his part time practice while studying to become an orthodontist) and in the law student case described above is that it is important to have a job before and, preferably, during the graduate school training.

If you have a practice that can employ your child before and while he or she is in the specialty training, that would be helpful. For example, let's say you are an orthodontist and your child is headed in that direction. His or her dental school pre-doctoral costs are non-deductible as they qualify the child for a new profession (dentistry). But if you can have your child on your orthodontic office payroll as an employee, perhaps the practice might pay the subsequent orthodontic school costs and deduct them as continuing education expenses for one of its employees. Of course, that should be reviewed with your tax advisers who can advise you on how aggressive that might be in your particular situation.

Falling Stock Prices Have Created Fatter Dividend Yields: When a stock's price falls and the dividend remains constant, the dividend "yield" goes up. Here is a list of ten large companies with greater than average yields. These are not specific recommendations. Some of the stocks are facing business headwinds that are likely to persist (e.g., Garmin does not have a lock on GPS technology) and are not down simply because the overall stock market is down.

Philip Morris Int'l (PM)	$79.45/7.0%
Garmin (GRMN)	$37.26/5.5%
Coach (COH)	$29.85/4.5%
Altria Group (MO)	$53.59/4.2%
Caterpillar (CAT)	$74.45/4.1%
Eaton (ETN)	$55.29/4.0%
Dow Chemical (DOW)	$42.83/3.9%
Paychex (PAYX)	$44.70/3.8%
General Electric (GE)	$24.51/3.8%
Proctor & Gamble (PG)	$69.93/3.8%

Investment Strategies Should Adjust with Changing Times and Situations: This seems so basic, but it bears repeating. We recently saw the case of a successful doctor in his sixties with enough money invested to provide for the financial security of his entire family. Nevertheless, he was continuing his thirty-year habit of being heavily invested in stocks purchased on margin. Margin means you put up part of the money to buy stocks and you borrow the rest from your broker. This provides leverage that increases the profit on invested funds when prices rise. But it works in both directions and exaggerates losses when prices fall.

Being heavily margined has influenced investors to do strange things over the years--like jumping from upper windows of tall buildings in 1929. It is logical that a younger doctor can take greater investment risks since he can earn his way out of a mistake. However, an older doctor whose retirement is already secure should be trying to minimize his risks and preserve capital through diversification and the reduction of volatility in his portfolio.

Is it Better to Make a Buck or a Friend? This is one of the common denominators shared by most successful practices. As professionals, we want our patients or clients to be our friends. Not only does this make practicing more enjoyable, but we want our patients and clients to rely on us and keep returning. Keep this in mind when taking advice from practice management consultants. It often sets the practice up to make a short-term gain at the expense of a long-term one. Remember, it's not much more complicated than remembering to follow the Golden Rule.

If You Have a Nanny, Don't Pay Her "Under the Table": First, it's against the law, and you risk having to pay thousands of dollars in back taxes, interest and penalties if this is discovered in an audit. Second, because of the permitted tax credit and tax deduction for the care of dependent children, the cost of the payroll taxes (FICA, Medicare and unemployment) may be largely negated. Assume you pay a nanny $25,000 per year. The "nanny tax" is the combination of Social Security, Medicare and unemployment insurance. Social Security and Medicare will total 7.65%, or $1,912. If federal and state unemployment is another 4%, or $1,000, then the total "nanny tax" is $2,912.

Now focus on the tax breaks. First is the **child care tax credit**. If the nanny is hired because both parents work outside the home, then there is a credit of 20% of the dependent care expenses up to $3,000 for the care of one child and $6,000 for the care of multiple children. The credits are therefore **$600** for the care of one child and **$1,200** for the care of two or more children. Remember, a tax credit is better than a tax deduction, because it is a dollar-for-dollar reduction in your income taxes paid.

Second, if one of the parents works for an employer that offers a Flexible Spending Account (FSA), then the plan allows up to $5,000 per year of tax-deductible contributions to cover dependent care expenses. If the parents are in the 39.6% tax bracket, this is a **$1,980 tax savings**. And where the first $5,000 of nanny costs are paid through the FSA, this still leaves $1,000 available for the 20% child care tax credit, or an additional **$200, for a combined tax benefit of $2,180**. So, in this scenario of combining the FSA and the child tax credit, the cost of the "dreaded" nanny tax drops from $2,912 to only $732 ($2,912-$2,180).

Have You Taken a Photo Inventory of Your Home and Office? During our annual homeowner's insurance policy review, our agent once again asked if we had taken a photo inventory of our home's contents. This is such good advice, that we are repeating it again in the Newsletter. If, heaven forbid, your home or office is destroyed, the insurance will pay to replace only those things you can identify. Assuming you have the better "replacement cost" type policy, this means the insurance will pay the cost of replacing the lost items with new ones, not the lower depreciated cost. If we had to rely on memory, we doubt we could remember one tenth of what was contained in the home. Take the pictures. It should take no more than a half hour. And of course, keep an extra set off-site!

Credit Card Companies Offer Extended Warranties: We typically turn down offers to purchase extended warranties, including for computer equipment and cell phones. If we are paying by credit card, the card network already offers an extended warranty. Each network (Amex, Visa, MasterCard and Discover) offers one year of coverage following the end of the original warranty. Coverage is up to $10,000 per item, **and you must keep your receipt to be eligible**. Before buying an expensive item, confirm with the network that the item will be covered and that your card is eligible. For instance, Amex, MasterCard, and Discover cards are eligible, however, Visa's program only applies to its Signature cards.

Beware of the IRS Impersonators: These scams keep growing. The general public is so fearful of the IRS that there is a natural reaction to want to comply with the phony tax bills. The IRS does not contact taxpayers by phone or email, so ignore all such requests for payment. In some cases, the requests are coming by mail on fake IRS letterhead. If you receive this, show the letter to your accountant, so they can verify whether or not it's legitimate.