



Tax Season 2007 and Beyond: Selected Issues for Physicians and Their Practices

Tax season has arrived. With the recent enactment of certain late-2007 tax legislation, Congress has sent taxpayers and the Internal Revenue Service scrambling to prepare for the upcoming filing season so that tax returns (and tax refunds) can be processed as timely as possible (although refund delays are likely, according to the IRS). In the case of the IRS, the issue is particularly acute, since the recent legislation affects the 2007 tax forms that the Service must now revise for tax season. Perhaps the most significant of the legislation coming from Congress is related to the highly controversial alternative minimum tax, which was originally designed to tax wealthy individuals who are able to avoid taxation through various means. Due to nature of the AMT calculation, and the fact that the exemption that is an integral part of the calculation is not sensitive to inflation, the tax now applies to an incredibly large number of middle-income taxpayers. While there have been proposals to eliminate the AMT, Congress has been unable to move forward with any kind of repeal. Consequently, as a stop-gap mea-



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sure, Congress enacted a stop-gap provision by slightly increasing the exemption amount available to taxpayers in certain tax brackets. While far from a cure from the AMT blues, this late-December provision reduces the number of taxpayers who will be subject to the AMT. Since physicians are particularly vulnerable to the AMT, care should be exercised to ensure that the stop-gap measure is applied on their 2007 tax returns, if possible.

In preparing their 2007 tax returns, whether the returns are individual tax returns or business tax returns, physicians and their practice administrators should be aware that the standard business mileage rate for business use of a vehicle is 48.5 cents per mile for 2007. In planning for 2008, the rate increases to 50.5 cents per mile for 2008. These rates are often used for purposes of setting reimbursement rates for employees. In addition, in the case of physicians who purchased equipment during 2007, they should be aware that they may be permitted to expense certain equipment purchases (rather than depreciating them over their useful lives). Referred to as the

Section 179 expensing election, the amount that may be expensed in 2007 is \$125,000, although the deduction begins to phase-out if total purchases exceed \$500,000. In planning for 2008, these amounts are increased to \$128,000 and \$510,000 respectively. Finally, many taxpayers depreciate their automobiles, to the extent used for business purposes. For 2007, the first-year automobile depreciation limitations for vehicles placed in service in 2007 are \$3,060 for automobiles and \$3,260 for light trucks or vans.

In preparing their 2007 tax returns, taxpayers, including physicians, should remember that IRA contributions for 2007, whether deductible or nondeductible, can be made at any time up to the taxpayer's 2007 return due date (not including extensions). IRA accounts can be set up at the same time that the contribution is made. While nondeductible contributions are encouraged, due to the tax-free growth inside the IRA, remember that, in certain cases, depending on income levels and participation in certain employer plans, contributions may actually be deductible. For 2007, the maximum contribution amount is \$4,000 and, for 2008, it is \$5,000. For individuals attaining age 50 by year-end, a catch-up contribution is \$1,000 is permitted.

In preparing the 2007 return, beware of penalties and their exceptions. There are many exceptions to penalties; individuals (and businesses) should be certain that they (or their tax preparers) are employing the provisions of the law that allow taxpayers to avoid penalties.

Finally, many taxpayers sponsor employer retirement plans and provide other benefits, and certain limits apply in those cases. The Internal Revenue Service announced the limitations that apply for 2007 and 2008 for those taxpayers, which include the following that are important, particularly in

the case of physician practices.

- Defined Contribution Plans. The limit on the annual additions to a participant's defined contribution account increased from \$45,000 for 2007 to \$46,000 for 2008.
- Annual compensation limit. The maximum amount of annual compensation that can be taken into account for various qualified plan purposes increased from \$225,000 in 2007 to \$230,000 for 2008.
- Highly compensated employee. The dollar limit used in defining a highly compensated employee increased from \$100,000 in 2007 to \$105,000 in 2008.
- Elective deferrals. The limit on the exclusion for 401(k) elective deferrals remained unchanged at \$15,500 for 2008.
- SEPs. The compensation limit for SEP plans remained at \$500 for 2008.
- SIMPLE accounts. The maximum amount of compensation an employee may elect to defer for a SIMPLE plan remained at \$10,500 for 2008.
- Qualified Transportation Fringe Benefits. For taxable years beginning in 2008, the monthly limitation, regarding the aggregate fringe benefit exclusion amount for transportation in a commuter highway vehicle and any transit pass, is \$115. The monthly limitation, regarding the fringe benefit exclusion amount for qualified parking, is \$220.
- The Social Security wage base increased to \$102,000 in 2008.

The issues set forth in this article are complex, and do not represent a comprehensive list of the tax issues that physicians and their practices face during the course of the year. Therefore, if you have questions, and seek to discuss these or any other matters, contact Joe Nicola, Sisterson & Company, LLP, at (412) 594-7006 or jpnicola@sisterson.com.

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