

2011 YEAR END TAX MEMO FOR HEALTHCARE PROFESSIONALS

CHECKLIST TO CUT YOUR 2011 TAXES

It's not too late to cut your 2011 tax bill. Prior to Dec. 31st:

- **Increase your 401(k) and 403(b) contributions** if you haven't been contributing at the maximum rate all year. This year you can put away up to \$16,500 (\$22,000 if 50 or older) into your 401(k) or 403(b) plan. If you're self-employed, consider setting up a Solo 401(k) by 12/31.
- **Take a look at your withholdings** and instruct your employer to withhold additional taxes if you haven't had enough taxes withheld during the year and might get hit with an underpayment penalty.
- **Consider selling your non-retirement investments that have decreased in value** since your capital losses can offset other capital gains realized during the year (including from your mutual funds), and then can be used to offset up to \$3,000 of wages and other income.
- **Send in your January 2012 mortgage payment early enough** so it will be processed prior to 12/31/11. By sending in your payment a few weeks early, you can deduct the interest portion of that payment a full year earlier.
- **Clean out your closets and donate your clothing and household items to a charitable organization** since "non-cash" contributions are deductible if you itemize. Don't forget to get a receipt. And make sure to make a list of the donated items, including each item's condition since only donations of clothing and household items in "good condition or better" qualify for a deduction.
- **For gifts of money**, making your donation by credit card before December 31st allows you to deduct the donation on this year's return, even if you don't pay your credit card bill until 2012. And **you always have the option of donating appreciated investments** to charities. You get to claim your donation based on the value of the assets donated, without paying any capital gains taxes on the appreciation.
- **Pre-pay your projected state tax shortfall** if you'll be itemizing your deductions and won't be subject to the alternative minimum tax.
- **Pre-pay or pay off your medical bills** if your total medical expenses exceed 7.5% of your income and you itemize.

YEAR END PLANNING

During December, you should evaluate whether you'll save any taxes by postponing 2011 income or deductions into 2012 or by accelerating 2012 income or deductions into 2011. While many factors should be evaluated prior to making your final decision, a few items to keep in mind are as follows:

- *For 2011, a single person will itemize once allowable deductions exceed \$5,800 and a married couple will itemize once allowable deductions exceed \$11,600.*
- *A taxpayer is no longer subject to Social Security or self-employment taxes once wages and net self-employment earnings exceed and \$106,800 in 2011 and \$110,100 in 2012.*
- *Miscellaneous itemized deductions, such as unreimbursed employee business expenses, are only deductible to the extent they exceed 2% of adjusted gross income (AGI). Items paid with credit cards are deductible in the year charged.*
- *Medical and dental expenses are deductible to the extent they exceed 7.5% of AGI, and are deductible in the year paid.*

If you need assistance in determining whether you should either postpone or accelerate your income or deductions, or whether you'll be hit by the AMT, please give us a call.

DEDUCTING UN-REIMBURSED PROFESSIONAL EXPENSES

According to the IRS, to be deductible, an expenditure must be both "ordinary" and "necessary" in connection with your profession. The IRS defines "ordinary" as common and accepted in a particular profession and "necessary" as helpful and appropriate for a particular profession. Here's a list of 16 professional expenditures commonly incurred by young health care professionals:

*Automobile expenses * Beepers and pagers *
Books/library * Cellular telephones *
Computer purchases * Education, examinations & licenses *
Equipment & instruments * Job search *
Malpractice insurance * Meals & entertainment *
Parking & tolls * Professional dues, journals & subscriptions *
Psychoanalysis as part of training * Supplies *
Travel & lodging *
Uniforms & cleaning*

Please note: Employees may not deduct professional expenses that are eligible for reimbursement from their employer.

SOCIAL SECURITY MAX INCREASES TO \$110,100 FOR 2012

For the first time in three years, the government has increased the maximum social security taxes that you can pay. For 2012, the maximum wage base jumps to \$110,100, an increase of \$3,300, or 3.1%, over the max of \$106,800 that was in place from 2009 through 2011.

The Social Security Administration predicts that 10 million individuals will end up paying higher taxes due to this increase, out of the estimated 161 million workers who will pay social security taxes next year.

As an interesting side note (and sad commentary about the current state of the economy), here is what we wrote back in November 2008 in an article about the 2009 increase to social security taxes: *The Social Security Administration predicts that 11 million individuals will end up paying higher taxes due to this increase, out of the estimated 164 million workers who will pay social security taxes next year.* Basically, the government projects that there are now one million less individuals who will be at the Social Security max and three million less workers paying into the system than there were just three years ago.

At a rate of 6.2%, the maximum social security taxes that your employer will withhold from your salary is \$6,826. This is \$2,341 higher than the 2011 max of \$4,485. Remember, the rate for the employee portion of the Social Security tax was reduced to 4.2% for 2011 only. Not only will high-income individuals pay Social Security taxes on an extra \$3,300 in 2012, they, like all workers paying into the system, will also do so at a higher rate.

A great place to find out more about your social security taxes and projected benefits is at the Social Security Administration's website located at www.ssa.gov.

FYI: The social security wage base has been increased each year. The wage base maximum has been increased as follows:

2012 wage base max: \$110,100
2009, 2010 & 2011 wage base max: \$106,800
2008 wage base max: \$102,000
2007 wage base max: \$97,500
2006 wage base max: \$94,200
2005 wage base max: \$90,000
2004 wage base max: \$87,900
2003 wage base max: \$87,000
2002 wage base max: \$84,900
2001 wage base max: \$80,400
2000 wage base max: \$76,200

IRS ANNOUNCES HIGHER RETIREMENT PLAN LIMITS FOR 2012

Contributing to a retirement plan is one of the best tax shelters available to you during your working years. Recently, the IRS announced that many of the retirement savings limits will increase for 2012.

RETIREMENT PLAN LIMITS FOR 2012

Savings Opportunity	Maximum Contribution for 2012
401(k) or 403(b) Deferrals	\$17,000 in 2012
Roth and Traditional IRAs	\$5,000 per person
Self-employed Retirement Plans	SEP or Keogh - \$50,000/yr Solo 401(k) - \$50,000/yr SIMPLE - \$23,000/yr
529 Plans	\$13,000 per donor (up to \$65,000 in one year)
Education Savings Accounts	\$2,000 per child

If you'll be 50 or older by December 31, 2011, you can contribute an extra \$5,500 into your 401(k), Solo 401(k), or 403(b) plan, an extra \$2,500 into your SIMPLE, and an extra \$1,000 into your IRA.

ADD A PERSONAL TOUCH TO YOUR PRACTICE WITH "SEND OUT CARDS"

Statistics show that 68% of customers who leave a business do so due to perceived indifference. Frankly, they don't think anyone at the business will notice or care if they go somewhere else.

These statistics apply to healthcare professionals as well. Does your practice have a system in place to periodically connect with your patients? With **Send Out Cards**, you can easily and cost effectively implement a relationship marketing campaign by sending out a physical greeting card with a genuine heartfelt message that includes your own handwriting and signature. You can even personalize the cards you send with pictures and business logos, and can also add a gift or gift card to be sent along with the card.

For more information about this unique, easy-to-use, and cost effective relationship marketing opportunity, check out www.sendoutcards.com/mdtaxes, e-mail Lisa DiOrio at lisa.diorio@gmail.com, or give her a call at (978) 397-6063.

Keep up with the continually evolving Tax Code at:

www.mdtaxes.com