HOW DID THE NEW TAX LAWS AFFECT YOUR DENTAL PRACTICE?

A timely review of impact may ease tax burden

Recently revised tax laws have made a difference for dentists. After one cycle of returns, here's what we've learned and what we recommend dental practices do to prepare for 2019 returns next spring.

Federal Tax Law doesn't change all that frequently, but when it does it affects everyone, including dentists. Now that dental practices have been through one cycle of tax returns under the new law, it's time to ask: What did we learn and what can we do to prepare for 2019 tax returns next spring?

The most dramatic effect was the introduction of the Qualified Business Income (QBI) under which certain businesses get a deduction of up to 20 percent of QBI that passes through to their income tax returns. Doing so potentially makes only 80 percent of the professional income taxable.

Among the entities that qualify for pass-through status are partnerships, sole proprietorships and Subchapter S corporations.

The net result was particularly beneficial for practices reporting about $125,000 in professional income (or $300,000 for those filing jointly), according to Brad Paramore, partner in the Birmingham accounting firm of Truitt Tingle Paramore & Argent LLC. Improvements for those reporting more income were less dramatic but still positive. The Birmingham firm serves about 125 dental clients, the majority of which are pass-through entities.

But the QBI deduction is not the only good news. According to David Argent, another partner in the firm, changes in the rules for depreciation also offer opportunities to lower taxes.

Previously, depreciation for equipment could be limited for dental practices,” says Argent. “Now, if you buy a piece of equipment you can write it off immediately with bonus depreciation whether it is new or used.”
The combination of the two factors (QBI and depreciation) encourages dental practices to project their professional incomes and counter the tax implications with timely expenses like equipment purchases or perhaps contributions to a retirement plan. This is important because as income from the practice rises for joint filers, the deduction is gradually reduced until income reaches $421,400, when the deduction is gone.

By writing off equipment, for example, the qualified income can be reduced into a more advantageous range. As both CPAs described it, it’s “more bang for the buck.”

Now that we have some experience with the new law, what should a dental practice do to take advantage of the benefits? The answer will change based on the organizational status as a pass-through entity and the revenue levels.

“If you’re a start-up practice on the lower end of the revenue scale, you may not want to write off your recent equipment purchases right away,” says Paramore. “Maximizing the benefit might mean taking the depreciation over several years.”

Another scenario might involve a practice considering constructing a new building. Because the write-offs vary depending on the various uses of different spaces, practices should do a Cost Segregation Study of the project.

“We’ve done that successfully for several clients recently and it’s paid off in lowering the overall tax liabilities,” says Argent. “In short, if you’re planning a new building, you should have a CPA working alongside the architect and contractor.

**Here are some other ideas to consider:**

- Be sure to have tax planning meetings soon. Any adjustments need to be in place by December 31, 2019, so don’t procrastinate.

- Review what tax entity you have established for your practice. There may be benefits to reorganization under a different status. “You’re not stuck for life with your initial designation,” says Paramore. “You can make beneficial adjustments anytime.”

- Review your retirement plan and your 529 savings plan for education. Your needs may have changed along with the law. It’s smart to assess all your financial planning.

- Continually consider how to maximize the QBI deduction. It’s the big-ticket factor in your tax planning.