

# Tax Implications

by Tom A. McFerson, CPA, ABV

## Heading into 2011 and Beyond

**A**fter much posturing and shaking of fists, President Obama and Congress joined forces to finally pass the 2010 Tax Relief Act in late December. This legislation essentially left the existing tax laws (most notably the Bush Tax Cuts of 2001) in place for the next two years, through 2012. However, there are some wrinkles in the new tax law, as well as other legislation passed in 2010, that deserve your attention in the current year and beyond.

### PAYROLL TAX CUT

The 2010 Tax Relief Act reduces, for one year, the employee portion of the Social Security tax deducted from his or her paycheck. This rate has been reduced from 6.2% to 4.2%, beginning January 1, 2011. The employer portion of this tax remains unchanged at 6.2%. The goal of this temporary cut is to give wage earners a small tax break that is felt immediately, and is paid incrementally over the year.

### BONUS DEPRECIATION

The 2010 Tax Relief Act doubled and extended the bonus depreciation (from 50% to 100%) for qualified property put into service after September 8, 2010, and before January 1, 2012. This allows a dollar-for-dollar write-off of new equipment that has been purchased and put into use. Generally,

for a veterinary practice, this would include such items as computer equipment or a digital x-ray unit.

Even equipment that has been financed or leased-to-own will qualify. The goal of this provision is to encourage more capital investment by small businesses.

### HEALTH CARE REFORM - CODE SECTION 45R

One of the most important and interesting provisions

of the 2010 Health Care Reform Act is the small employer health insurance credit. Unlike many of the provisions in this legislation, the health insurance credit became effective in early 2010, when Health Care Reform was passed. The goal of this provision is to reward small employers that provide health care coverage with a valuable tax credit. This credit can be as high as thirty-five percent of the employer's health insurance premium expense.

To qualify for this credit, your veterinary practice must meet three criteria: first, the business must have fewer than 25 full-time equivalent employees for the tax year (full-time equivalent would be a person who works approximately forty hours per week); two, the average annual wages for these employees must be less than \$50,000; and third, the employer must pay the health insurance premiums in question. (For instance, if the employer only pays sixty percent of the insurance premiums, and the employee is allowed to pay for the remainder pre-tax, the employer credit is only calculated on the sixty percent portion.) There are several hurdles to jump over here. A large staff or a high doctor payroll may disqualify your practice, but the potential credit is worth investigating.

### INFORMATION REPORTING

Also under the Health Care Reform, a daunting provision was included that would require businesses to file an information return (1099) for all payments totaling \$600 or more in a calendar year to any single vendor. As written, this meant that a veterinary practice would not only send 1099s to relief veterinarians (already standard procedure), but also to drug vendors, utility companies, lab companies, and any other large mega-vendor that totals more than \$600 in payments. Fortunately, it appears that these severe reporting requirements will be changed prior to going into effect in 2011. Keep your fingers crossed.

### ROTH IRA CONVERSION

Even if you have already rolled funds from a traditional IRA or retirement plan into a Roth, you still have time to decide on the best tax treatment. You have the choice of taking the conversion amount into income on your 2010 tax return, or splitting the amount on your 2011 and 2012 tax returns. Prepare your 2010 return with this conversion amount, and then without it. Figure out the tax impact, then project for 2011 and 2012. Pushing off the tax is always tempting, but if you expect sizeable income increases in 2011 and beyond, paying the tax now may be your best option.



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