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HEALTH CARE TAX **UPDATE**

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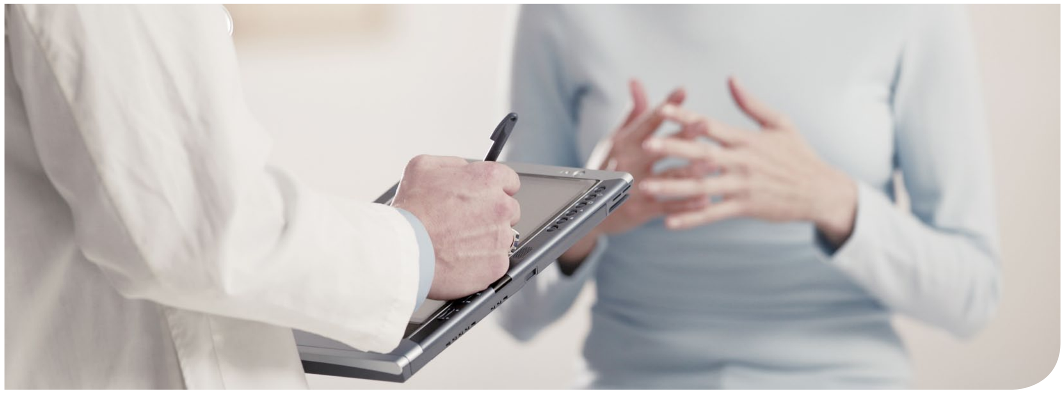

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# What Physicians and Medical Groups Need to Know As We Head into 2012

The end of the year usually means there are tax changes coming that you should consider preparing for. This year is no exception. In fact, given the significant nature of many of the changes, a little year-end tax planning now could provide benefits for years to come. Let's take a look at what's new in 2012 and how you can best leverage the waning days of 2011.

## Tax Rates

Last year at this time the Bush-era tax cuts were extended for two more years. Accordingly, the top ordinary individual tax rates are supposed to remain at 35 percent for 2011 and 2012. However, in 2013 the top marginal rate is scheduled to revert to 39.6 percent. Plus, as a result of health care reform legislation, a 3.8 percent surtax will be added for certain high-income taxpayers (single filers with modified adjusted gross income of over $200,000; joint filers, over $250,000).

Similarly, capital gain rates are supposed to remain at 15 percent for 2011 and 2012 but are scheduled to increase to 23.8 percent, including the 3.8 percent surtax, in 2013. As a result, now is a good time to assess your personal tax situation and determine how best to recognize income and maximize deductions.

## Section 179 Depreciation Deduction

Section 179 of the Internal Revenue Code allows taxpayers to expense, rather than capitalize, certain types of property. The Section 179 depreciation deduction for qualifying assets acquired in 2011 is $500,000 but is scheduled to decline to $125,000 for 2012 and revert to $25,000 for 2013 and thereafter. That makes now a good time to evaluate how the timing of asset purchases can impact your tax situation.

## Bonus Depreciation for Qualifying Purchases

For qualified assets acquired and placed in service during 2011, 100 percent of the cost can be deducted in the current year using accelerated bonus depreciation. This bonus depreciation provision declines to 50 percent of the cost of qualified assets in 2012, and it's scheduled to expire at the end of 2012.

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## Enhanced Charitable Contribution Deductions

S corporations can take enhanced charitable contribution deductions for appreciated property through the end of 2011.

## Required Minimum Distributions for 2011 Can Still Avoid Federal Income Tax

A provision scheduled to expire after 2011 allows for a 2011 required minimum distribution of up to $100,000 from a traditional IRA to be directly donated, tax-free, to a qualified charity. The donor must be at least 70 1/2 years old and is required to take a minimum distribution from the IRA.

While the distribution won't be taxable, the donation will also not be deductible, resulting in tax savings on a donation otherwise made with post-tax dollars. If you're committed to a gift, it may be the last year to make the contribution from tax-free funds.

## Alternative Minimum Tax

The AMT exemption amounts have again been increased through 2011, reducing the number of individuals that would have otherwise been affected by the additional AMT in 2011. The exemption amount isn't automatically indexed for inflation and is scheduled to revert to pre-2001 levels in 2012, making it important to take AMT into account for deduction-planning purposes.

## Capital Gain and Capital Loss Planning

The 15 percent federal long-term capital gains rate has been extended through 2012. Consider tax-loss harvesting strategies before year-end to offset current-year gains or to accumulate losses to offset future gains that would be taxed at a higher rate. For more information, see our 2011 Year-End Tax Planning Guide.

## Withholding Tax Repeal and Expanded Tax Credits

On November 21 President Obama signed legislation repealing a controversial law that would have required federal, state, and local government entities with total expenditures of $100 million or more to withhold 3 percent of certain payments for goods and services to government contractors and vendors.

The repeal also contains an incentive for employers to hire qualified veterans, offering a credit of up to $9,600 per employee—a significant amount by hiring-credit standards—against their payroll taxes. This change is effective for employees starting after the date of enactment. Learn more about this new legislation.

## Compensation Reporting Reminders

As 2011 comes to a close, here are a few general reminders regarding compensation reporting as well as some changes to look for in the coming year:

- Will Congress vote to extend the payroll tax cuts? At the time of this publication, this matter is still being debated, but any final decision could affect your organization's financial operations.
- The IRS has issued new guidance surrounding reimbursements and cash allowances for employee cell phone use.
- The IRS has announced the Voluntary Classification Settlement Program, intended to give eligible employers the opportunity to voluntarily reclassify workers as employees, rather than independent contractors, for future tax periods. In exchange, the employers' liability for past payroll tax obligations will be reduced to only a minimal payment.