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# Taxes for Locum Tenens Providers

**2023-2024**

**Andrew D. Schwartz, CPA**

Schwartz & Schwartz, P.C.

# What We'll Cover Today



- Common deductions
- Retirement accounts.
- Health savings accounts.
- Estimated quarterly taxes.
- The “QBI” rules.
- Planning tips.
- State tax concepts and S-Corporation considerations.

*The information presented during this webinar is meant solely for informational purposes and should not be considered tax advice. Always consult a tax professional or certified public accountant (CPA) who can advise you based on your unique tax situation. The views and opinions expressed in this presentation are solely those of the author and in no way reflect the ideas or opinions of Barton Associates.*

# Deductions

- As independent contractors, locum tenens professionals can deduct specific business-related expenses.
  - Deductible expenses must be “ordinary” and “necessary” in connection with your profession.
- You **may not deduct** any expenses that are reimbursed by your locum tenens company.

Common deductible expenses include:

- Health insurance.
- Travel, lodging, and meals.
- Automobile expenses.
- Education, licenses, and examinations.

Let's take a closer look at each of these common deductions.

# Health Insurance

- If you're not covered by an employer-sponsored health insurance plan, 100 percent of your health insurance premiums are deductible.
  - This only applies if you don't have access to an employer-sponsored plan.
  - Don't forget to include Medicare premiums
- You **cannot deduct** your health insurance premiums expenses if:
  - Your spouse has access to health insurance through his or her job.
  - One of your employers offers you insurance under their plan, but you opt to purchase insurance on your own.



# Travel, Lodging, and Meals

- As a locum tenens provider, if you work outside of the general vicinity of where you live, you're able to deduct:
  - Travel expenses.
  - Lodging expenses.
  - 50 percent of meal costs incurred during a locum tenens assignment (starting again in 2023)
- There are two options for keeping track of your deductible meals by TRIP:
  - Save all receipts or use a single credit card for all expenses.
  - Use per diem rates, which are lump sums designed to cover eligible expenses for an entire day.

The federal government assigns one of six per diem rates to every metropolitan area in the United States. These rates can be found at <https://www.gsa.gov>.

Per diem rates for foreign travel are available at <http://www.defensetravel.dod.mil/site/perdiemCalc.cfm>.

# Automobile Expenses

What's deductible?

- Driving between job sites.
- Driving between your home and a temporary job site.
- Traveling to job interviews and conferences.

There are two ways to calculate your automobile expenses:

1. Use the standard mileage rate for business miles driven. The standard mileage rate for 2023 is 65.5 cents per business mile driven. And then increasing to 67 cents per business mile in 2024.
  - Tolls and parking expenses are also deductible.
2. Base your deduction on the percentage of miles your car was driven multiplied by the actual costs incurred
  - Deductible costs include gas, insurance, repairs, parking at home, and lease payments. If you own your car, you can also deduct depreciation.

*Actual expenses work best when you drive very few miles during the year and they are mostly business miles*



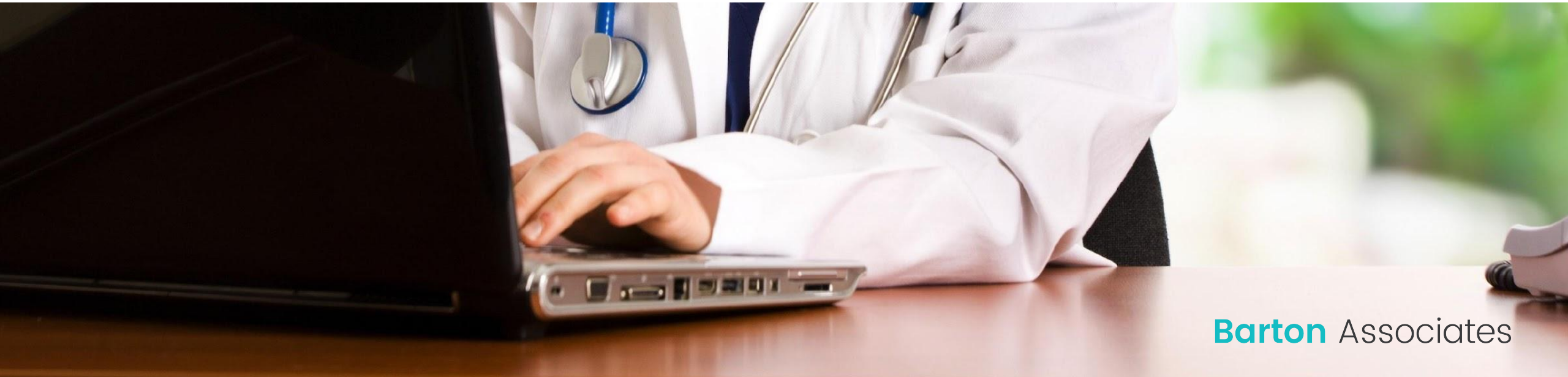
# Education, Licenses, and Examinations

Costs incurred in connection with improving your skills in your current profession are generally deductible.

- To deduct such expenses, it's critical to keep records of business expenses throughout the year.

For more information on deductible expenses:

- Check out [IRS Publication 463 on Travel, Gift and Car Expenses](#)



# Retirement Accounts

Independent contractors may establish and contribute money into a pre-tax retirement account based on their net locum tenens income.

- When contributing to a retirement plan, your saved taxes provide you with an immediate return on investment.
  - Assuming a 28 percent federal tax rate and a 5 percent state tax rate, you're taxed at a combined 33 percent rate.
  - When contributing to a retirement plan, it only costs \$670 in after-tax dollars for every \$1,000 dollars invested.
    - You save \$330 dollars on the \$670 invested, or a 49.25 percent return.
- You'll be taxed on distributions you take from such accounts down the road, but you keep the compounded growth as long as the money remains invested.
- Contributing to a retirement plan is one of the best ways to build a nest egg for your post-working years.
- Popular options include *SEP IRAs*, *SIMPLE IRAs*, and *Solo 401ks*. Aggressive savers opt for *Defined Benefit Plans*.



# Health Savings Accounts (HSAs)

Health savings accounts help people reduce their health insurance premiums and build up money in a tax-advantaged savings account.

Individuals and families covered under high-deductible health insurance plans are eligible to contribute to an HSA and take advantage of the following tax breaks:

- Money contributed into an HSA is tax deductible.
- Money invested in an HSA is your money and grows tax-deferred.
  - There is no “use it or lose it” pitfall with HSAs like with FSAs (Flexible Spending Accounts)
- Any money left in your HSA at age 65 is available to subsidize your retirement as taxable income.

HSA limits for 2023 are \$7,750 for family plans and \$3,850 for individual plans (increasing to \$8,300 & \$4,150 for 2024) and you have until 4/15/2024 to fully fund your H.S.A. for 2023

Further reading: [Minimize Your Healthcare Costs and Save Taxes With an HSA](#)

# Estimated Quarterly Taxes

Not having taxes deducted from your paycheck can be a good thing (bigger checks!), but it also requires some responsibility on your part.

Keep in mind that:

- Independent contractors are generally required to pay estimated taxes on a quarterly basis.
- Independent contractors use the estimated tax method to pay their Social Security, Medicare, and income taxes that aren't otherwise being paid through withholdings from their or their spouse's salary.

To figure out what you owe, if anything, you'll need:

- Last year's annual tax return.
- Form 1040-ES, Estimated Tax for Individuals.

Use last year's tax return to determine your estimated quarterly tax.

IRS Resource: [Estimated Taxes \(IRS\)](#)

# “QBI” Deduction

The 2017 Tax Cuts and Jobs Act contains provisions that may be beneficial to independent contractors when paying taxes on income earned starting in 2018.

Under the QBI rules, entities categorized as pass-through businesses are able deduct 20 percent of their taxable income. Independent contractors will still be able to deduct their healthcare insurance premiums under the new law.

- Pass-through entities include:
  - Sole proprietorships.
  - Partnerships.
  - S-corporations.
  - Limited liability companies (LLCs).

For 2023, this deduction is fully available to any pass-through entity with taxable income under \$182,100 for individuals and \$364,200 for joint filers, and phases-out over the next \$50k for individuals and \$100k for married taxpayers filing jointly.

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# Planning Tips

The taxes you'll owe on your locum tenens income are easily manageable if you [plan ahead](#). Here are some helpful tips to keep in mind:

**Follow the "40 Percent Rule":** To be safe, it's a good idea to set aside 40 percent of what you earn for taxes. Remember you'll owe federal, state, and self-employment taxes on your earnings.

**Submit quarterly estimates:** Take the time to calculate what you owe in estimated quarterly payments. This will help prevent the need to write a check to Uncle Sam at the end of the year. This will also minimize or eliminate IRS and state underpayment penalties.

**Track your professional expenses:** Use a personal finance program such as Quicken or Mint, a separate bank account, a dedicated credit card, or [this handy spreadsheet](#) to keep track of your monthly professional expenses so you can easily deduct them from your income at the end of the year.

**Keep good records:** When tax time rolls around, you want to make sure you have the paperwork from any significant financial events such as buying or selling real estate, starting or closing a business, or inheriting money. Also make sure you report any earnings from savings accounts or investments.

**Take advantage of tax shelters:** Retirement accounts and HSAs are great ways to reduce your taxable income and improve your overall financial viability.

**Consult a tax professional:** The tax code can be confusing and is constantly changing. What that said, you should consult a tax professional or CPA who can advise you based on your unique tax situation.

# State Tax Matters

How a Locums is taxed for state purposes

**Where you work:** Any income earned is first taxed based on the rules of the state where you work.

**Where you live:** Next, calculate that taxes based on the rules for the state where you live.

**No double taxation:** You then take a credit against your resident state's tax for taxes paid states where you worked.

\*\* Essentially, you pay state taxes based on the state where you live or work that has the higher tax rate \*\*

# S-Corp Considerations

## Advantages of forming an S-Corp:

**Save Medicare Taxes:** S-Corp owners can pay themselves Dividends instead of Salary and save the 3.8% Medicare Tax

**Avoid the SALT Limitation:** Most states now allows S-Corps to pay the personal state taxes of the owners as a deductible business expense to the S-Corp. In Mass, this tax break is called the Entity Level Tax.

## Pitfalls of forming an S-Corp for Locums Tenens professionals:

**Subject to Each State's Payroll Rules:** S-Corps would need to register in each state where the owner physically works, and remit withholding and unemployment taxes to each state. Setting up and maintaining payroll for an S-Corp where you are the only employee can be costly and brings along a new set of headaches.

**S-Corp Tax Return Would be Very Complicated:** The S-Corp Profit would need to be apportioned among each state where the Locum Tenens works in a year, with tax forms filed in each of those states for the S-Corp

**Consult a tax professional:** The tax code can be confusing and is constantly changing. What that said, you should consult a tax professional or CPA who can advise you based on your unique tax situation.

# Questions?

**Andrew D. Schwartz CPA will now answer any questions you may have regarding tax considerations for locum tenens providers.**

**Thank you for joining today's webinar. We hope it provided you with valuable information. Any feedback on this presentation can be sent to [info@bartonassociates.com](mailto:info@bartonassociates.com)**



# About the Author

**Andrew D. Schwartz, CPA**, is the founder and managing partner of Schwartz & Schwartz, PC, in Woburn, MA. Since 1993, Schwartz & Schwartz has provided tax, practice management, payroll, bookkeeping, and financial planning services to healthcare professionals. Andrew is also the founder of The MDTAXES Network, a national association of CPAs who specialize in the healthcare profession. Andrew graduated from the Wharton School at the University of Pennsylvania. He is a member of the Massachusetts Society of CPAs (MSCPA) and the American Institute of CPAs (AICPA), and he was selected as a multiyear winner of Boston Magazine’s “Five-Star Wealth Manager — Best in Client Satisfaction” award. For more information, please visit [SchwartzAccountants.com](http://SchwartzAccountants.com) or call 800.471.0045.

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