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Taxes for Locum Tenens Providers

2019–2020

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What We’ll Cover Today

- Basic considerations for independent contractors.
- Common deductions
- Retirement accounts.
- Health savings accounts.
- Estimated quarterly taxes.
- Planning tips.
- Considerations to include the QBI rules

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.

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Deductions

- As independent contractors, locum tenens professionals are able to 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.

- 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.

- There are two main options for keeping track of your deductible expenses:
  - 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 2019 is 58 cents per mile driven (decreasing to 57.5 cents per mile in 2020).
    - 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 during the year.
    - Deductible costs include gas, insurance, repairs, parking at home, and lease payments. If you own your car, you can also deduct depreciation.

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:

- Per Diem Rates
- Common Expenses for Healthcare Professionals

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 44.25 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*.

Further reading: [Common Retirement Plans for Self-Employed Individuals]

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.

Any money left in your HSA at age 65 is available to subsidize your retirement.

HSA limits for 2019 are $7,000 for family plans and $3,500 for individual plans (increasing to $7,100 & $3,550 for 2020) and you have until 4/15/20 to fully fund your H.S.A. for 2019

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.

Further reading: Estimated Taxes (IRS)

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 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 an 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.

2nd Year for “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 new law, 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).

This deduction is fully available to any pass-through entity with taxable income under $160,700 for individuals and $321,400 for those who file jointly, and phases-out over the next $50k for individuals and $100k for married taxpayers filing jointly.

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Questions?

Andrew D. Schwartz 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

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, 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 or call 800.471.0045.

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