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2016 year-end tax planning tips for physicians

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As we approach the end of 2016 and the start of the Trump presidency, it is widely anticipated that there will be major tax law rewrites, and proposals are already being floated outlining significant changes. Even if you do not have a large net operating loss carryover like Mr. Trump that will save you taxes for years into the future, and even if you are not like Apple waiting to repatriate billions of dollars in overseas profits, there are still several tax savings opportunities that require action before 2017.

With Republicans gaining control of the House, Senate and presidency, and since many tax law changes can be made by a simple majority vote of Congress, it is expected that changes will be made effective in 2017 retroactive to the beginning of that calendar year. So let's look at several proposals being floated.

As part of the Affordable Care Act, or Obamacare, the government added a .9% surtax on income over $200,000 (or $250,000 for a married couple) and a 3.8% Medicare surtax on capital gains, rental income and other unearned income. Whether or not the Affordable Care Act itself is overturned, there are proposals to eliminate these surtaxes. Therefore, to the extent that you can delay some earned income into 2017, you should consider doing so to avoid the .9% surcharge. And if you can defer capital gains and rental income, you may reduce or avoid the 3.8% Medicare surcharge.

Tax rates on capital gains may also go down. If you are anticipating selling stock or stock mutual funds, wait until 2017 and you may pay lower taxes. Of course, even if laws are not changed, you will have deferred your tax bill for a year. Just avoiding the 3.8% Medicare surtax saves you a high percentage of the tax bill incurred when you sell stock, real estate or have other capital gains. Dividends are generally taxed the same way and would also be cut under proposals being floated.

President-elect Trump has promised to lower tax rates, although this would mostly impact people making more than $250,000 per year. It is likely there will also be changes in deductions and elimination of the deductibility of real estate taxes and state income taxes also is under discussion. Likely coincidentally, this most impacts the "blue" states of California, New Jersey, New York and Massachusetts since they generally have the highest income and real estate taxes and their citizens would be most affected by the loss of deductibility.

Next: Contemplating converting a retirement plan or IRA into a Roth?

Before the end of 2016, therefore, it makes sense to pay your January 15th estimates or any other state or local income taxes and real estate taxes due now or in the coming months. Such payments will be deductible in 2016 and these deductions could be lost in 2017. If income tax rates are lower next year such deductions remaining will be less valuable with lower brackets.

In addition to delaying income into 2017, if you are contemplating converting a retirement plan or IRA into a Roth, because the converted amount is generally taxable in the year of conversion, it makes sense to postpone the conversion until 2017 since brackets may be lower and you will therefore likely pay less income tax. If you have done a conversion in 2016, there is a way to "recharacterize" (undo) the conversion and put the funds back into a pre-tax account to avoid the tax. You have until October 15, 2017 to return and recharacterize the conversion to a Roth and could therefore wait well into 2017 to make this determination.

There are proposals to cut business income taxes to 15% and even discussion of having this apply to "pass-through entities" such as LLCs, partnerships and sole proprietorships. This would reduce income taxes that apply if you are in private practice.

Let us say goodbye to the 43.4% tax rate charged to the highest earners if the incoming leaders follow through on the Trump pledges to cut taxes and allow hard workers to keep more of their money.

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