Amber:

Welcome to Beyond Bitewings. I'm Amber, we have Lynn Ledbetter.
Lyn :

Hello.
Amber:

Robert Edwards.
Robert Edwards:

Hello.
Amber:

And Ash Fazua.
Ash:

Hello.
Robert Edwards:

And what are we going to talk about today?
Amber:

Tax planning, the topic everyone wants to talk about because it's so stimulating.
Lyn :

It is.
Amber:

Like movie reviews.
Robert Edwards:

I was going to say boring, but we're accountants anyway. So people know we're boring, but it's your end and so I think people really do want to hear about tax planning.
Amber:

I don't know if they want to hear about it, but I think they acknowledge they need to hear about it. I think that they do want to hear about it in that regard and this has been a crazy year. I'm surprised to be here at the end of the year. This year has both drag on forever and flown by, it's the weirdest year ever.
Robert Edwards:

It's flown by, but there's three months left.
Ash:

That actually reminds me of this meme that I read this morning when I woke up. It actually said, "Congratulations you made it to October. Welcome to Level 10 of Jumanji." And I was cracking up so much because really I was thinking level 10. Really? It has been 10 months already.
Amber:

It's craziness. But we have to start thinking about year end and just a few months ago, we were thinking about how we were going to make payroll because patients weren't coming in and no expenses could be paid and there was no revenue and we've gone from that to, okay, here we are at year end and how's this going to all affect my taxes.
Robert Edwards:

A lot of people are asking us, "We have all this money what do we do with it?"
Lyn :

Which is not where I expect it to be.
Robert Edwards:

I agree and this year we've got a lot of unique or first time situations with COVID that affect the taxability of our clients' practices.
Lyn :

Some of the phrases that have come out of this year or so overplayed like, "the new normal." But the one that I am so sick of saying is, "I'm sorry, we just don't have guidance yet."
Robert Edwards:

Because it keeps on changing.
Lyn :

I've said it like a 1,000 times this year and I'm like, I really do know what I'm talking about, but I don't have the guidance yet. So guidance is starting to come down we think it's all going to change, but we're going to talk about how it is today. This is at the moment. This is how the guidance comes in.
Robert Edwards:

I can promise you it's going to change because it's changed how many times? 15 times so far this year maybe more.
Lyn :

It's beyond crazy, it's been a roller coaster.
Robert Edwards:

Really changed 15 times just in April.
Lyn :

The nightmare.
Robert Edwards:

So what are some of the unique tax planning things that we need to cover this year?
Lyn :

There are a lot of unique things this year, mostly from relief standpoint. You've got a lot of money this year that you would not normally get, EPP money, Paycheck Protection Program money, there's been government relief through health and human services, there has been local grants, there's been unemployment. Some of you may have received unemployment, EIDL loans and emergency funds and just none of these things have we really had to encounter before some of them brand new to COVID, created for COVID. And we have to figure out what the tax effect is on all of these things. And I'm just going to, spoiler alert. It's not good.
Robert Edwards:

Explain that. I know what you're talking about, but I don't think the audience does.
Lyn :

Well, it's by large that all of these things are going to be taxable and either directly or indirectly and I think if you're not prepared you're going to be in for a shock and possibly a shock you're not prepared for and from a cashflow standpoint.
Robert Edwards:

So technically the PPP funds aren't taxable to the clients? So how is it going to hurt me tax wise?
Lyn :

Yeah that's a great question though, it was specifically in the legislation that it would not be taxable income because of course we're going off the assumption that these funds are going to be forgiven. The PPP loan was in fact a loan, but the vast majority of these are going to be forgiven a 100%. And so once you have forgiveness of a loan that typically turns to income, but the legislation clearly stated that it would not be taxable income once it was forgiven.
Lyn :

But then the IRS came back sort of behind everybody's backs and said, "Okay, that's great, but whatever you spend it on you're not going to get to deduct." So what that essentially does is turn it into taxable income. It's a complicated calculation based on a law, but what it does is turn it into taxable income so the effect that Congress did not intend is what is going to ultimately happen.
Robert Edwards:

It's like any tax law that's passed rapidly if they fail to think it all the way through and so they don't understand the consequences of it. We've asked them, I'd say we, several people in the industry have asked Congress to rectify that to make the expenses paid with the PPP funds.
Lyn :

I think they want to.
Robert Edwards:

But I don't expect them to get around to that before the end of the year.
Amber:

I agree with that.
Robert Edwards:

So we may be preparing tax returns for 2020 in early 2021 and the rules haven't been finalized yet.
Lyn :

I think that's going to delay the finalizing of the tax returns unfortunately.
Robert Edwards:

So do you think we'll have an extension of the time to file next year?
Lyn :

No, absolutely.
Robert Edwards:

I don't expect us to either.
Lyn :

Though, I think we're going to have to follow a lot of extensions and wait for the guidance to come out but as it stands right now, those expenses are not going to be deductible, but the forgiveness portion, the actual act of the loan being forgiven hasn't occurred yet, doesn't occur until 2021.
Lyn :

Though, if you want to be really creative, some people say take the deductions now when it's forgiven, then I have to undo all that and have the tax effect next year. You're talking about an administrative nightmare, possibly amended returns. It's something that it's really too early to decide what the best strategy is. All we can do right now is play by the rules that are in place and not the ones that we hope come down and throw those out.
Robert Edwards:

And wait on further guidance.
Lyn :

And wait on further guidance unfortunately.
Amber:

During these unprecedented times.
Lyn :

That's right, thank you. Throw some more cliches in there that's for sure.
Robert Edwards:

Until we return to the new normal.
Lyn :

That's the main one, but as far as some of the other relief packages, you've got your County and local grants those are going to be taxable. You've got your emergency and sick leave credits that you may have given some of your employees or being either out with COVID or their children are out with COVID or the daycares and schools were closed. Those are going to be taxable. The EIDL grant not taxable, out of all the hundreds of thousands of dollars that you received, you can exclude 10.
Robert Edwards:

If you got the full 10...
Lyn :

How many employees you had pretty much dictated because they started doing a calculation to give those grants out and by the end they were like, just tell us how many employees you have we'll write you a check because they can't keep up and that's the whole problem. They can't keep up with the multitude of things that are going on.
Robert Edwards:

It was taking them too long to get the grant money out.
Lyn :

Let's see else do we have, the unemployment income that's going to be taxable?
Robert Edwards:

That's something I'm not sure a lot of people understand. It's always been taxable this isn't new this year. What's new this year is that so many people received the unemployment income.
Lyn :

And I think people were hoping that since it was a pandemic, since it was emergency, federal emergency was in place, may still be I actually don't know the answer to that. And so maybe they would be excluded potentially from income, sheltered, but that's not the case.
Lyn :

A lot of people on unemployment were making as much or more as they were before. I'm not talking about the dentists and the practice owners but, your front desk person, the person that works at Target, a lot of those people were making more on unemployment than they were at their regular jobs, so the government has no incentive to shelter that from tax because you theoretically have the money to pay the taxes because you got more money so that's going to be taxable income and I think that comes as a surprise not only as a taxable income, but taxes probably weren't withheld from it, so you haven't paid the taxes on it, so that may be a boost to the balance duty that you have in April.
Amber:

What other relief have we not covered because there was a lot.
Robert Edwards:

I don't know.
Lyn :

HHS, did we talk about HHS? Whether it's taxable? It is, I'll just throw it in there, it is.
Robert Edwards:

So most of the relief packages result in taxable income.
Lyn :

That's correct.
Robert Edwards:

Now you said that the Emergency Sick Leave and FMLA credits were taxable, but their tax credits.
Lyn :

Well their tax credits against payroll taxes. Though yes, you got to reduce the amount of payroll taxes you paid by these credits so that's where your benefit came in. But that amount that you didn't have to pay, there's an offset to that it's going to be taxable for federal income tax purposes so it slight of hand, it's not, because you got a better benefit. A, you got a better benefit of credit is always better than a deduction or an income item, so that's good. But you also received it when it was most critical, so that was your other benefit. But now there are some tax consequences of that unfortunately.
Amber:

What about COVID distributions retirement distributions because that was a new provision that a lot of people, I don't know if as many people took advantage of that, some people certainly did. What are the tax effects of that?
Robert Edwards:

I don't think very many people took advantage of that at all. I only know out of our clients a handful that might've. I'm not even sure I know of a handful that did but there were two, not necessarily new. There was one new COVID related retirement distribution that you could take. And then there was the expansion of the loans due to COVID.
Robert Edwards:

You could always take a loan from your retirement plan of up to 50,000 or 50% of the assets that was doubled this year to a 100,000. And the new deduction was a COVID Related Distribution, CRD that you could take out up to a 100,000 and you could take both of those or one or the other. The difference is the loan has to be repaid over a maximum of five years for prime plus 1%.
Amber:

And that's a loan so repaying that is expected. That makes sense, but what about the distribution?
Robert Edwards:

And the distribution, most distributions from retirement plans would have to be repaid in a shorter period of time, but the CRD has to be repaid over three years. And if it's not repaid, the amount not repaid becomes taxable. Now, if you take the 100,000 and don't repay any of it, then it's not taxable till the end of the third year but it's taxable in the year you took it. So you might actually have to go back and follow amended returns if you didn't pay the taxes on it, when you took it expecting to repay it, but then later didn't repay it because trust me, people will do that.
Amber:

I believe me, I agree with that statement a 100%, the best of intentions. And plus we don't know what's going to happen for the rest of fall and winter with a pandemic.
Robert Edwards:

What if you have a resurgence, then people may not be able to repay.
Amber:

That's right if those funds... The purpose of those distributions was to be able to float the practices or the businesses or your lifestyle, whatever it was. And if you end up using those funds for that purpose you may not have it to pay back within three years and you may have to make the income hit on it but at least it was available.
Ash:

It was a good availability of funds.
Robert Edwards:

And the good thing about the COVID Related Distribution is you can repay that with no interest. So you take a 100,000 out, which you repay as a 100,000 or you take 50,000 out, you repay 50,000 or whatever you take out, you repay that. So that's a non-interest bearing loan for three years.
Amber:

Not easy to find those.
Robert Edwards:

No, impossible. Ash do you have anything to add?
Ash:

Yes, I was just thinking if people are pulling so much money out from their retirement, how would that affect them on a long-term basis?
Robert Edwards:

Obviously that'll hurt them in reaching their goals for retirement. They may have to work a few extra years at the end of their career.
Lyn :

The goal is certainly to get it paid back as soon as possible.
Ash:

This shouldn't be the number one go-to option.
Amber:

Right.
Robert Edwards:

It's there as an emergency hardship procedure and it shouldn't be used unless you're out of other options.
Ash:

I see.
Amber:

Right.
Lyn :

Good option. It was a good option, but it's not something that you want to take lightly. It's something you want to rectify as soon as possible because ultimately it's going to affect your long-term financial health.
Robert Edwards:

And if I remember correctly, the CRD is only available until December 31st.
Lyn :

I don't remember those dates that very likely could be true, but you also do have to be in a hardship situation. That was easy to say in March and April and May when you didn't know what was happening, but now a lot of our clients are recovered. I would say a good 55% of our clients have completely recovered from the two months down, now that may change.
Lyn :

But right now, the recovered making the statement at the [inaudible 00:13:13] station that you're in a hardship situation may be difficult to do right now. Technically may be available, but it may be a stretch. That's not true for everyone though, there are practices that are still down and still struggling and that's definitely an option for them.
Robert Edwards:

And I think some of the audience maybe wondering if you said we have 55% of our clients that are actually up, but of the other 45%, how bad are they doing? I only know of one client that we've had that actually has had to file bankruptcy.
Lyn :

I agree with that statement, but there are some that are down. They're very strong practices so they're going to be fine because they have fail-safe some place, they have their cash reserves, they have their

plans. But there are some that are down significantly hundreds of thousands of dollars over under a prior year.
Robert Edwards:

And I have heard in other parts of the country that the ratio of the bankruptcies is much higher.
Lyn :

Yeah, that's a good point we should speak to the fact that while we do have clients all over the nation, they are largely based in Texas and let's be honest, we're fortunate here. Our economy is great. Our practices have rebounded really well. We weren't closed as long as a lot of the, especially the really big cities like New York closed a long time, California closed a long time. And so they were hurt more than ours were.
Lyn :

And I think it was an uncertainty is whether the patients would come back. You can open, but nobody's going to come back and sit in your chair and that proved to be not the case. And so I think because of that, we're sitting in maybe a better financial spot than some people are in the country for sure.
Ash:

And then what about accelerating our expenses? I know that's typically one of the advice that we give to our clients during tax planning, but for this year, do you think that is something that they should focus on or...
Robert Edwards:

I do, and the reason I do one reason that I do, is because I read an article recently that indicated actually what I saw was a draft copy of Joe Biden's tax plan. So if he gets elected rates will go up. And so people are talking about accelerating your income into this year, accelerating your expenses into this year to get the full effect of the deductions this year, and then pay less tax next year, but at the higher rate.
Ash:

I see, and does that also include maybe looking to purchasing equipment or renewing some of their older equipment?
Robert Edwards:

That's seems like our clients, mostly dentists that seems like that's their go-to year end plan is to buy more equipment, but there's only so many toys you can buy. Once you have all your six opera-tories, or however many you have at once, they're all equipped, what else can you get? And there are a few other toys you can get at some point, it's not really cost-effective to buy more equipment because you still got to repay the loan if you take out a loan for it.
Amber:

Right, it's like an immediate gratification situation.
Robert Edwards:

Yeah it's kind of, it's fun. Something new and something new I can offer to patients so I tell clients, if you need the equipment for patient care, buy it. If the question is do I buy it this year or next year, buy it now, but don't buy it just for tax purposes, because you're going to pay more for that equipment than you would pay in tax if you just bite the bullet and pay the tax.
Lyn :

And if you need like need and we're talking, the true definition need, if you really need it, yes buy it. But if it's just something that would make your practice more efficient, if it would raise productivity and ultimately raise your income, but it's not a true need then you are flexible when you make that purchase. It could be December, it could be January and the tax consequences are pretty big.
Lyn :

I think the answer is we're going to have to wait until the election and see what happens, because if there's a change in who holds power, essentially, I think you're going to be better off potentially pushing that purchase to January or further into the new year and take the deduction at the higher rate. If there's not a change, there probably won't be much change in the tax. There might be some eventually this currently $3.2 trillion stimulus package is going to have to be paid back, that's the reality.
Lyn :

I don't know when we're going to do that. I doubt it would be in 2021 because people are still recovering from the pandemic, so if there's not a change in the government, probably a status quo situation. If you need the deduction and you need the equipment, go ahead and buy it. But if there is a change you might want to consider pushing it off.
Ash:

Now, the other thing we also need to look into...
Robert Edwards:

Before we go on one or the other considerations in buying new equipment is timing wise, a lot of the dental supply companies or the dental equipment companies tell you have to order by the 1st of October, or maybe I don't know, it could be the 1st of November.
Lyn :

Depending on the size of what you need,
Robert Edwards:

Depending on what you're ordering. I know the chairs seem to have the longest lead time, but for your equipment...
Lyn :

I think they are hand-stitched by the shine guys.
Amber:

Did they also make desks for homeschooled students?
Lyn :

Right, because there are none to be found.
Amber:

Nowhere laptops, chair,
Robert Edwards:

Monitors.
Amber:

Go ahead, yes. So it may be too late to get those orders in for the current year.
Robert Edwards:

And the other thing is equipment has to be installed to be deductible. Many of our clients think they can buy it and pay for it and it's deductible. Even if it's sitting in the warehouse somewhere, not the case, it's got to be installed and in use to be deductible for tax purposes.
Amber:

Yeah, that's one of those little catches.
Robert Edwards:

Yeah.
Amber:

But you have to check all the boxes.
Robert Edwards:

Ash move on.

Amber:

Oh, that was what it he was going to talk about, you just stole his thunder. You apologize to him right now.

Ash:

Because I remember we talked about this and I'm like, "Hey, maybe he should mention it."

Robert Edwards:

My bad.

Ash:

No, you did exactly what I was going to...

Amber:

Is Robert a psychic? Were you trying to keep that a secret?

Lyn :

Yes.

Ash:

Maybe it could be that we both have the same Zodiac x-line.

Robert Edwards:

What other tax planning tips do you have for clients?

Lyn :

A lot of them are case by cases is...

Robert Edwards:

How do we feel about having kids on the payroll, is that something we recommend to clients?

Ash:

We do have clients that will ask me that a lot of times. They'll say, "Hey, I have a son or a daughter that I would like to put on payroll. Is it possible? And if so, how do I go about it?"

Robert Edwards:

And sometimes the client will ask me, "My son or daughter is only three years old. How can I justify having that job..."

Lyn :

Or six months old, [inaudible 00:19:49].

Amber:

But can they be on payroll, what can they do? What services can they perform for that practice?

Ash:

If we're strictly talking about a minor who can't really perform any office duties, a lot of times they can be used for marketing purposes for marketing articles. If we're talking about maybe updating the website with a picture of the doctor, the dentist and their children, that can be done, pamphlets, brochures, door hangers.

Robert Edwards:

So we would pay them a modeling fee?

Ash:

Correct, so in essence, it's not really payroll, even though you will be running it through your payroll, but it is actually a compensation fee for the modeling services.

Robert Edwards:

And a lot of times, if they're a little older than that, we can have them doing janitorial services or mailing and peeling and sticking stamps and licking envelopes, mailing things. So they can help out in the office in a productive way and still be on the payroll to some degree.
Ash:

And speaking of marketing kids these days are raised tech savvy. Everyday whenever you go someplace, everybody's holding a phone they're recording themselves, they're taking pictures. Yes, it's to their social benefit but at the same time if you look at it from a financial standpoint you can actually use this to your marketing.
Amber:

Put them to your social benefit.
Ash:

Exactly, have them maybe record videos while you're performing a service, open an Instagram account and have them help you out with your social media by providing content and they like to do it. They're very tech savvy about it they know how to do this.
Amber:

We ask our kids to help us for a reason because they know more than we do.
Ash:

Right.
Robert Edwards:

Yes, I' reminded of that almost everyday. What's one of the biggest tax deductions that we can advise our clients to implement before the end of the year.
Ash:

And this is something I feel like the clients are also well aware of it's retirement.
Lyn :

Well aware of, but not always compliant.
Ash:

That's true. That is also true.
Lyn :

Even though it's good advice from a tax standpoint, but also from a financial standpoint.
Robert Edwards:

So what are the objections to them being compliant with adopting a retirement plan?
Lyn :

I guess the biggest resistance is cash. They just, they would rather spend their money on toys as they go along. And it takes a little foresight and fortitude to put money aside for retirement it's not your instant gratification. I think the interesting thing is that our younger dentists are all in to retirement. They are all about it and all on board and they're going to be in great shape one day.
Lyn :

The millennials, these evil people get a bad rap, but really there's a lot of good about them and that's one of them and they're really careful with their spending and they're putting money into retirement now and they're getting the tax benefits from it and I think there's a group out there who probably listen to 80's music and watch those shows, which is my generation I have to say. They're less inclined to do it and then one day they go, "Oh, how am I supposed to retire?"
Robert Edwards:

Exactly, and I think the ADA actually has a statistic out there that says less than 5% of the dentist aged 65 or older can afford to retire. It's terrible. We usually get a call from clients when they get into their early

40's. "Oh my God, I'm 40, what do I do now?" Now, because they haven't started saving yet for retirement and that's not too late. Give me 20 years and all of my advice and we can make you financially independent. Anything else Ash, that you want to add as far as tax planning tips?
Lyn :

I mean, there are other tips, but they're specific to case by case, you need to consult your tax advisor. So I think we will wrap it before we mind numnum.
Robert Edwards:

Would this advice apply to all clients? What about those associates that are just W2 employees?
Lyn :

They have a lot fewer options unfortunately as far as flexibility and creativity and how they reduce their taxes because they're bound by the rules in place. And the rules in place are you just can't really deduct anything from those wages.
Robert Edwards:

But if they're 10.99, okay.
Lyn :

Different situation, if you are an associate you're working for a practice, this really does vary state by state. You have to be careful with this advice, but if you have your own entity and you're paid contract through your own entity, if that's allowed where you are, then you have a lot more flexibility and a lot more tax savings strategies that you can pursue.
Robert Edwards:

Anything else we want to add? What about some of the deductions that are pretty aggressive, that the IRS is sort of...
Lyn :

The whole conservation easements. You talking conservation easements.
Robert Edwards:

Where'd that come from?
Lyn :

Yeah, conservation agents. If you want to be audited, I would do one.
Robert Edwards:

But didn't I see something recently where basically the IRS would like to audit everybody that got a conservation easement over the prior three years.
Lyn :

I haven't seen that, but I did see that they're planning to audit 80% of the conservation easements that are being deducted at this time.
Robert Edwards:

That's pretty close to everybody.
Lyn :

That is pretty close to everybody. I wouldn't want to be in that pool is all I can say because the IRS and Congress, everybody involved has made it very clear that they've been abusive and that wasn't their intent. So they're going after him hard ball and I don't think you're going to, in most cases, find a way to get that deduction allowed. So we're going to be in for a big tax hit. They look great on paper, big tax deduction, very little cash output, but hello, is it too good to be true? Yes, it's too good be true.
Robert Edwards:

If it's too good to be true, if it looks like it's too good to be true, it's probably to good to be true.
Lyn :

Right.
Robert Edwards:

Anything else that we want to tell them about tax planning this year? Other than call your...
Lyn :

Be prepared, what I would say is be prepared.
Robert Edwards:

Call your tax professional. If your tax professional, not responsive or not knowledgeable in the dental industry give us a call. We'll be glad to help you out. Thank you.
Lyn :

Thanks guys.
Amber:

Bye.
Ash:

Thank you.