



TAX PLANNING

FINANCIAL MANAGEMENT FOR MEDICAL PROFESSIONALS



Introduction

Tax planning is a significant aspect of financial management, particularly for medical professionals who may experience complex financial situations and substantial earnings. Effective tax planning can help manage tax liabilities while enhancing financial stability. This chapter provides an overview of tax planning, including tax brackets, deductions, retirement account strategies, and considerations for high-income earners.

Understanding Tax Brackets and Income

Tax Brackets Explained

The U.S. tax system applies a progressive approach, where income is taxed at rates that increase as earnings rise. Each income bracket is taxed at a specific rate; for example, income up to a certain amount may be taxed at 10%, while higher income levels may be taxed at 12% or more. For high-income professionals, understanding tax brackets is essential to managing overall tax liability effectively.

Progressive Taxation

As earnings increase, individuals may enter higher tax brackets, yet only the portion of income within each bracket is taxed at that bracket's rate. For instance, if a medical professional earns \$300,000, only the income above the threshold for the 24% tax bracket is taxed at that rate; income in lower brackets is taxed at lower rates. Utilizing this knowledge can aid in strategically managing income and deductions, possibly reducing taxable income through appropriate deductions or retirement contributions.

Key Deductions and Credits

Itemized Deduction

Offered by employers, allows pre-tax contributions to reduce current taxable income.

Above-the-Line Deductions

Similar to 401(k) plans, generally offered by non-profit organizations like hospitals.

Tax Credits

For government and non-profit employees; no early withdrawal penalty when leaving employment.

Retirement Accounts and Tax Advantages

Retirement Account	Contribution Limits (2024)	Tax Advantage
401(k) / 403(b)	\$22,500 (\$30,000 if 50 or older)	Contributions reduce taxable income; earnings grow tax-deferred until withdrawal.
Traditional IRA	\$6,500 (\$7,500 if 50 or older)	Contributions may be tax-deductible; earnings grow tax-deferred.
Roth IRA	\$6,500 (\$7,500 if 50 or older)	Contributions made with after-tax dollars; qualified withdrawals are tax-free.
Self-Directed IRA	Varies based on investment choice	Offers control over alternative investments; tax advantages similar to traditional IRAs.

401(k), 403(b), and IRA contributions provide tax advantages through either tax-deferred growth or tax-free qualified distributions. Self-directed IRAs offer flexibility for alternative investments but come with additional requirements and potential risks.

Navigating High-Income Challenges

Alternative Minimum Tax (AMT)

The AMT ensures a minimum level of tax payment for high-income earners who have significant deductions. Understanding AMT triggers can help in planning income and deductions strategically to manage AMT impact.

Investment Income and Taxes

Investment income, such as dividends and capital gains, is taxed differently than earned income. Qualified dividends and long-term capital gains may benefit from lower tax rates, and tax-efficient investment strategies can help manage overall tax obligations effectively.

Tax Planning for Practice Owners

Practice Structure	Benefits	Considerations
Sole Proprietorship	Simplicity, ease of setup	May lack liability protection.
LLC	Liability protection, tax flexibility	Requires setup and maintenance; not taxed as a separate entity.
Corporation (S or C)	Liability protection, unique tax advantages	S-Corps avoid double taxation; C-Corps subject to corporate tax rates.

Medical practice owners have additional tax considerations, such as practice structure and deductible expenses. Sole proprietorships offer simplicity but may have limited liability protections. Corporations, whether structured as S-Corps or C-Corps, provide different tax benefits and liabilities. Additionally, deductible business expenses, such as office supplies or staff salaries, can help reduce taxable income.

Estate and Gift Tax Planning

Estate Tax Basics

Estate taxes apply to the transfer of assets upon death and may impact individuals with significant assets. The federal estate tax exemption is \$13.5 million per individual for 2024. Planning strategies, such as setting up trusts, can help manage estate taxes and distribute wealth according to personal wishes.

Gift Tax Strategies

Gift taxes apply to the transfer of wealth during one's lifetime. In 2024, the annual gift exclusion is \$17,000 per recipient. Utilizing this exclusion and lifetime exemptions enables tax-efficient wealth transfers.

Trusts and Wills

Trusts and wills are critical in estate planning. Trusts can offer tax advantages and help ensure assets are managed as intended, while wills determine asset distribution.



Conclusion

For physicians, effective debt management is fundamental to financial stability. By distinguishing between types of debt, selecting suitable repayment and refinancing strategies, and aligning debt management with career goals, physicians can lay a solid foundation for long-term financial success and security. Whether in the early stages of their career or approaching retirement, proactive debt management enables medical professionals to focus on their practice while building financial freedom.

If you would like to learn more about Tax Planning or schedule a meeting with the team, please scan the code:



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