Keywords: tax deductions for physicians

Problem: Doctors are passionate about patient care. Many physicians formulate well-strategized care plans while driving, mowing or showering. Tax deductions, retirement plans and investment portfolios are often annoying necessities. The 2024 tax season has come and gone. Now is the time to strategize ways to increase tax deductions for the upcoming year.

Solution: These three strategies help physicians increase tax deductions.

Tax Deductions for Physicians: 3 Undervalued Strategies

Physicians strategize treatment plans. They perform benefit-risk analysis. They listen empathetically. However, many physicians spend little time focused on their own financial wellness. Tax deductions, retirement plans and investment portfolios are often annoying necessities. The tax season has come and gone. Now is the time to strategize ways to increase tax deductions for the upcoming tax season. Keep reading to learn 3 undervalued strategies to improve tax deductions for physicians.

Key Takeaways

- Physicians can increase tax deductions with little extra work or inconvenience.
- Tax-deferred retirement programs allow physicians to reduce annual taxes and increase compound interest.
- Two commonly used tax-deferred retirement accounts are the 401(k) and traditional IRA.
- Self-employed physicians can earn many business tax deductions, regardless of the time spent working the business.
- The Augusta Rule allows homeowners to rent their house tax-free for up to 14 days.

Retirement plans that increase tax deductions for physicians

Tax-deferred retirement plans are some of the most underutilized tax deductions for physicians. Financial experts estimate that only 25% of physicians maximize their retirement benefits. For some, saving enough money is challenging, and others are unaware of the funds available. With tax-deferred retirement plans, the individual pays taxes after withdrawing the funds. This strategy allows physicians to **minimize taxes and maximize long-term investment growth.**

Benefits of tax-deferred retirement accounts

Maximizing tax-deferred retirement investments is a powerful tool for **reducing annual taxes.** Every dollar in a tax-deferred retirement is another dollar not taxed that year. Individuals in a higher tax bracket receive elevated benefits. For example, people in the highest tax bracket could have a marginal tax rate of approximately 50%. Consequently, every $2 in retirement saves $1 on taxes.

Tax-deferred retirement plans also increase physician's **compounding potential.** Compound interest is the money earned on the principal plus any interest. The principal amount and interest earnings have a positive correlation. The higher the principal, the better the interest earnings.

"Taxes have to be paid. Does it matter when?" Deferring taxes may offer significant savings. Physicians often downsize during retirement. They may use pension, Social Security and retirement accounts for income. The income may decrease during retirement, but the expenses typically do the same. Frequently, the children have moved out, and college is paid. This income shift may change the physician's tax bracket. The **retirement tax rate generally is lower** than the working rate. Consequently, physicians often pay less taxes on tax-deferred investments than a tax-exempt retirement account.

Types of tax-deferred retirement plans

The most common tax-deferred retirement plans are the 401(k) and traditional IRA.

401(k): This tax-deferred account type is an employer-sponsored retirement plan. The funds are directly withdrawn from the paycheck. Employers often incentivize this retirement with 401(k) matching. The rate of matching is typically 4.5%. The annual contribution limit is $23,000 for those under 50. If the employee is 50 or older, the limit is $30,500.

Traditional IRAs: This tax-deferred account type is an individual retirement plan. The person investing establishes a traditional IRA with a bank or brokerage firm. A traditional IRA is an excellent option when physicians max out their 401(k) investing. The annual limit is $7000 for those under 50 and $8000 for those 50 or older.

Self-employed deductions

Besides being your own boss, one of the main benefits of being self-employed is the tax deductions. Self-employed physicians can **earn many business tax deductions, regardless of the time** spent working the business.

A sole proprietor, contractor or partner should keep meticulous records of expenses. In doing so, self-employed physicians can maximize business deductions. Many physicians have a full-time job, and their business is a side gig, such as medical writing or consulting work. These individuals often incorrectly assume self-employed deductions do not apply. Side gigs allow physicians to reap the benefits of both worlds: employment stability and self-employment tax deductions.

The Augusta Rule

The second Sunday of April is a sacred time for all avid golf enthusiasts. The Masters golf tournament sends golfers scrambling for lodging in Augusta, Georgia. Many homeowners rent their residence during this time and earn enough to pay the annual mortgage. However, few know about the Augusta Rule.

Section 280A of the Internal Revenue Code (IRC) outlines the stipulations. This section allows **homeowners the opportunity to earn tax-free rent.** This rule is not limited to the Masters or Augusta, Georgia. People in different locations and situations can benefit from the Augusta Rule. The eligibility requirements for exemption include:

- The homeowner rents the house for no more than 14 days
- The owner must personally use the property for at least 10% of the total rented period
- The home cannot be the owner's primary place of business
- The rent rate must align with the market value

Scenario #1

Physicians can take advantage of the August Rule in several ways. Finding lodging for **major sporting events, such as the Super Bowl, March Madness Final Four, Kentucky Derby or Indianapolis 500,** can be challenging. Sports enthusiasts pay top dollar for lodging to attend these events. Consequently, homeowners can significantly benefit from the tax-free income.

Scenario #2

Patients undergoing **extensive treatment or clinical trials** often need housing solutions. They want comfortable lodging, especially while they are away from home. Physicians can rent out their homes to these families. The patient gets a restful abode, and the physician receives a financial benefit. Many physicians utilize this strategy during a family vacation.

Scenario #3

Some people do not feel comfortable renting their homes to strangers. As long as the house is not the primary place of business, self-employed physicians can **rent the space for business retreats or board meetings.** The company pays the rent. The employees enjoy a company-paid retreat. The physician earns tax-free income. That is a win.

Supporting physicians so they can support patients

Physicians are passionate about patient care. Sometimes, they neglect their personal and financial wellness. **With a few simple tweaks, physicians can increase their tax deductions.**

Our hospital supports physicians. We understand that you are juggling a lot. As your partner in care, we are passionate about your professional and personal wellness. To gain access to our innovative services, click the "Refer" button.

Resources

"7 Tax Deductions Doctors Miss Out On," The White Coat Investor, 2022, 7 Tax Deductions Doctors Miss Out On | White Coat Investor.

"Topic no. 415, Renting residential and vacation property." IRS, 2024, Topic no. 415, Renting residential and vacation property | Internal Revenue Service.