



Commentary: Strategic Tax Planning for Physicians

February 25, 2021 by Shauna Wekherlien

In the United States, physicians are paid on a higher-end as compared to the professionals working in other industries. However, since you earn more, you also have to pay a larger sum in taxes as compared to others. But there are ways to reduce your taxes with strategic tax planning.



This may seem like a no-brainer. But to properly reduce taxes, you need a plan and someone to guide you to through the myriad of tax and legal loopholes that can apply to your personal situation. The purpose of this article is to give you a solid start to formulating a plan that will help you keep your hard earned cash in your pockets and out of the government's hands by helping you pay the bear legal minimum in taxes.

Significance of Tax Planning

Tax planning refers to analyzing options, creating a tax/financial plan, and implementing said plan with respect to taxes. The main purpose of planning your taxes is to create/maintain tax efficiency.

You may adopt several different tax planning strategies; however, you must ensure that the goal of lowering your liability and creating a tax-favorable income

now and after retirement remains the same. Although tax planning is crucial for every professional hailing from different industries, it is much more essential for physicians and doctors who earn more than \$250,000 every year.

According to the U.S. Federal Law, the more income you generate, the more tax you are liable to pay. (I bet you're thinking, "Yeah, I already knew that!") However, there are plenty of strategies to use that can substantially reduce the amount you pay in taxes. Do you know what they are?

The goal of tax planning is not to cheat the system or indulge in illegal activity but rather to ensure that all your investments and incomes are carefully monitored so that you do not end up paying more in taxes than you have to. So, what is your aggression level on a scale of 1-10? 1 meaning that the IRS will never call you, never ever and 10 meaning we are all going to jail. So let's talk about some level 4-8 strategies – crossing T(s) and dotting I(s) – ensuring we are legal, but also taking everything we "above board" can. Keep that in mind as we talk strategies.

Decrease Taxable Income

If you wish to pay a lesser amount in tax and keep maximum earnings for yourself, you would have to effectively reduce your taxable income. This does not mean that you need to earn less than whatever you are earning, but it does mean that you need to structure your contributions and income in such a way that your **taxable** income comes down.

Some of the level 1 strategies that you've already seen include making donations to charitable organizations and contributing pre-tax to your retirement account (like your 401k program or IRAs).

A great level 4 deduction would be to take advantage of tax-loss harvesting to reduce your taxable income. You can sell a "losing" investment and offset others with gains – thus combining the gains and losses to pay no taxes and Putting yourself into a better overall financial position.

Investment Diversification

Apart from decreasing the yearly tax liabilities, tax planning also helps you optimize the tax efficiency after your retirement. The best way in which you can do this is by diversifying your multiple investments.

Before diversifying your investments, have a quick look at the financial accounts you hold. Make sure to check your taxable accounts, tax-favoured accounts, and tax-deferred accounts. When you spread and diversify your investments, your tax situation would get optimized during your retirement.

After your retirement, you cannot solely rely on your IRA, 401k, and other tax-deferred accounts since they do not offer enough flexibility. This is why it is a good idea to start spreading your money and investing it in multiple accounts of varying nature.

An excellent option for this is an often overlooked strategy due to the negative associations with insurance, which includes strategies such as infinite banking and premium financing. Both of which, when implemented as you are younger (35 to 50) can result in significant amounts of tax-free income to enjoy on retirement. An example of this, a healthy male, age 35, he begins to put in \$1000 a month into the simpler of the two programs, infinite banking, can enjoy upwards of \$3 million completely tax-free by the age of 65 – on top of which would include tax-free death benefits to your heirs under the insurance program itself.

Get Professional Help

If you are new to tax planning, you can seek professional help for this. Many people believe that their CPA specializes in tax strategy, but this is not necessarily true. Don't wait around till the last moment to start tax preparation. Hire expert professionals now so that they can thoroughly check your tax situation for this year and help you in strategizing a better plan for next year.

It would help to have the following professionals on your financial team working together towards a brighter financial future for you and your family:

- Accountant or CPA

- Financial planner
- Strategic Tax Coach*

An accountant or CPA would help you in tracking and monitoring your expenses for the entire year. Often, your CPA is a specialist at filing your tax forms, and ensuring that you do not get audited, but not necessarily tax strategy. *(We are sure that you run into the case where you've asked your CPA what else you could do to reduce your taxes and they've given you the same advice of maximizing your 401(k) contributions.)*

The actual filing of your finances and taxes can be handled very well by a tax professional. A tax professional will make sure that proper deductions are taken so that you can reap the benefits in the form of tax credits.

A financial planner can help you in creating a solid financial plan, which would, in turn, minimize your taxable income, help you in investment diversification, and decrease the tax burden for the upcoming year.

Such tax experts and professionals are very well aware of the current prevailing laws and also stay updated with the tax code changes. Such professionals would help your finances steer in the ideal direction so that you can maximize your savings for the next year as well as for your retirement.

Your Strategic Tax Coach is a specialist that creates a strategic tax coaching plan custom for you and your family and your particular situation. This person is well educated in tax strategies that help reduce your tax burden beyond the typical advice given by a standard CPA. They work with your CPA and other financial advisors to ensure a well-rounded plan that is going to work for all areas of your life, not just minimizing the tax burden to help you reach your financial goals.

Reduce the Tax Amount You Owe

The tax amount you owe can easily be reduced by minimizing your taxable income. This would mean that you need to maximize your deductions as much as you can. Most homeowners generally would have home mortgage interest. If you

are a physician who deals with the deductions associated with home mortgage interest, make sure that you know how to properly deduct the interest of the home equity line of credit.

Are you also taking advantage of other deductions such as, interest on your auto payments, shareholder health insurance and depreciation on real estate? Do you know the differences in expenses versus deductions like, cell phone, herbs/medicines, laundry of linens/uniforms, auto fuel and payments?

Legal Entities

To maximize the effectiveness of your tax planning and implementation of strategies, you need to ensure that your legal entity is properly set up and benefits the goals for reducing your taxable income. You will want to have a conversation with your CPA and Strategic Tax Coach/Tax Strategist to determine the best entity for you. Examples include, Sole Proprietorship, Partnership, S-Corporation and C-Corporation, and LLC.

Ask yourself and your advisor this question: Am I properly setup to reduce my taxes based on income and liability? In addition, you want your financial statements to reflect profit and loss, balance sheets and cash flow. Ensure that you understand how they interact and why you need these.

Conclusion

If you have not already started tax planning, now is the right time. Use the above strategies to ensure that you financially secure your future and avoid paying unwanted excess tax every year. The key takeaway from this article is that if your CPA and Tax Strategists are not discussing these ideas with you and on your behalf, it may be time to explore whether you have the right people on your financial team. For more information on 10 Ways to Save \$10K or more on your next tax bill, <https://taxgoddess.com/10-ways-to-save-10k-ebook/>



Degree in Taxation from Arizona State University, and is one of the elite Certified Tax Coaches in the USA (1 of just 5 in Arizona). As a Certified Tax Coach, Shauna A. Wekherli, CPA is trained to lower your taxes to the bare legal minimum and is in the top 1% of Tax Strategists in the country. Her firm services clients across the entire USA! She is an author, speaker, investor, and a highly sought-after tax strategist whose reputation has been built on 16+ years of experience and implementing innovative tax solutions for individuals and businesses. To learn more about Shauna and her team, visit www.taxgoddess.com.

**Just so you have an idea: according to Google there are 660,000 CPAs across the entire USA. Of those 60,000 have their Masters in Tax (meaning they specialize in taxation). Of those there are only 607 Certified Tax Coaches (CTC), and of those only 15 Certified Tax Strategists (CTS). Tax Goddess is ranked, by the AICTC, in the top 3 of all of those professionals for tax strategy (approx in the top .0005% of all of those CPAs across the USA).*

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