ALABAMA DENTAL ASSOCIATION

GULF COAST DENTAL CONFERENCE

AGGRESSIVE BUSINESS, TAX AND PRACTICE MANAGEMENT

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TAXES

1. **2022 & 2021 Numbers Plus Other Tax Rules and Limitations**

	2022	**2021**
Annual Retirement Plan Participant Compensation Limit	$305,000	290,000
Annual Defined Contrib. Plan Participant Dollar Limit	61,000	58,000
Annual Defined Contrib. Plan %-Of-Individual Pay Limit	100%	100%
Annual Prof. Sharing %-Of-Total-Participant-Pay Limit	25%	25%
Annual Defined Benefit Pension Plan Benefit Limit	245,000	230,000
401(k) Employee Elective Deferral Limit	20,500	19,500
401(k) Catch-Up Contrib. for Those Age 50 & Over	6,500	6,500
SIMPLE Plan Employee Elective Deferral Limit	14,000	13,500
SIMPLE Plan Catch-Up Contrib. for Those Age 50 & Over	3,000	3,000
IRA (Roth & Traditional) Contribution Limit	6,000	6,000
IRA (Both Types) Catch-Up Contrib. (Age 50 & Over)	1,000	1,000
Roth IRA Contribution Phase-out Range (Single)	129-144K	125K-140K
Roth IRA Contribution Phase-out Range (Married)	204K-214K	198K-208K
QSEHRA Reimbursement Plan (Individual/Family)	5,450/11,050	5,300/10,700
HSA Annual Contrib. Limit (Individual/Family)	3,650/7,300	3,600/7,200
HSA Catch-Up Contrib. for Those Age 55 & Over	1,000	1,000
Federal Lifetime Estate Tax Exclusion	12.06M	11.70M
Federal Lifetime Gift Tax Exclusion	12.06M	11.70M
Annual Gift Tax Exclusion for Per-Person Gifts	16,000	15,000
Bonus Depreciation (new equipment)	100%	100%
Section 179 First-Year Depreciation Limit	1,080,000	1,040,000
Social Security Taxable Wage Base	147,000	142,800

2. Philosophy

A. Income – Every penny of taxable income gets reports (No exceptions!)

B. Deductions – Be aggressive but legal.

C. Audits – Be expected to be audited from time to time. Expect to have to give something back. Do not be a cry baby about it.

D. Deductions to consider

SAVING FOR RETIREMENT

1. **Tax deferral is very valuable** – retirement plans and IRAs.

2. **A Natural Progression**

   A. IRAs – First $6,000/$12,000 of earnings.

      1. Traditional – tax deduction when contributing/taxable as ordinary income on withdrawals.

      2. Roth – no tax deduction when contributing/tax-free later

         a. The Roth IRA has been open at least 5 years, and
         b. Distributions are after age 59-1/2, death or disability

      3. Non-Deductible Traditional – when 1 and 2 are not available.

   B. SIMPLE Plans – next plan for those wanting to save up to another $20,000-$30,000+

   C. Pension/Profit Sharing Plans – next step for those wanting to save up to $61,000/$67,500 for those age 50+

      1. Traditional and Roth 401(k)

      2. Social Security integrated plans vs. cross-tested plans

   D. Defined Benefit Plans – next step for those who are older than their staff and want to save more than the $61,000/$67,500 allowed under defined contribution plans (this can exceed $200,000 in some cases).

   E. When you do not want to save as much, then reverse the order and go from plans to SIMPLE to IRAs

3. **Traditional and Roth IRA contributions for 2022**

   A. $6,000 in 2022.

      1. Age 50 additional catch-up contributions - $1,000 during 2006 and later. No indexing for later inflation of IRA catch-up contributions.

   B. Roth IRA contribution phase-out Modified Adjusted Gross Income thresholds

	2022	2021
Single	$129,000-$144,000	$125,000-$140,000

Joint Filers	\$204,000-\$214,000	\$198,000-\$208,000

Traditional IRA deduction phase-out income thresholds for those who participate in a practice plan

	2022	2021
Single	\$68,000 - \$78,000	\$66,000 - \$76,000
Joint Filers	\$109,000-\$129,000	\$105,000-\$125,000

Traditional IRA deduction phase-out income thresholds for a spouse where the other spouse participates in a practice plan.

2021	2020
\$204,000-\$214,000	\$198,000-\$208,000

401(k) And Cross-Tested Plan Designs: For 2022, the limit is the lesser of **\$61,000** or **100%** of pay. The maximum level of pay we can count in calculating a person's contribution is **\$305,000**. For 2022, the maximum an employee can have deducted from his or her pay and contributed under a 401(k) plan is **\$20,500 (+ another \$6,500 for those age 50 and over).**

Example 1: In this example, both the doctor and non-doctor spouses are age 52. They are older (not old!) than the majority of the other participants. If the employer makes a "safe harbor" contribution of just 3% of pay to each participant, then the doctor and spouse can contribute their maximum 401(k) salary deferral. This is \$27,000, the standard \$20,500 deferral plus the \$6,500 catch-up. If the spouse is on the payroll for at least \$61,000, then the spouse is also eligible for a total employer contribution of \$40,500, taking the spouse up to \$67,500. When combined with the doctor's \$67,500, the family is receiving a total of \$135,000. In this practice, **the doctor and spouse have 65.8% of the total compensation, yet they get 92.6% of the practice's total contributions**. The staff can also contribute to the 401(k) portion of the plan if any wish to do so out of their own funds.

Name	*Age*	*Compensation*	*Key*	*HCE*	*Class*	*401(k) Deferrals*	*Employer Allocations*	*Total Allocations*	*% of Wages*	*% of Total*
Totals (for 7 participants):		\$ 556,000.00	2	2		**\$ 54,000.00**	**\$ 91,800.00**	**\$ 145,800.00**	**26.22%**	**100.0%**
Doctor,	52	305,000.00	1	1	A	**27,000.00**	**40,500.00**	**67,500.00**	**22.13%**	**46.3%**
Spouse,	52	61,000.00	1	1	B	**27,000.00**	**40,500.00**	**67,500.00**	**110.66%**	**46.3%**
1, Staff	55	60,000.00			C	**-**	**3,000.00**	**3,000.00**	**5.00%**	**2.1%**
2, Staff	40	45,000.00			C	**-**	**2,250.00**	**2,250.00**	**5.00%**	**1.5%**
3, Staff	35	35,000.00			C	**-**	**1,750.00**	**1,750.00**	**5.00%**	**1.2%**
4, Staff	25	25,000.00			D	**-**	**1,900.00**	**1,900.00**	**7.60%**	**1.3%**
5, Staff	25	25,000.00			D	**-**	**1,900.00**	**1,900.00**	**7.60%**	**1.3%**

<u>Example 2 – Defined Benefit Plans Permit Huge Annual Contributions For The Older Doctor With The Younger Staff</u>: Contributions to a defined benefit (DB) plan are not limited by the annual defined contribution plan dollar amounts, but rather by an amount that is necessary to fund each employee's retirement pension. This may sound great, but there are drawbacks…

The DB funding is <u>less flexible</u>. It requires an actuary to determine the minimum and maximum contributions each year. The minimum contribution determined by the actuary is required to be deposited. Also investment growth should roughly match the plan's authorized growth rate.

Often an employer will sponsor both a defined benefit plan **<u>and</u>** a profit sharing plan. The dual plan approach provides flexibility. Annual contributions are required and these can be substantial. The contribution formula is written into the plan document and a change requires an amendment to the plan, which must be done <u>prospectively</u> before employees complete 1,000 hours and earn the larger contribution. The profit sharing allocation is <u>flexible</u>. Each year the contributions to the staff can change in the profit sharing depending upon the amounts necessary to pass the required nondiscrimination testing.

Be careful. If the profit sharing allocation exceeds 6% of compensation, the total employer contribution to both plans is limited to 31% of compensation. If the employer contribution is 6% or less, the DB contribution can be in excess of 25%. (Also note that 401(k) deferrals are not included in the 31% limit.)

Therefore, a 6% profit sharing plan is the sweet spot in terms of flexibility to moderate annual contributions with the profit sharing plan but not be limited to 25% in the DB plan.

Name	*Nearest Age*	*Compensation*	*Key*	*HCE*	*Class*	*401(k) Deferrals*	*Profit Sharing*	*Cash Balance*	*Total Benefit*	*% of Wages*	*% of Total*
Totals (for 7 participants):		$ 575,000.00	2	2		$ 54,000.00	$ 34,500.00	$ 387,700.00	$ 476,200.00	82.82%	100.0%
Doctor,	52	305,000.00	1	1	A	27,000.00	9,000.00	191,000.00	227,000.00	74.43%	47.7%
Spouse,	52	80,000.00	1	1	B	27,000.00	3,000.00	191,000.00	221,000.00	276.25%	46.4%
1, Staff	55	60,000.00			C	-	4,500.00	1,800.00	6,300.00	10.50%	1.3%
2, Staff	40	45,000.00			C	-	4,500.00	1,350.00	5,850.00	13.00%	1.2%
3, Staff	35	35,000.00			C	-	4,500.00	1,050.00	5,550.00	15.86%	1.2%
4, Staff	25	25,000.00			D	-	4,500.00	750.00	5,250.00	21.00%	1.1%
5, Staff	25	25,000.00			D	-	4,500.00	750.00	5,250.00	21.00%	1.1%

FEES, PROFIT AND PPO's

1. Profits are increased by rising fees, lowered expenses or a combination of the two.

2. Lowered overhead – there is a limit to this.

3. Increased fee income – unlimited

   A. Increase number of patients.

   B. Increase production per patient.

   C. Annually increased fees.

      (i) Fee analysis from your equipment vendor, FairHealth's feeestimator.org for $400, or ADA's "Survey of Denal Fees" ($200 for non-members, free for members)

4. Relationship between a specific % of fee increase and impact on practice profits

		% Fee Increase				
		5%	10%	15%	20%	
Current Overhead %	70%	17%	33%	50%	67%	**Increase in Practice Profitability**
	65%	14%	29%	43%	57%	
	60%	13%	25%	38%	50%	
	55%	11%	22%	33%	44%	
	50%	10%	20%	30%	40%	

5. Harmful effect of fee reductions; impact of PPO plans

Profit Margin	**Fee Reduction**	**Profit Reduction**	**% of Revenue Increase Required to Break Even**
30%	5%	17%	20%
30%	10%	33%	50%
30%	20%	67%	200%
35%	5%	14%	16%
35%	10%	29%	40%
35%	20%	57%	133%
40%	5%	13%	14%
40%	10%	25%	33%
40%	20%	50%	100%

6. Dental Insurance, PPOs

A. Renegotiating reimbursements - if you don't ask you don't get

Make a spreadsheet of your top procedures, fee schedule and PPO reimbursements to get a sense of how much you're losing.

At best a 25% chance of success, but it's free money when it works. More complicated these days with leasing networks and direct contracts, may need an expert to negotiate on your behalf

B. Dropping plans - don't drop until you've first tried negotiating

If you drop, do it the right way to minimize patient loss. Steps to follow:

1. Communicate with each patient before dropping the PPO – personal discussion in the six months prior, you will submit and follow-up with insurance claims as out-of-network provider and patients will pay at the time of service. Follow-up with reminder within two weeks of next hygiene appointment. Show compassion for patients – insurance companies put you in this position. (Don’t send letters which can come across as self-serving).

2. Staff training to handle questions during and after the transition – front desk needs to be able to counter insurance company misinformation, explain the invoice (e.g., how the old insurance write-off worked (which may surprise them and build sympathy) and how it will work going forward).

3. Continue to maintain high quality patient care – this is critical to retaining the patients and includes more than quality clinical care but other things patients pick

up on like running on time, putting patients front and center (listening to them, showing you care, and not being interrupted during their exams or treatment).

INSURANCE ISSUES: QUESTIONS AND ANSWERS

1. Life

2. Disability – short and long term risks

3. Liability – Home and Auto

4. Long-term care

5. Employment Practices Liability (EPL)

6. Cybersecurity (Data Breach) Insurance

RETIREMENT PLANNING

1. The "secrets" of getting it right are straightforward. They look so simple, it's easy to dismiss them as too simplistic.

    A. With a few noted exceptions, here are the "secrets" used by those who retire wealthy:

        1. They get rich slowly:

            a. They save something every year – the 90% doctor vs. the 105% doctor

            b. They invest sanely and simply

            c. They avoid the big mistakes that lost capital or take years to make up – half of everything I will ever save I accomplished in the first 7 years.

        2. Based on years of observation, as a general rule, the doctors we see retiring wealthy did not accomplish it by complex or exotic investment strategies. They saved consistently and invested with a long-term approach in a sensible mix of stocks and bonds. Those who got exotic, almost always wished they hadn't.

2. Investment Principles

    A. Volatility does not equal risk unless you have to sell soon. Volatility is not an enemy. Volatility can be your friend if you understand the value of what you're investing in.

    B. Understand enough about investment history to know what is ordinary and what is out of the ordinary.

    $1 invested in the following asset classes on 1/1/2026 through 12/31/2021

Small-cap stocks	$56,033.70	12.1%/yr
Large-cap stocks	$14,086.37	10.5%
Long-term gov't bonds	$177.06	5.5%
U.S. Treasury bills	$21.73	3.3%
Inflation	$15.58	2.9%

    C. Asset allocation is not one size fits all. Traditional rules of thumb may restrict long-term growth which is needed during retirement to keep up with inflation.

D. Investment professionals have a hard time beating the indexes.

	2021	2020	2019	2018	2017	2016	2015
Total Stock ("VTI")	25.7%	21.0%	30.8%	-5.2%	21.2%	12.7%	0.4%
Total International ("VXUS")	8.8%	11.2%	21.8%	-14.6%	27.4%	4.7%	-4.3%
Total Bond ("BND")	-1.6%	7.8%	8.9%	-0.08%	3.6%	2.8%	0.4%
Example (70/10/20)	**18.6%**	**17.4%**	**25.5%**	**-5.12%**	**18.3%**	**9.9%**	**-0.14%**
500 Fund ("VOO")	28.7%	18.4%	31.5%	-4.4%	21.2%	12.0%	1.4%

No loads and microscopic expense factors (0.03% for VTI, 0.08% for VXUS, 0.035% for BND and 0.03% for VOO)

E. Sell the losers and ride the winners.

F. If you own stocks that earn money, you make money. Growth in earnings (and dividends) is the primary long-term engine that moves stock prices.

G. For investors who decide to increase their allocation to stocks or who suddenly have money to invest, dollar cost averaging over a period of 1 to 2 years makes sense.

H. Forecasts of the possibility of a bear market is a dangerous reason to sell the stock of an outstanding company.

I. If you understand the businesses you invest in and buy great companies, with fine managements, and at sensible prices, don't overstress diversification.