# Four Ways Doctors Can Save on Taxes

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According to the Bureau of Labor Statistics (BLS), physicians and surgeons earn among the highest of all occupations, with a median annual wage of $208,000. While income of $208,000 puts physicians in the top five percent of earners in the United States, it is not uncommon for us to see many clients who are specialists such as Oncologists and Neurosurgeons that earn three to five times as much as the median wage, easily putting them in the top 1% of earners.

Making some of the highest income causes many doctors to be in the top Federal tax brackets, which are currently approaching 40%. This means that many physicians could find themselves taking home only $0.60 of every extra dollar that is earned in these higher brackets, and this is ignoring any state or local taxes.

***If you are a physician who is interested in lowering your taxes, here are four ways to save:***

## 1 | Take full advantage of retirement plans:

Company or employer-sponsored retirement plans such as a 401(k), 403(b), 457(b), 401(a), etc. allow employees to save for retirement and provide a tax deduction for the amount saved to the plan. For example, if you are a physician age 50 and above, you can save a maximum of $30,000 to a 401(k) in 2023, deferring taxes on these savings until you are no longer working and potentially in a lower tax bracket.

Many physicians can also participate in multiple plans, increasing the amount of money they can contribute and ultimately saving more taxes.

***For example, a local hospital system in the Tampa/Clearwater area allows many doctors to save to a 401(k) plan (and provides a match), and they also have a 457(b), a deferred compensation plan, that allows up to another $22,500 to be saved and deferred in 2023. If you add both plans together, you are able to save $52,500, lowering your income by the same amount and saving about $19,000 in taxes for doctors in the highest Federal bracket of 37%.***

EXAMPLE OF SAVINGS FOR A PHYSICIAN AT AGE 50

**$30,000** 401(K) + **$22,500** 457(B) = **$52,500** IN TOTAL DEFERRED SAVINGS

**$19,000**
**SAVED IN TAXES**
THROUGH RETIREMENT PLANS

But what if you are self-employed? You likely have even more flexibility in that you can start your own retirement plan such as a SEP IRA, or solo 401(k). Depending on your total income and age, these plans allow you to save $73,500 in 2023 for retirement and reduce your taxable income. For older high earners, there are more options such as defined benefit and cash balance plans that allow you to save even more annually.

# 2 | Bunch your deductions:

Do you own a home with a mortgage and property taxes, and donate to charity? You might benefit from a strategy known as bunching your deductions. For example, let's say that you are married and have mortgage interest paid during the year totaling $15,000, a property tax bill of $5,500 and donate $5,000 to charity annually. Adding all three up, your total itemized deductions are $25,500, or slightly less than the standard deduction of $25,900 for someone married filing jointly. Taxpayers can take either the standard deduction, or their itemized deductions, whichever is larger. In this case, it means that you are not able to deduct any of the mortgage interest, property taxes, or charitable gifts because the standard deduction is higher.

| 2022 Standard Deductions | | |
|---|---|---|
| MARRIED COUPLES FILING JOINTLY: | SINGLE TAXPAYERS AND MARRIED INDIVIDUALS FILING SEPARATELY: | HEADS OF HOUSEHOLDS: |
| $25,900 | $12,950 | $19,400 |

However, let's say that you wanted to bunch your deductions instead. For 2022, you would continue to pay your mortgage interest each month (because you must pay it this way) but hold off paying your 2022 property taxes until January 2023. Additionally, make two years of charitable contributions in January (one for 2022 and one for 2023) instead of one. Then, in November 2023, pay your property taxes for 2023.

For 2022, your total itemized expenses will be just the mortgage interest of roughly $15,000 and the standard deduction of $25,900 will be larger, so you will use that. However, for 2023, you still have the mortgage interest of about $15,000, but you also have two charitable contributions of $5,000 each, and two property tax payments of about $5,500 each. Your total itemized deductions for 2023 would be $36,000. Since $36,000 is larger than the standard deduction for 2023 of $27,700, you will take your itemized deductions instead of the standard.

***Looking at two years together, not bunching your deductions means that you would take the standard deduction each year, or $53,600 for the two years. Bunching your deductions gives you a total two-year deduction of $61,900 ($25,900 plus $36,000), lowering your reported taxable income by over $8,000, or a tax savings of about $3,000 at the same highest tax bracket of 37%. To fully utilize this strategy, you would repeat the same process every two years.***

| | Standard | Bunching |
|---|---|---|
| 2022 | $25,900.00 | $25,900.00 |
| 2023 | $27,700.00 | $36,000.00 |
| **Two Year Total Deduction** | **$53,600.00** | **$61,900.00** |

**$3,000**
**SAVED IN TAXES**
USING THE BUNCHING STRATEGY

# 3 | Donate appreciated property instead of cash:

Many physicians are extremely community-oriented and truly enjoy giving to non-profit organizations. However, often we see doctors giving cash even though they have assets that have appreciated substantially in value. Theoretically, if they wanted to rebalance their portfolio, they must sell some of the assets that have appreciated in value, and pay capital gains taxes, which for many physicians is 23.8% of the gain which includes the Obamacare tax.

However, they could gift some of those assets that they have held for at least a year and not have to realize the capital gain, instead of giving cash to the organization. A potential drawback of this strategy is you are limited to a maximum deduction of 30% of your Adjusted Gross Income (AGI) if you are giving appreciated assets instead of the limit of 60% of AGI when giving cash. However, this limit only comes into play when making substantial gifts and generally not with annual gifting.

# 4 | Consider state income taxes:

While not always the easiest thing to control, choosing to live in a tax-friendly state can have a drastic impact on your annual tax bill. For example, states that have no state income tax such as **Alaska**, **Florida**, **Nevada**, **Washington** and **Texas** allow you to keep more of your paycheck because you are only paying Federal income tax on your earnings.

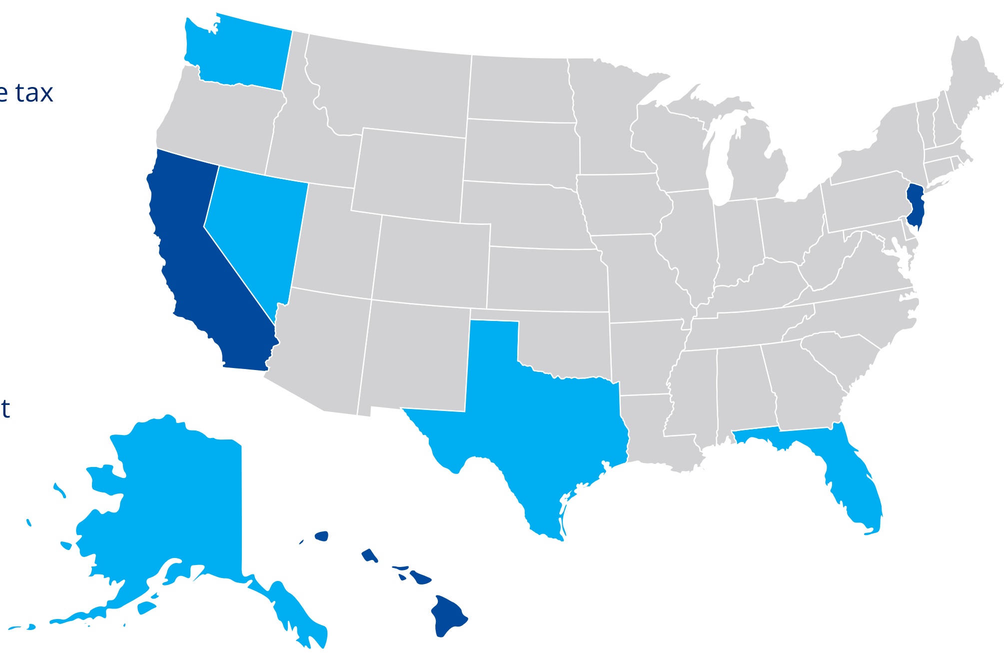
The top three states with the highest state income taxes are **California (13.3%)**, **Hawaii (11%)** and **New Jersey (10.75%)**. A highly paid doctor living in California would be paying more than 50% of their income in the highest brackets towards taxes each year! As you are coming out of residency, or looking to switch practices, make sure you evaluate the tax impact of where you ultimately accept a position.

States that have no state income tax

- Alaska
- Florida
- Nevada
- Washington
- Texas

Top three states with the highest state income taxes

- California (13.3%)
- Hawaii (11%)
- New Jersey (10.75%)



More than 200 years ago, Benjamin Franklin famously said, ***"In this world nothing can be said to be certain, except death and taxes"*** and he couldn't have been more right. However, while both are certainties, taxes are something that you can legally defer and reduce with the right financial planning.

**As with everything financial and tax-related, please make sure you work with your CFP® professional and accountant if you want more information about how these tax strategies might work for you.**

Contact ProVise for a complimentary consultation to discuss your specific financial goals. We'll help create a plan to fit your life and lifestyle.

**Schedule A Consultation**

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