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Upcoming Aggressive Business, Tax and Practice Management Seminars: These seminars are structured to provide practical and useful ideas that are easily implemented. The seminars cover the latest in tax law changes, tax savings ideas, practice management, transitions, insurance, retirement plans, court decisions, money management, investments and much more. Question and answer periods are provided. If you are interested in attending one of the seminars, call our toll-free seminar line (888) 888-4840 or visit www.collieradvisors.com. These will be particularly great weeks for families.

Crested Butte, CO: **Feb. 28 - March 2**. Crested Butte is a top Colorado ski town, and we've secured a fabulous room rate at the Lodge at Mountaineer Square, the top mountain resort on Trip Advisor. The skiing should be ideal this time of year.

Costa Rica: **March 26 - April 2**. We're thrilled to be returning to one of our all-time favorite destinations. See the supplement enclosed with this Newsletter for more information on what should be a truly memorable week.

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Make 401(k) Contributions Early in the Year: There is no requirement that the 401(k) deferral must be spread throughout the year. If there is sufficient cash in the checking account, you can make the full $18,000 ($24,000 if you are at least age 50) in January. This way, you will have the entire year to start earning tax-deferred income.

If the 401(k) deferral is designated as a "traditional" contribution, the amount will have to be grossed up for these payroll taxes: Social Security, Medicare and local tax. If the deferral is designated as a "Roth 401(k)" then there will be additional taxes withheld for federal and state.

The logistics: Each January I make my full $18,000 401(k) deferral. This year, the contribution is going in as a traditional, not Roth, 401(k). I call our payroll processing company and explain that I want an additional paycheck for my $18,000 401(k) contribution, but that **I want a net pay of $0**. They back into the gross amount, which this year is $19,977.80. The additional $1,977.80 represents Social Security, Medicare and local tax withholdings. I will receive a pay stub with a $0 balance and then I will write a company check for $18,000 to my retirement plan account.

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Understanding the New Restrictions on Employer Reimbursements of Individual Health Insurance: "Understanding" may be too optimistic a term, but here is a summary of the morass that this subject has become. In 2013, the administration and its allies at the IRS, Department of Labor and Department of Health and Human Services, began a campaign to stop employers from reimbursing individual health insurance plans. This overturned 50 years of practice where employers, through written plans, could reimburse employee health care expenses including individually purchased insurance. Improper reimbursements would trigger a $100-per-day-per-employee penalty.

This has led to the end of most medical expense reimbursement plans (MERPs) which are also known as Health Reimbursement Arrangements or Section 105 plans. (These plans still work, however, where the employees happen to be covered under a group health insurance plan.) Employers looking to provide a health benefit are coming up with new techniques which we addressed in the December 1, 2015 Newsletter - namely using a combination of Health Savings Accounts and raising the employees taxable salary. In an absurd new pronouncement, even the salary increase can trigger the $100/day penalty. It cannot be conditioned on the employee's purchase of individual health insurance. If you give the pay raise, there must be no strings attached, though there may be an unwritten understanding that the money will be used for this purpose.

Other Ways Around the Prohibition on Reimbursements: In addition to HSAs and salary increases, there are **two types of employers** that are exempt from the harsh penalties. The first are **owners of S corporations**. The second, albeit less useful, are businesses which have **only one employee**.

S Corporation Owners: S corporation owners are not considered corporate employees. This means that the corporation cannot claim a deduction for the individual health insurance premiums it pays or reimburses on behalf of the owners. These amounts are taxed to the owner as wage income, and the owner then claims an income tax deduction on their individual 1040 income tax return. Considering how aggressive the feds have been, we're surprised they haven't banned it yet. However, as recently as last year, in IRS Notice 2015-17, the IRS indicated that it's aware of the practice and will continue to permit it. In the S corporation scenario, **Medicare Part B and Medigap** insurance should qualify as well.

The One Employee Business: Obamacare and the new regulations require a medical expense reimbursement plan to be connected with group health insurance when you have two or more employees. This kills the MERP for most employers who have dropped their group insurance. We have yet to come across a **traditional** dental or other professional practice that employs just one person. However, the increasingly common situation of the independent contractor doctor working out of one or multiple other offices would qualify. The requirement that the MERP coexist with group health insurance doesn't apply in the one employee company. In this case, the doctor should have a **written** medical expense reimbursement plan authorizing the reimbursement of not just health insurance premiums but also tax-free reimbursements of the broad array of other medically reimbursable expenses under tax code Section 105.

What does it mean to have one employee? Your marital status and the type of business entity you have matters. **If you are married** and an unincorporated sole proprietor or single member LLC, then you, as the owner, are not considered to be an employee eligible for MERP reimbursements. Instead, you will hire your spouse to be the sole employee and then cover him or her under the MERP. The plan will pay all of the **family** medical expenses, including your share of the health insurance and other health care costs. In addition, the plan can be the sole source of spousal compensation, with no spousal W-2 and related employment taxes, so long as the value of the fringe benefit is a reasonable estimate of the work your spouse performs.

If you are married and practice through a C corporation, you will be the sole employee and will qualify for the MERP. If you happen to also employ your spouse and children in the corporation this would imply more than one employee. However, the IRS issued some good news last year. In Notice 2015-17, they said that everyone covered under the family insurance policy will be treated as a single employee and be exempt from the harsh reimbursement rules.

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If you are **single** and an unincorporated sole proprietor or single member LLC owner, then you are **not** considered an "employee" and are **not eligible for the MERP**. The only way to qualify for a tax-free MERP would be to become the sole employee in a new C corporation. We are generally opposed to the C corporations and its higher tax structure. However, in this case, the written MERP document can set a high enough dollar amount reimbursement limit. That can then cover not just the cost of the individual health insurance but the additional out-of-pocket health care expenses incurred over and above the cost of the annual deductible. If this situation might apply to you, discuss the details with your CPA. They can make estimates based on your situation and determine whether the C corporation would make sense.

Again, if you have **multiple employees**, the S corporation is the only way for the owner to still claim a tax deduction for company reimbursed premiums for the owner's individual insurance policy. The MERP will not be an option where there are multiple employees with individual health insurance policies.

The Stock Market Begins the New Year With a Thud: The stock market, as measured by the Dow Jones Industrial Average and the S&P 500 Index fell 6% in the first week - the worst opening stretch in history! China's economy is stalling, U.S. companies anticipate lower profits, and the price of oil and commodities continues to crater. While this is saving consumers and businesses billions of dollars each day on lower energy and material costs, the short-term economic impact has been negative. The economies of the traditional oil producing nations are suffering, higher risk bonds are defaulting, and banks are tightening their lending practices. In addition to all this, the Fed is starting to slowly raise interest rates.

With that having been said, we do not invest based on a market timing strategy. As long-term investors, one of our hardest jobs is to try to divorce ourselves from the two big emotions - fear and greed - that govern short-term Wall Street trading. The markets have reacted to the bad news. On the other hand, there are compelling reasons not to get too down. For example, the S&P 500 now trades at a price to earnings (P/E ratio) of 16 times estimated 2016 corporate earnings. When some of the high flying tech stocks are factored out, that P/E ratio comes down further which creates buying opportunities. In fact, with the recent pullback, we have begun adding more shares to our holdings in MasterCard, Honeywell, and Starbucks. The market has dragged them down 10% from their 2015 highs, even though they continue to show consistent earnings growth.

Do not invest in these, or any other companies, before doing your homework. You can start by having your broker or advisor send you a copy of the Value Line pages on these companies.

Master Limited Partnerships: These are companies that are involved in the oil and natural gas sectors. They focus on every sector of development, from exploration and drilling to storage and transport, to refining. Their prices have been clobbered along with the rest of the energy sector, but, according to John Cusick, an oil and gas analyst at Miller Howard Investments, who spoke at our New York Advanced Investment Seminar last December, the "mid-stream" sector has been unfairly punished. These are the pipeline companies that charge fees for transporting oil and gas. They are largely insulated from the day-to-day prices of these commodities, instead charging fees based on the amount of product being moved. So long as there is demand for oil and gas (and demand tends to rise as prices fall), these companies, according to Cusick, should continue to perform well.

We recently bought some additional shares of Tortoise Energy Infrastructure Corporation (Ticker: TYG) which is a fund that owns several well-positioned mid-stream companies, and is paying a current dividend of 8.2%.

New Patient Office Tours: If time permits, consider taking each new patient on a tour of your office. This conveys a welcoming environment and it gives the patient a deeper perspective of the workings of the dental office. Patients are naturally curious about the size and modernity of the office as well as the functions of your staff. This also gives you the opportunity to show off your new cutting edge equipment and to make them feel comfortable with your infection control area. Be sure that each part of the office is presentable before showing it to patients.

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In addition or in lieu of the tour, let patients know about any special amenities your practice offers such as complimentary juices, Wi-Fi, dental education movies, headphones and the like.

Follow Up With Charities That Fail to Send You a Written Confirmation of Gifts of $250 or More: A cancelled check is not enough proof to document a charitable contribution of **at least $250**. You must actually have a written acknowledgement from the charity that is "contemporaneous" -- received by the time you file your tax return or its due date (including extensions), whichever is the earlier. That is overkill, but the IRS has long been bothered that some taxpayers were chiseling by not reducing their charitable contributions by the value of things (books, dinners, etc.) received in connection with their contributions.

What Happens in a Tax Audit When Very Young Children Are On the Practice Payroll? The idea is to reduce the family's current tax by shifting income from the parent's higher bracket to the child's lower-or-zero-bracket (nice, but the less impressive result), and to get an early start on a tax-free Roth IRA for the child (the numbers are amazing). The rules are straightforward:

Children On The Payroll: We are permitted to employ family members and pay them reasonable compensation for services rendered. Paying irregular amounts at irregular times and noting on the pay stub what the child or grandchild did during the pay period helps confirm the bona fides of the arrangement.

A Young Child's Roth IRA: There is no minimum age limit on making IRA contributions. If $5,500 is deposited in a Roth IRA on the first day of each year and money grows at 8% (2% less than the stock market's long-term rate of return), the **tax-free** end results are remarkable: 55 contributions beginning at age 10 grow to **$4,669,078**, and 60 contributions beginning at age 5 grow to **$6,892,673**. Amazing!

What Happens If The Child Is Young? Typically nothing bad. On audit, an IRS agent could certainly ask questions and even disallow the compensation deduction, but that seems to be quite rare. At our seminars, **thousands** of doctors have said they have had children or grandchildren on their practice payrolls. Few were even audited during those years. Of those who were, most said the agents did not raise the issue, some said the auditors inquired but were satisfied with an explanation of the children's duties, and **only five out of thousands** said they lost the deduction **(and all said they were tickled to give in on the issue - as a bargaining chip in settling the other items in dispute)**. In each case the agent only disallowed the compensation deduction and did not even raise the issue of undoing the child's IRA. Our guess is that the agent either didn't think of it or felt the tiny tax and tiny penalty that could have resulted were not worth the effort.

Those who have very young children on the payroll sometimes get a form letter from the **Social Security Administration** inquiring whether a mistake had been made and asking for an explanation of the child's duties. The letter states that if the employer does not respond, the withheld Social Security tax will not be credited to the child's account for calculating future benefits. That is inconsequential, so the doctors typically do not respond. Eventually the letter is sent a second time. When that is also not responded to, nothing further is heard from them.

If you cannot justify putting a child or grandchild on your office payroll but want to build the Roth IRA, you might consider putting the child (or having your married child put your grandchild) on the parents' home payroll in order to create the earned income needed for an IRA. The idea is that the child gets paid for chores, etc., instead of an allowance. A W-2 is prepared by your accountant showing the child as an employee earning $5,500 or more. The parents get no deduction, the child's earned income is sheltered from income tax by the standard deduction, federal payroll tax is not withheld (because none is due on a young child's income when working for parents in the home), and the Roth IRA contribution is made from the child's account. Is it worth the effort? To us it sure would be when we consider the enormous lifetime future tax-free growth and the chance to get the all important early start. It also creates an account that can be used for teaching the child how to invest once he or she is old enough.

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