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Group Health Insurance Policies are Renewing for 2016 with Price Increases that are Even Higher than in Years Past:

Our own company's premiums are scheduled to increase by 23%! We currently pay 2/3 of the premiums, and the employees contribute the remaining 1/3 through a payroll deduction. Since we offer a high deductible group plan, we also contribute 1/2 of the employees' annual deductibles into their Health Savings Accounts.

But, with this year's renewal, we think the time has finally come to drop the group health insurance and help shift our employees to individual plans on the exchange. After consulting with our health insurance agent, we have found that many of the individual Obamacare plans will offer the same access to doctors and hospitals as our employees receive under the current group policy. In fact, they are sold by the same companies we have purchased our group insurance from in the past.

Many of the individual policies are HSA eligible, with higher deductibles and lower premiums, and some employees may be eligible for a government subsidy to help lower the cost even more. In order to help make this a manageable transition, we plan to increase our company's HSA contribution and/or raise our employees' taxable compensation. We will cover this topic again as we proceed with the transition over the next couple of months.

Roth IRA Contributions for Retirees: These are permissible even if the retiree is over age 70-1/2 and has no earned (W-2 type) income. **The key is that the retiree's spouse has some earned income.** Unlike with traditional IRAs where contributions must end when the individual turns 70-1/2, contributions can be made to Roth IRAs at any age.

The rule permitting one spouse to contribute to the other spouse's IRA dates back to 1996. It fixed the unfair dilemma where a hard-working spouse, who was working at home to raise the family but not receiving W-2 wages, was prevented from contributing to an IRA. If the wage earning spouse has enough earned income, he or she can contribute to each spouse's IRA, up to

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\$6,500 per person if both are at least age 50.

Taxpayer Acts Hastily and Botches

IRA Withdrawal: She wanted to invest some of the IRA in gold and silver coins. However, her brokerage firm, which was the IRA custodian, was not equipped to process this investment. So, she instead bought the coins from a dealer, instructed her broker to pay for the coins with IRA money, and she then held the coins personally. Her CPA informed her that this was a taxable distribution and she was now beyond the 60 day period where she would have been permitted to find a special IRA custodian to hold the coins. She appealed to the IRS to waive the 60 day rule, and the IRS declined, ensuring that the entire distribution from the IRA is currently taxable.

Consider this a reminder to tread lightly when taking any unusual distributions from your IRA or retirement plan. (See IRS U.I.L. 408.03-00, June 1, 2015).

Two Advantages of Paying High School Children a Higher Salary from the Practice:

We like the idea of paying young children who can help in the practice either by performing odd jobs or with marketing up to \$5,500 per year in order to get a head start on a lifetime of Roth IRA contributions. The power of compound growth works its magic in the later years, and it's those earliest contributions that will be worth the most.

When the children hit their high school and college years, if it appears that their 529 accounts won't fully cover the cost of tuition (and mom and dad will be on the hook for the rest), then consider raising the children's work duties and salary accordingly. For example, we have seen doctors' children who are well versed with computer programming earning \$15,000 per year and helping the practice with website design or social media marketing. Children in pre-law or accounting can also conceivably offer valuable services.

The two tax advantages: (1) a portion of the college tuition is being paid with tax-deductible compensation paid to a low-taxed child, and (2) the child should be eligible for the \$2,500 American Opportunity Tax Credit, because their gross income is below the relatively low threshold. This will lower or eliminate any federal tax due on their salary. And, since this is a "refundable" tax credit, if the credit reduces the tax bill below zero, then Uncle Sam will actually write the child a check for the difference. To do this, the child must not be claimed as a dependent.

Is this overly aggressive? We don't think so if the services are documented and the compensation fairly reflects the value of those services.

Practice Sales to Foreign Trained

Dentists: Sometimes the foreign trained doctor won't be able to obtain a state dental license in time for the proposed closing date. We've seen this be a problem now in three recent practice sales where we were representing the selling doctors. If the buyer's representative insists that this is no problem because the buyer is licensed in one state and can get a license in another, don't be naive.

This is something that should be checked out early on in the process. Each state has different license requirements that must be met. Don't let it get too far into negotiations and contracts only to find that there is an obstacle such as practicing 5 years or a different application or test to be taken.

Two Things We're Not Fond Of (And Why) - Extended Car Warranties and Convertible Bonds:

1. Extended Car Warranties - Car salespeople try to sell add-on items once they've made the car sale. One such item that earns them a nice commission is an extended warranty backed by a private insurance company. These have never struck us as worth the cost -

especially with the longer warranties the manufacturers now provide. The extended warranty is typically sold by an affiliated insurance company, and these have been known to go bankrupt from time to time. The many thousands of car owners who bought from the company are left holding the bag. They will have to pay for repairs they thought would be covered for years to come (unless the dealer who sold the now-worthless policy does the work for free to keep a customer).

We politely decline the rust proofing, extended warranties and most everything else the salesperson tries to add to the sale.

2. Convertible Bonds - These are corporate bonds that come with a call option on (the right to buy) the company's stock at a predetermined price. If the stock price rises, the bondholder gets the stock at a discount. The trade off is that the interest on the bond is at a lower than market rate. Generally two kinds of companies issue these bonds (neither of which we're interested in): companies that (1) are desperate for money or (2) sense their stock prices are so high that they don't mind giving the call option on their shares.

Here's an analogy: How would you react if a mortgage lender offered you a much lower interest rate on your home mortgage if you signed over half of your increased income for the next five years. If you were optimistic about your practice outlook, you'd pass on the offer, but if you thought your income had topped out, you'd grab the lower interest rate. You know more about your prospects, and that better information gives you an advantage in this situation.

It's the same for the convertible bond issuers. Taking advantage of investors' lesser knowledge and greater optimism, they tend to issue these bonds when they think their share prices are already high and unlikely to go much above the call price. If we were tempted to buy a

convertible bond, we would view it as a **speculation** that pays us some interest while we wait to see if the stock price rises high enough to give us an outsized payoff.

The Remaining Newsletter Items were contributed by one of our attorney friends, Bill Arnold. Bill's areas of expertise include real estate transactions and employee relations, and he can be contacted at Law Office of William L. Arnold, LLC, (440) 725-0864, wm_arnold@icloud.com for assistance with these matters.

Employment Corner: It's a good idea to have a simple employee complaint process in the event of a complaint by an employee against another employee --or the doctor. Employee complaints can often be handled easily and in a straight-forward manner, and the doctor has likely handled some of these in the past. However, complaints alleging more than minor disputes can quickly escalate to allegations of discrimination where real liability can be present.

Your policy ought to require an employee to put their complaint in writing to you, and then you have an obligation to investigate the complaint. That means you will need to discuss the complaint with the employee and then interview all the relevant employees. (If the complaint is against you, we recommend you consult with counsel since you can't investigate yourself.) You should assure the employee that the complaint will remain confidential, to the extent possible, and that neither you nor any of the other employees, will retaliate against the employee for bringing the complaint.

After you complete the investigation, you may or may not be able to come to a conclusion since you may find a "he-said she-said" situation with no way to know what really happened. In any case, you need to let the complaining employee know the results of your investigation. An employee wants to know their complaint has been heard and fairly investigated, and if they feel they were fairly treated most

complaints end here. The key to handling employee complaints is to do so quickly and to apply discipline, where appropriate, in a fair and consistent manner.

If you find the allegations are true, you need to apply appropriate discipline, up to and including termination. In these cases, we recommend you consult with counsel since whatever you do has to be applied fairly and consistently in the future.

The Poor Performing Employee:

We recognize your office may not have a formal policy on how to deal with a poor performing employee. That's OK as long as you handle these situations in an objective and consistent manner. First, confidentially tell the employee how to improve or deal with the performance issue. The solution may be additional training or supervision which may be easy to do.

It is better to keep an employee than to have to find a replacement. Once this is done, the employee should be given a reasonable time to improve, based on the circumstances.

If the poor performance continues you may then be faced with the need to terminate the employee. For a simple termination you'll want to meet with the employee, with a witness, and provide an honest direct explanation of the employee's shortcomings.

After the termination, prepare a memo to the file about what you said and if there was a response from the employee. If the termination has complicating factors such as race, disability, age, sex or pregnancy, it is recommended you consult with counsel as to your options. One such option will be offering the employee a small severance amount. This is typically 1-3 months of pay, though there is no magic number. Payment of the severance will be contingent on the employee signing an agreement releasing the doctor and employer from all future claims.

Lease Expenses: Many commercial leases contain a clause that allows the landlord to pass through to the tenants some or all of the landlord's operating expenses for the building and common areas. It is worth reviewing your lease to see if it contains such a pass through clause. If it does, the landlord should present to you a short invoice that shows your share of the pass-through expenses. You should review the invoice to be sure these expenses are appropriate and consistent with the lease terms.

Some leases allow you to audit the landlord's expenses. While this is difficult to do, you can ask for a detailed itemization of the expenses. Why do so? Because landlords sometimes charge expenses back to the tenants which are **not** permitted according to the lease terms. For instance, most leases state that a landlord will not pass through capital expenses, like a new roof or parking lot. If no one inquires or challenges the inappropriate expenses, they simply get paid. This can potentially add up to a **lot** of money over the term of a lease.

Bed Bugs: Bed bugs have become a real problem in hotels, hospitals and general office space. Dental practices are not immune. Considering the number of people coming through the office, it's conceivable that a patient or employee can transmit these insects from their home to the office. You have an obligation to provide a safe office environment for your employees and your patients, and you must be proactive in handling a bed bug problem. You can find the bugs (or see the bites) on your employees, patients or office furniture. Bed bugs multiply quickly and are tough to get rid of. In any case, you can ask the person to leave the office and not return until they can provide a doctor's note indicating they have been cleared to return to work or regular activities. Also call an exterminator ASAP if you see or suspect that they are in your office.