The C&A
Advantage

Volume XLII
No. 5
March 1, 2014

In This Issue...

C&A
COLLIER & ASSOCIATES
INCORPORATED

The C&A Advantage is mailed first-class to subscribers twice each month – $257 annual subscription rate.

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<u>Santa Fe CE Seminar</u>: There are a handful of rooms left in our block at the Eldorado Hotel, May 16-18. We have negotiated a terrific rate and Santa Fe is delightful in May. This will be the three-day "mini-week" which will highlight the major points of the week-long seminar, including taxes, retirement planning, investing and health care. Register online at <u>www.collieradvisors.com</u> or by calling our toll-free seminar line at (888) 888-4840.

<u>Multiple Employer Welfare Arrangement</u>: A MEWA (pronounced "mee-wuh") is a "self-insured" group health insurance plan. Unlike a "fully insured" plan where the risk is transferred to an insurance company, the MEWA bears the risk of paying health care costs for the employees of participating members. A self-insured plan is common in large corporations where the risks can be shared across a large pool. It is obviously uncommon for small businesses like doctors' offices. The concept here is self-insurance. The vehicle for accomplishing it is the MEWA where many small employers come together to form a critical mass for self-insurance purposes.

Several state dental associations are developing MEWAs or considering them for their constituents, including Indiana, Michigan, North Carolina and Ohio. In the age of Obamacare, <u>the MEWA is an attractive option, because it is exempt from many of the Obamacare requirements that are driving up insurance costs</u>.

A MEWA can restrict access only to constituent dentists, their families, and, if the dentists choose, the employees. Thus, the MEWA can maintain its own risk pool of participants in a low risk occupation and that are healthier than the general public. Fully insured plans must price insurance using one large risk pool including people who were previously uninsured, have pre-existing conditions, and who come from every sort of lifestyle. This means more health care usage and higher premiums.

A MEWA is not required to provide the 10 gold-plated "essential health benefits", is not subject to premium variation limits, can deny coverage due to pre-existing conditions, and is not subject to the high taxes on insurance companies that are passed on to the insureds through higher premiums.

The MEWA will be run by the state association with the help of a third party administrator. Employers will have flexibility within the plan. They should have access to high deductible/HSA options, can elect how much of the premiums will be borne by the employer vs. the employee, and which employees will be covered. The one big negative – the risk of self-insuring - will be mitigated by the large pool of participants.

We recommend that dentists join a MEWA where they have the opportunity -- and urge their dental associations to develop MEWAs in states where they currently don't exist.

Investing for Yield in an Era of Slowly Rising Interest Rates: The consensus among investment commentators is that interest rates will remain volatile but with an upward bias. The yield on the 10-year Treasury may rise from 2.8% to 3.2% over the next six months and 3.4% over the next year as the Fed winds down its QE bond purchases. The following are some ideas for various income asset classes. These are not specific investment recommendations for any Newsletter reader, but are intended to aid in your own research.

Stocks: Look for average dividend yields but with strong annual dividend growth.

Abbott Labs, AFLAC, Boeing, British American Tobacco, Chevron, Clorox, Coca-Cola, Colgate-Palmolive, CSX, Diageo, Dominion Resources, Exxon, Emerson Electric, Illlinois Tool Works, Johnson & Johnson, Medtronic, McDonalds, Microsoft, Novartis, Occidental Petroleum, 3M, Travelers, Unilever, United Technologies and YUM! Brands.

Taxable bonds: Treasuries and agencies are poor value. Mortgages and low-end investment grade corporate bonds (A and BBB rated) in the 4-7 year maturities are relatively good value.

American Tower Corp, BBB, 4.15% coupon, 2018 maturity, YTM 2.1%
DCP Midstream Partners, BBB, 2.5% coupon, 2017 maturity, YTM 2.0%
Goldman Sachs, A, 6.0% coupon, 2020 maturity, YTM 3.2%

Preferred stocks: Focus on preferreds with floating rates or fixed to floating rates that can adjust to rising rates.

GECC 7.125% dividend, current yield 5.4%
Citigroup 7.125%, current yield 6.8%
Goldman Sachs Series D, current yield 5.1%
Morgan Stanley 7.125%, current yield 6.8%

Real estate investment trusts: REITs focusing on commercial activity should benefit from an improving economy, and rising rates (if due to increased economic activity) won't hurt them as much as bonds and preferreds.

Monmouth, dividend yield 6.2%
National Retail Properties, 4.7%

Master limited partnerships: Concern exists over rising interest rates plus a stellar 2013 for this sector of oil and gas pipeline companies. The better performance will come from the companies with growth opportunities and where dividend growth is not fully factored into the share prices.

Enterprise Products Partners (EPD), current yield, 6.3%
MarkWest Energy Partners (MWE), 4.9%
Memorial Production Partners (MEMP), 10.1%

The Best $15 You May Ever Spend: If you are (rightly) concerned about identity theft and if you do not need credit for the foreseeable future, then spend the $5 it takes for each of the three credit rating agencies to place a freeze on your credit. Once the freeze is in place credit cannot be issued in your name until you elect to unfreeze it. This simple task will save countless hours of heartache undoing the damage from thieves using your personal information to open new lines of credit and spend thousands of dollars in your name.

You have a heightened risk of identity theft when you refinance a mortgage. The loan application requires a photocopy of your driver's license and social security card, which can be stolen and sold on the black market. A good time to place the freeze on your credit is right after you've been approved for financing.

The Million Dollar Tax Deduction – Donating Your Digitized and De-Identified Patient Records to a Dental School/ Research Institution: We have seen one of the country's largest orthodontic practices donate over 10,000 complete patient records to a dental school and claim a charitable donation deduction of well over $1,000,000.

The digitization and de-identification of all of the records was a herculean task and was done in house. The practice invested in special scanning equipment for digitizing photos and written records and for converting models to digital format. The de-identification process was incredibly detailed with 18 individual steps taken in each case file to ensure the patients' anonymity. All told, it took a year and a half of intense effort to prepare these records.

This is the largest collection of its kind and will be an invaluable research tool. During his long career, the doctor used different treatment techniques and materials, the efficacy of which can now be judged and compared. The digitized records belong to the university, but they will be made available over the internet to researchers world-wide.

The appraiser determined a value based largely on its estimate of how much time will be saved by researchers having all the available data in one location rather than having to make multiple trips to orthodontists' offices and manually review files to obtain data. Before embarking on a project of this magnitude, you will need to consult with research institutions to find out if they are willing to accept this gift. It will be costly and time consuming, but if you can produce a unique digital collection, then the gift value will be substantial.

Disposing of Used Dental Equipment: You cannot claim a tax deduction on donated property to the extent you have already gotten the benefit of depreciation on that property. The tax laws prevent such double dipping. If the property still has some remaining un-depreciated cost, you can claim a charitable donation in that amount.

If the equipment cannot be sold to another practitioner (e.g., a young doctor or an established doctor looking to add a treatment room), then consider selling it to a dental supply company. It might maintain an inventory of used equipment. Also consider donating it to a local organization providing dental services to the needy even if there is little or no tax deduction. If the equipment is in poor shape, a scrap metal dealer may pay you a modest price for the scrap value, or nothing in exchange for the benefit of disconnecting and disposing of it for you.

Advice for Handling a Use Tax Audit: Most (all?) states have a sales tax on purchases made within the state. There is a little known, parallel tax called the "use" tax - typically in the same amount as the sales tax. The use tax is applied to items purchased out of state and brought in for use within the state. For example, if you order supplies or equipment from out of state and it's shipped in without sales tax being charged, those items could be subject to the use tax. Some states that are desperate for extra revenue are targeting doctors' practices for use tax audits. The state auditors have a pretty easy job in proving their case, and the doctor has little in the way of defense. The following is advice from a periodontist shortly after his use tax audit:

"1. If a purchase includes training and/or an extended warranty, insist that the company break these items out of the package and itemize these items separately on the invoice. If lumped together they are all considered taxable purchases. Example: My PerioLase (periodontal laser) purchase was $85,000. Training counted for $29,000. If they had been broken out separately, I would have saved $1,450 in sales tax. (BTW Millenium lasers refused to provide a new, itemized invoice after the fact).

2. State laws are way behind technology. Implant cover screws, temporary copings and healing caps are implanted in a body the same way temporary crowns are (*and not subject to sales and use tax*). If the implant company taxes these items, the taxes paid should be credited toward the use taxes owed.

3. Once you start filing returns, do not miss a year. I suspect this is how I got chosen.

4. They will ask for a depreciation schedule to see any listed assets. Keep the equipment receipts organized in a manner to find them. Download receipt attachments and print or save the files. If you just save the email, attachments do not stay attached forever.

5. As you say for IRS audits, being friendly toward the agent goes a long way. These guys just want to close out your case and show they got some money. A bloody picture of an implant with a cover screw shows them the item is implanted. After this they will probably take your word for the use of any purchases without having to see a picture."

Warranty Deeds and Quitclaim Deeds: When you give a warranty deed for some real estate, you are giving title to the buyer and stating that you are warranting (guaranteeing) that the buyer will now have good title. There are two types – general warranty deed and limited warranty deed. In both cases you are saying that you own the property. With a general, you warrant you have good title and that there are no claims or encumbrances . . . period, except as you state on a schedule. With a limited, title is clear with respect to things that you may have created since owning the property.

A general warranty deed goes back in time and has you warrant for things you may not have done. You may not want to do this, and instead have the buyer pay for title insurance to to cover things that happened before you owned the property. The buyer and seller may split the cost of the title insurance. Limited warranty deeds are common in commercial real estate transactions.

Sometimes people are asked to sign a deed when they are not sure they have title, such as in a case where the title is in question, and it is possible that a number of people have interests in the property. An alternative to a warranty deed is a quitclaim deed. The giver of a quitclaim deed is saying, in effect, "I am not sure what title I have, if any, but whatever I have I give to you." The giver of a quitclaim deed has no obligation to make sure that the recipient of the deed has good title to the property.

Setting the Right Level of Expectations is the Best Way to Reduce Patient Complaints: Think of your own situation. For example, your accountant says you'll have your tax return in one week. When it's delivered on the 10th day, you're irritated. If he or she had said two weeks, you're thrilled when it arrives four days early. The lesson is clear -- the accountant can be a hero or a bum on the 10th day, and it was always within his or her control to set your level of expectations. One analogy for doctors is never get in the position of having to explain pain after the fact. You can't win.

Examples: The mother-to-be was delivering her fourth C-section baby and knew, medically, this had to be the last. Her male OB-GYN suggested a hysterectomy right after the birth and explained it would increase the recovery pain about 10%. She felt 75%-100% more pain than with any of the three prior C-sections and was so angry that she switched to a female gynecologist. Dentists can have a similar problem. It is easy to lose a patient trying to explain unexpected continuing pain at 10:00 P.M.

Dental Practice Valuations Do Not Use Discounts for Lack of Marketability: There are a few respected techniques for valuing dental practices. None of them build in discounts for lack of marketability. We see this sometimes when the junior doctor's advisors wants to reduce the purchase price. They argue that the value should be discounted because the doctors cannot freely sell their interests to outsiders.

The lack of marketability discount is routinely used in estate planning as a way to reduce the value of transferred assets for estate and gift tax purposes. It is not a legitimate valuation concept in the practice sale context.