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Qualified Small Employer Health Reimbursement Arrangement ("QSEHRA") -- Questions and Answers: While drafting these new plans for clients, a number of good questions have been raised. Here are some of them, along with answers, which should help you decide if this might be something beneficial in your practice. This should be read in conjunction with the Jan. 1 and Jan. 15 Newsletters which covered these plans in detail.

Q-1: As an owner of my S corporation, neither I nor my spouse can participate in the QSEHRA, but what about our son who is an employee and who has individual health insurance?

A-1: Unfortunately, no. The tax laws attribute your stock ownership not just to your spouse, but also to anyone up and down the generational lines. Your son can't be reimbursed under the QSEHRA. But, like you and your spouse, the S corp can pay his insurance directly or reimburse him for it. The cost will be added to his W-2, and he can deduct it on his personal tax return. The same treatment applies if your practice is a partnership or multi-member LLC taxed as a partnership or S corp.

Q-2: If the practice is a Schedule C sole proprietorship, can the doctor-owner participate in the QSEHRA?

A-2: Perhaps . . . through the back door. The doctor-owner is not an "employee" eligible for fringe benefit programs like the QSEHRA. However, this rule does not apply to the doctor's spouse. If he or she is employed and meets the plan's eligibility rules, then the spouse is treated as an employee and can participate. If the spouse has an insurance policy that provides family coverage, then the spouse can be reimbursed for expenses incurred by family members, including the doctor-owner.

Q-3: What if the practice is a C corporation?

A-3: Then you needn't worry about any of this. The owners are employees eligible to participate, just like the rest of the staff.

Q-4: If the employee has large medical expenses early in the year, will he or she use up the annual reimbursement early in the year?

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A-4: No. The plan cannot pay more than a pro-rated monthly amount. For example, if the plan's maximum annual benefit is $3,000, then the monthly benefit can be no more than $250.

Q-5: Can the QSEHRA reimburse an employee whose "individual health insurance" is Medicare?

A-5: Yes. And the QSEHRA can also reimburse the cost of supplemental "Medigap" and Part D prescription drugs.

Q-6: Can the QSEHRA offer a larger reimbursement to some employees than to others?

A-6: Yes, but not in a discriminatory way. The regulations state that we can offer a larger reimbursement to older employees or employees who have larger families. In both cases, their insurance is more expensive. The maximum that can be given each year to an employee with single coverage is $4,950. The maximum for an employee with family coverage is $10,000.

Q-7: We want to offer the same reimbursement benefit to our single and married employees. Can the QSEHRA provide for a flat amount that applies to everyone?

A-7: Yes, but since an unmarried employee can't receive more than $4,950 per year ($412.50 per month) that must be the maximum amount offered to everyone.

If interested in a QSEHRA for your practice, call our office and on a fee for service basis, we can prepare the plan document for you. This will involve an initial 20-30 minute conversation to discuss the specifics you want included in the plan. The deadline to adopt it for 2017 has been extended for several more months.

Municipal Bonds for Income and Safety: The Municipal bond market, as measured by the Bloomberg Barclays index, fell 5% following the Trump victory. A 5% drop is a routine occurrence for stocks, but for the normally even-keeled municipal bond market, this is a big deal. There are several reasons behind this. First, potential tax cuts will make the returns on tax-free municipals less appealing compared to other income investments like corporate bonds, preferred stocks or dividend stocks. Second, anticipated economic growth will lead to inflation, which in turn will lead to higher interest rates and lower bond prices. Third, changes in health care policy like cuts to Medicaid and eliminating Obamacare subsidies will hurt hospitals and nursing homes, making this large sector of the bond market more precarious.

This may prove to be a good buying opportunity. Over the last decade, there have been three other turbulent times for muni bonds and each time the market recovered nicely - and quickly. In 2008, the Great Recession clobbered state and local revenues (and bond prices). In 2011, a famous Wall Street analyst who had predicted the housing crisis, called for massive defaults in muni bonds which made bondholders panic. Then in 2013, a temporary spike in interest rates again led to another small panic. One important reason for the recoveries is that when prices fall too much and interest rates rise above the yields on Treasury bonds, non-traditional muni bond buyers like foreigners and large institutions (who can't benefit from the tax exemption) come in and purchase them.

Bonds worth considering: Essential service bonds like water and sewer, busy toll roads, public schools and hub airports. Also consider any state general obligation bond as well as GO bonds of wealthy cities. Only buy quality bonds which are rated Single-A or higher, and ideally by two rating agencies. To help protect against inflation and rising rates, keep your maturities short, no more than 10-12 years.

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Bonds to avoid: Hospital, nursing home and community development projects.

Bond Mutual Funds: We are not fans of bond funds for people who purchase high quality bonds and expect to hold them until they mature and who can buy in at least $25,000 increments. The disadvantages are that (1) bond funds charge fees that directly reduce income and (2) a bond has a maturity date when its price returns to its face value, but bond funds rarely hold their bonds to maturity. That means there is no specific maturity date in a fund and its share price can drop when interest rates rise and never return back to the investor's purchase price.

Beware of Extreme Advice: Investment newsletter publishers and financial authors know they sell more copies by being extremists. Best-selling books predict either impending depressions or unlimited bull markets. One financial newsletter recommends keeping on hand large amounts of cash and gold coins (which, incidentally, they will sell to you), so you will be ready when their predicted nationwide bank closings occur. We do not subscribe to these doom and gloom theories and think there is a greater likelihood of losing the cash and gold coins to a thief than ever needing them to survive. We certainly suggest being ready for all reasonable possibilities, but do not overreact to a salesperson's hype to sell his publication.

Domestic Production Activity Deduction (DPAD) for Dentists and Orthodontists: If you're a dentist who manufactures in-office crowns and other restorations or an orthodontist making retainers and appliances, you are contributing to U.S. manufacturing and are eligible for this deduction. The deduction is equal to 9% of the revenue from these activities less the business overhead associated with them.

Will this be difficult and time-consuming for your CPA to determine? Probably not. The regulations and the instructions to the tax form give three ways to calculate the deduction. The first way, called the "Section 861 method" appears terribly cumbersome and should be avoided. The next one, called the "small business simplified overall method" is straightforward, but may translate into the smallest deduction. You will take your "manufacturing" revenue (by adding up all relevant procedure codes) and subtract a pro-rated share of all of your business overhead. The deduction is 9% of the resulting amount. The final method is called the "simplified deduction method" and should give the best result. You start with your manufacturing income and subtract out your actual costs of goods sold (i.e., crown and restoration materials and staff wages allocable to that work) as well as a pro-rated amount of general business overhead expenses.

Discuss this first with your accountant. He or she will understand these concepts and can give you an estimate of the size of your deduction as well as the additional cost of their time.

Viatical Settlement Salespeople are Back: Run in the opposite direction. We've written about this in years past. Viatical settlements are theoretically a proper, if macabre, form of investment in which the "investor" buys at a deep discount the life insurance policy of a (hopefully) terminally ill person who is desperate for the cash. Assuming you can get past the yuck-factor, the problem is that this field has had more than its share of scams and investor lawsuits, and there is no sure way to know whether you have been duped until it's too late to get your money back. With all of the traditional ways to invest (stocks and bonds, etc.), there is no way we would ever consider viatical settlements.

Estate and Gift Tax Opportunity for Grandparents Contributing to Grandchildrens' 529 Plans: There is a wonderful gift and estate tax advantage in the tax laws where a person (say, a grandparent) can contribute in one year up to $70,000 ($140,000 if coming from a couple) without any adverse gift tax consequences if the money is treated as advance funding of five years' worth

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of the annual $14,000 gifts each grandparent could make per grandchild. If the givers outlive the five year period, all of the gifts, and the earnings, are out of their estates. If they die before the five years are up, only the unused portion of the five years' gifts (but none of the earnings) are brought back into their estates for estate tax purposes.

The tax rules are not overly complicated, but they require coordination among the various tax-advantaged savings techniques. A great place to start your research on the tax issues and on which state plan is best for you (many state plans are open to everyone) is the web site www.savingforcollege.com. On the site, see what your state offers and how well-regarded those plans are. Then research other states' programs. Everything being equal, you will prefer a plan offered by your home state where you may be eligible for a small **state** income tax deduction. But, everything is not equal, and the greater concern is in minimizing investment management fees. You will likely do better investing in accounts offered by discount brokers like Vanguard, Fidelity, T. Rowe Price and TIAA-CREF as opposed to full service firms like Putnam and Franklin Templeton. Also, buy the 529 plan directly through the state and not through an advisor so that you can avoid the middleman.

Recent Court Case Shows the Hazards of Hiring an Associate Without a WRITTEN Employment Agreement: The practice owner hired a young dentist to work as an associate. He was nearing retirement and hoped that if the relationship worked out that she would eventually buy the practice. Her employment terms were based on a loose oral understanding and never put in writing. There was no covenant not to compete preventing her from leaving and working close by. (For a non-compete to be enforceable, it must be in writing). After working in the practice for five years, she left and opened her own office 1.5 miles away. The court case didn't specify who was mainly to blame (i.e., did he string her along and never sell the practice, or did she leave him high and dry right before they were ready to close on the sale?) In any event, without a written contract, he was helpless.

Out of a mix of anger, regret and spite, he sued anyways, claiming that she owed him $180,000 for corrective work on patients she treated. The trial court threw the case out on the grounds that the issue of corrective care was never discussed between the two of them, even orally, and that few, if any, patients had even complained about her treatment. This poor fellow was a glutton for punishment. He appealed and lost again. (No. 328529, Mich. App. October 20, 2016).

Annual Statements from Social Security: In order to save money, the Social Security Administration is no longer sending paper benefit estimate statements to those under age 60. These are the statements that would appear around your birthday and show your projected benefits in today's dollars at age 62, your full retirement age and age 70. If you want to continue to see these estimates, you will need to set up a "My Social Security" account at www.ssa.gov.

Will Your Benefits be Lower if You Retire Early and Thus Have No Earned Income For Several Years Before Benefits Begin? Yes. The benefit calculation is based on a complicated formula that looks at your highest 35 years of earnings. Let's say that you have more than 35 years of earnings and are debating whether to retire at age 60 or to keep working until age 66, and that you will start collecting benefits at age 66 in either case. If you retire now, your monthly benefit will be reduced some - but not so much that it should influence the bigger decision of whether to retire or keep working. The reason is that if we assume that the Social Security wage base keeps rising, those higher earning years won't factor into your 35-year average. If the small decrease in monthly benefits is an important factor in making that decision, **keep working** as you are not wealthy enough to retire. You can estimate the small benefit adjustment by playing some "what-if" games in the benefit calculators on www.ssa.gov.

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