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We've Been Using Great Britain's Decision to Leave the European Union as a Stock Buying Opportunity: In the run-up to the Brexit vote, stocks were priced based on the expectation that Great Britain would vote to stay in the European Union. But in the couple of trading days since the vote to leave, stocks have been pummeled. This proves, yet again, that the markets hate uncertainty. In the short-term, events like Brexit, Greece and Ebola lead to wild price declines. But, for long-term investors like us, these short-term crises give us the buying opportunities we've been waiting for while we've been sitting on our hands accumulating cash.

These short-term shocks (which are undeniably nerve-wracking when we see the big daily losses in our investment accounts) should have a small impact on the actual performance of the businesses we own. As examples, we doubt that Brexit will affect the amount of dental supplies that European and British doctors purchase (Henry Schein, ticker HSIC), how many people continue to pay for Botox injections (Allergan, ticker AGN), or how many cups of over-priced coffee continue to be purchased (Starbucks, ticker SBUX).

For Investors with More Tolerance for Volatility, Consider the European Stock Indexes and Some Individual Stocks: In the immediate aftermath of the Brexit vote, the French and German indexes have fallen 10%, and the British index slightly less. In addition, large multi-national corporations which happen to be headquartered in Europe may now be attractive investments. The June 27th issue of Barron's is recommending European dividend paying stock as a relative bargain compared to their U.S. counterparts. Some of the companies include:

	Anticipated Dividend Yield
AXA - Insurance (Ticker: UL)	6.6%
Bayer - Chemicals (BAYRY)	3.1%
Novo Nordisk - Healthcare (NVO)	2.2%
Unilever - Personal/ Household Goods (UL)	3.2%

Big Loophole Available for Medical Expense Reimbursement Plans (MERPs) - the "Limited Scope" MERP: We've written at length about the government's

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efforts to restrict MERPs (sometimes called Health Reimbursement Accounts or Section 105 Plans). To briefly recap, a MERP is an employer reimbursement for out-of-pocket medical expenses incurred by full-time employees, up to a specified dollar amount per year. The reimbursement is **fully deductible to the practice and not included in the employees' taxable incomes**. These have been wonderful employee fringe benefits, both highly valued by the staff and easy to implement by the employer. When we offered our MERP, our staff would find a way to use every dollar of their $1,000 annual benefit.

Since 2013, the Feds have targeted employers who offer MERPs but who don't also provide employees with a group health insurance plan. The employer risks a $100 per day penalty for each employee who gets MERP reimbursements. Most MERPs have thus shut down, and employers have made up for the lost health care reimbursement with a combination of salary increases and/or health savings account (HSA) contributions for their staff.

However, there remains a scaled down version of the MERP that is still exempt from attack and which you may find useful. If the plan offers reimbursements for a narrow range of **"excepted benefits"** such as dental and vision expenses, (as opposed to reimbursement for "all" medical expenses), then you can still offer the limited scope MERP -- even if you no longer offer a group health insurance plan. Dental and vision plans will be the most practical limited scope MERPs, but "excepted benefits" also include things that don't make for very practical fringe benefits such as disability insurance, mortgage insurance and long-term care insurance.

For most readers of this Newsletter (who already provide their staff with some free or discounted clinical care), you can offer a vision plan, a dental plan or both. The free or discounted care you offer your staff can be credited against the annual MERP allowance. For example, if a dental practice offers a dental and vision MERP reimbursement of $1,500 per year, and the practice provides $500 worth of preventive treatment, then the employee can still use $1,000 towards specialty care for orthodontics or implants at other offices.

When Can the Doctor Qualify for a MERP Reimbursement? Depending on the type of practice entity, the doctor may or may not be eligible to participate. If the practice is a C corporation, then the tax laws treat the doctor as an "employee" who is eligible to participate like any other staff member. For a sole proprietorship that reports its business income and expenses on Schedule C, the doctor is not an employee and cannot participate directly. But, if the doctor hires his or her spouse and the MERP allows reimbursements incurred by family members, then the spouse is an employee and the doctor can participate through the non-doctor spouse. For S corporations, any reimbursements paid to the doctor or spouse are treated as taxable compensation which ends up negating the tax benefit.

"Solo" 401(k) Plans for the One Employee Business in Order to Cover Just the Practice Owner: The idea is that in the rare situation where the practice employs just one full-time employee (i.e., the doctor), we can implement a 401(k) plan that covers him or her without having to contribute for others. This often occurs where a doctor sells his or her practice but continues to work after the sale. It can also apply to a doctor who works as an independent contractor out of one or more offices. The solo 401(k) plan can be adopted by an incorporated or unincorporated business. All that's needed is business income.

The contributions include oth employer profit sharing contributions and employee 401(k) salary deferrals. For 2016, the maximum combined contribution amount is $53,000 (or $59,000 for someone age 50 and over). Out of this, $18,000 (or $24,000 if 50 or over) will be the 401(k) salary deferral.

However, there is another rule which may reduce what can actually be contributed. The

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employer profit sharing contribution cannot be greater than 25% of the employee's income. **But, the good news is that the 401(k) deferral does not count in that calculation**. That is key. It's what makes the 401(k) plan much better than a standard profit sharing plan or SEP IRA for this situation.

Here is a basic example: If the practice has $100,000 of taxable profit to work with, the doctor can set his or her salary at $80,000. The practice will make a $20,000 profit sharing contribution (25% of salary), and the doctor will make a full $24,000 401(k) deferral. **This will shelter $44,000 of the $100,000 from tax and reduce the taxable income to $56,000**.

And if the non-doctor spouse can be put on the payroll, then contributions can be made for both spouses. In the above example, if each spouse is paid $40,000, then the practice will make $10,000 profit sharing contributions for each of them (25% of salary), and each spouse can elect to make a full $24,000 401(k) contribution, for **$68,000 in combined deductions**. The effect of this is to double the 401(k) contributions.

Corporate Minutes: Every state requires that its corporations maintain certain requirements in order to preserve the liability protection granted to the corporate shareholders. This includes drafting annual minutes of the shareholders and directors. If we incorporated your practice (or even if we didn't) and you would like us to prepare your annual minutes, complete as best you can the insert enclosed with this Newsletter. Return it to our office along with your 2015 corporate tax return and, if you wish, your 5500 retirement plan return. If you are missing a year (or more) our preparation of current annual minutes will bring you up to date. For a $350 fee, we will prepare the minutes, review the tax returns and offer some ideas to lower your taxes.

In addition, if you think that the limited purpose MERP or the Solo 401(k) plan can benefit you, call our office (216) 765-1199, and we can discuss the details of drafting and implementing these plans.

Invisalign Rebates: As discussed in the June 1st Newsletter, the tax laws treat rebates as a reduction in the deductible business expense and not as taxable income. The same applies to Invisalign rebates that are given to large volume providers.

Recent Changes in the North American Area for Tax Deductible Foreign Seminars: In a new IRS Revenue Ruling (2016-16), the island of St. Lucia is once again part of the "North American Area" which means that St. Lucia is a permissible destination for holding tax deductible continuing education seminars. The Dutch side of the Island of St. Martin ("St. Maarten") has, unfortunately, been taken off of the list, since the Netherlands Antilles have ceased to exist and the U.S. now has no tax treaty with it. The IRS has provided some transitional relief, however. If you have incurred travel expenses for a St. Maarten seminar by June 27, 2016 (even if the seminar will take place after that date), the expenses will continue to be tax-deductible.

Asset Protection for IRAs: Is it worth it to maintain a qualified retirement plan even though you no longer see yourself contributing to it? Probably not. This is often done because of the perceived asset protection advantages of keeping the money in the plan as opposed to shutting down the plan and rolling the money to an IRA. Creditor protection for qualified plans is governed by federal law and is quite broad. Creditor protection for IRAs is governed by your state law, and **may** be as broad. You should consult with a local trust and estate attorney for confirmation of your own state's rules. In any event, if you (or you and your spouse) are the only employees with any money in the qualified plan, then you lose the broad federal protections. At this point, there is no good reason to keep the plan going and incur the annual administration expenses.

You May Disagree But We Suspect Many Doctors Who Fly Their Own Planes, Use Chain Saws, Work On High Ladders, Etc., Do Not Fully Appreciate The Risks They Are Taking: A recent doctor tragedy (airplane crash) prompts this item. We acknowledge this is a judgment issue on which reasonable

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minds may differ, but we see many doctors doing unsafe things that make no sense to us. Perhaps it breaks down between risky things that are fun vs. those that are not. We can understand a doctor not willing to give up a mountain climbing hobby, but we cannot understand why a doctor who can afford to hire someone would even consider wasting a fall afternoon on a high ladder cleaning out gutters or washing the second story windows! If you insist on continuing risky activities at least be sure you have adequate life, health and disability insurance.

IRS Impersonators are Scamming Students: Apparently, they are scaring students into paying a "student tax" and threatening to report them to the police if they don't pay. If you have college age children or grand-children, warn them about these schemes. Never entertain an unsolicited phone call from someone purporting to be from the IRS. The IRS **does not** contact taxpayers by telephone. All IRS commmunications will be in writing. These calls can be reported to the Treasury inspectors at 1-800-366-4484 or by filing a consumer complaint with the Federal Trade Commission at www.ftc.gov.

Granting an Option to Purchase Real Estate or a Practice: If you grant someone an option to buy real estate, a practice or anything else, you should protect yourself by being specific in the option. The option agreement should be very specific and the grantee should be expected to pay something for the option. Remember that when someone has an option he or she has the right to buy, but is not obligated to buy; this is the essence of the option, a one-sided right. The option must be to buy for a specific price (or pursuant to a specific formula) during a stated period of time. For example, you might grant an option to purchase your office building for X dollars by 12:00 Noon on September 1, 2016. There must be an expiration point. The option should also state exactly what the holder of the option must do to exercise the option.

The problem with granting an option is that it effectively inhibits other sales of the property or practice until the option period has expired. We strongly recommend that you engage the services of an attorney prior to entering into an agreement to grant someone else an option.

Attorney, Who Was a Former CPA, Not Permitted to Deduct Law School Tuition: Education expenses are not deductible if they qualify you for a new profession, which was the case here. (See *Santos v. Commissioner*, TC Memo 2016-100). From time to time we refer back to the terrific 1974 IRS Revenue Ruling 74-78 which involved a general dentist who went back for an orthodontic degree. The IRS treated this as the continuation of his training within his chosen profession of dentistry and was thus deductible.

If you or a child are pursuing an advanced degree within your chosen profession, then here are three techniques to consider:

1. If you can find a way to still practice part-time while in school and generate an income, this will permit you to shelter your school costs.

2. For the general practitioner who sells his practice before returning to school, structure some of the sale proceeds as "consulting" income which may then be sheltered by the education expenses.

3. For the student who goes straight from dental school into a residency program, paying for the degrees with student loans, you might consider waiting until after graduation and then deducting the loan repayments each year as a continuing education practice expense. We consider this very, very aggressive.

Every doctor returning for a postgraduate degree should carefully plan how to deduct education expenses. It may not always be possible, but this is a huge deduction that is missed by too many who are entitled to it. And if the school costs are deductible as a business expense, the full amount of interest on the corresponding school loans should also be deductible as business interest.

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