

Are You Throwing Away \$2,000 In Tax Savings Every Year By Not Claiming Medical Expenses As Business Deductions?

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You are a self-employed professional who files IRS Form Schedule C. Assume your tax brackets are as follows: Federal income tax_28%, self-employment (Social Security) tax_15%, state & local taxes_5%. The sum of these are 48% which is your total Schedule C bracket.

Assume that you and your spouse's AGI for the year is \$70,000. Your family incurs \$4,000 in medical premiums and \$1,200 in uninsured medical expenses. As an itemized deduction on Schedule A, you would get NO deduction (and NO tax savings) because the total deduction of \$5,200 would have to exceed 7-1/2% of your adjusted gross income which is \$5250 [$7\frac{1}{2}\%(.075) \times \$70,000$].

As a 'health insurance deduction,' you would be able to deduct 40% of the medical premiums of \$4000 or \$1,600 on page 1 of her 1040. This reduces your federal income taxes, but does not reduce Social Security, Medicare, state or local taxes. You get no deduction for the other medical expenses of \$1,200. In a 28% federal income tax bracket, the \$1,600 deduction would save \$450 (rounded) of federal income taxes.

WHAT TO DO: Set up a "Medical Reimbursement Plan." A Medical Reimbursement Plan is a legal fringe benefit plan that permits you to claim full business tax deductions for reimbursing your employees (including your spouse and other family members) for medical insurance premiums and uninsured medical expenses [IRS Section 105(b)]. You must hire your spouse as an employee. Your spouse can be part time, even if they have another job and work elsewhere. There are no set hours, provided that there is a bonafide employment relationship between you and your spouse. You can pay your spouse quarterly and substantially reduce recordkeeping.

WITH THE PLAN: If you had the plan (with your spouse as an employee), the above \$5,200 medical expenditures would be a full business deduction which would yield tax savings of about \$2,500 in a 48% Schedule C bracket.

THE NET TAX SAVINGS ARE OVER \$2000! The difference between the \$2,500 tax savings with the plan and the \$450 tax savings, without the plan, is \$2,050 (\$2,500-\$450). PLUS, you can reap these savings every year.

There are many more advantages to having the Medical Reimbursement Plan. To qualify for the plan, you must have the proper forms and adhere to certain IRS rules, which are contained in Albert Aiello's Medical Reimbursement Plan Kit.

The above are excerpts from The Real Estate Professional's Bible of Tax Strategies, by: Albert Aiello. \$34.95. The Medical Reimbursement Plan Kit is also only \$49.95. To order, or for more free information, call toll free at 1-888-544-4636 or (215) 937-9207.