The C&A Newsletter

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Brandon S. Collier, Editor

Collier & Associates, Inc.
30195 Chagrin Blvd., Suite 100
Cleveland, Ohio 44124
Phone: 216-765-1199
Fax: 216-831-8279
Email: newsletter@collieradvisors.com
Website: www.collieradvisors.com

Are You Giving Up 5% Annual Returns on Your Cash Investments?

You may unknowingly be losing a lot of income on cash that is sitting in your investment accounts. As much as we like Charles Schwab for its excellent customer service, easy-to-use website, and access to stock research, we definitely don't like their approach to handling customer cash. Cash that is sitting in a Schwab brokerage account is automatically transferred to "Charles Schwab Bank." That is Schwab's separate banking business which uses client cash to make consumer loans. The investor gets a very puny rate of interest – currently 0.45%, but historically about 0.1%. In the era of free stock trading, Schwab has to make money somehow, and its banking business is largely how they do it. If you use Charles Schwab, you can still invest in higher paying money market funds, but you will have to do it manually. Check your accounts to be sure your cash isn't being swept to Schwab Bank. If it is, stop that immediately and buy one of Schwab's money market funds (or T-Bills), both of which are paying 5%. One other negative with Schwab, which will be problematic for day traders, is that when you sell their money market funds, it takes one day for the trade to settle. If you want to buy stocks as soon as possible because their prices are plummeting, you will have to wait one day to do it.

Fidelity and Vanguard are better in this way. Their default option for cash is to automatically invest it in Fidelity and Vanguard money market funds. Plus, when you sell them, the cash is available immediately to invest.

Who Should Own the Business Car – the Doctor or the Corporation?

As with many complicated questions the answer is, "It depends." We have an ever-so-slight preference for corporate ownership. From a tax and simplicity standpoint, we prefer buying and titling the vehicle in the business's name. But there can be non-tax reasons that favor owning the vehicle personally like getting better rates on auto insurance. In either case, your business use will be deductible. It's just that the logistics for claiming the deduction are different. Here are the rules:

Personal ownership: If you own the car personally, your practice can reimburse you to the extent that your expenses are business-related. You can elect to be reimbursed based on the IRS's standard mileage rate, which is 67 cents per mile for 2024, **or** your actual expenses, such as depreciation, lease payments, gas, repairs, servicing, insurance, etc. Our strong preference is to use the actual expenses, as this will most often give you the bigger tax savings. If, for

example, your expenses for the year are $15,000, and your business driving percentage is 85%, then your practice will reimburse you $12,750. This is deductible to the practice and tax-free to you.

To get the business reimbursement, you are supposed to submit an expense report to your practice. In addition to showing your costs for gas, repairs, and insurance, you have to do enhanced reporting to the practice if you also want to be reimbursed for depreciation (which you do!). Your expense report should include, among other things, a receipt for your purchase of the car and your acknowledgement that you will reduce your cost basis in the car for gain or loss purposes by the amount of the depreciation you're being reimbursed for. (You can't avoid depreciation recapture when you sell the vehicle just because you own it personally.)

This reimbursement concept is the biggest negative to personal ownership, though it's technically the correct approach. Rather than submitting annual requests for reimbursement, most doctors will simply have their practice pay all of the vehicle expenses (perhaps other than depreciation – which can still be reimbursed with a proper expense report). Then, to the extent of the doctor's personal use of the vehicle, the doctor will either reimburse the practice ($2,250 using the example above) or the practice will add $2,250 to the doctor's W-2 compensation. A reimbursement is more tax efficient than W-2. The extra W-2 is taxed as ordinary income plus FICA taxes, whereas the reimbursement can be made with cash that is generated in a more tax-efficient manner like selling a stock that generates a small capital gain or even a valuable capital loss.

Cheaper auto insurance is a big advantage with personal ownership. Insuring your cars on your personal homeowner's policy is much less costly than buying a corporate auto policy. That's easy to do when you own your cars personally. It should still be doable though if the cars are titled to your business . . .

Business ownership: If your car is titled to your business, then your business will pay and deduct all of the vehicle's actual expenses. But to be deductible at all, the car must be driven more than 50% for business. Most reasonably aggressive doctors we work with are driving at least 80% of the time for business. So far so good. But things become a bit complicated when it comes to computing the taxable value of your personal use. It is not simply your personal use percentage multiplied by the car's expenses. That would be too easy. Instead, the IRS uses something called the "lease valuation rule." Depending on your car's purchase price, the IRS has a table that shows what an approximate annual lease payment for such car would be. For example, for a $50,000 car, the IRS table shows the lease value is $13,250 per year. If you use your car 85% for business and 15% personally, the value of your personal use is 15% of the $13,250 annual lease value, or $1,987.50. This includes your share of insurance and maintenance, but it does not include gas. If gas costs $2,600 per year, then 15% of this is $390, which gets added to the $1,987.50, taking your personal expense up to $2,377.50. How you handle this is up to you – either as an addition to your W-2 compensation or as a reimbursement from you to your practice.

Corporate ownership is cleaner from a tax and accounting standpoint, particularly for the big deduction for depreciation. But insuring the corporate-owned cars can be a complication. Rather than buying an expensive corporate auto policy, the better approach is to insure the corporate-owned vehicles on your personal homeowner's policy. But if that car is in an accident, your carrier may deny coverage on the theory that you, the doctor, are the insured party. If your personal car is damaged, the carrier will pay. But it might not pay for a car owned by someone else (e.g., your corporation). To close this gap, talk to your agent and have them add a rider to your homeowner's policy naming your business as an "additional insured" or "additional interest." This should be no problem, but if your carrier can't or won't do it, you still need proper coverage. Switch insurance caompanies to one that will, buy a corporate auto policy, or transfer title from the business to you personally.

Cost-Plus Credit Card Processing is a Must for All Dental Practices

Credit card processing fees are no doubt expensive, which is why we've long advocated that doctors use a payment processor that has a "cost-plus" arrangement. When a patient pays with a credit card, the issuing bank (Chase,

Capital One, etc.) and the credit card network (Visa, MasterCard, Discover, AMEX) have "interchange fees" of ranging generally from 1.5% to 3.5% that are unavoidable and **ALWAYS** going to be incurred regardless of which payment processor you use. The best you can hope for is to pay those interchange fees plus a very small markup -- hence "cost-plus." The processor we've long recommended is Dental Card Services, which charges a small mark-up on every transaction of 0.20% plus 10 cents, and a few extra dollars each month in service fees. That's nothing compared to the traditional processors (often recommended by the banks) that often add 2% or more on top of the interchange fees.

Payment Processors Claiming that You Can Eliminate Your Credit Card Fees in Exchange for a Small Monthly Payment Are Blowing Smoke

The promotion goes something like this, "Switch to us for payment processing, pay us just $65 per month, and you will eliminate all of your credit card processing fees." If this sounds too good to be true, it is! Think of it this way: if the interchange fees **must** be incurred, and they've been shifted onto payment processor, that payment processor would very quickly go bankrupt if all it was collecting from you is $65 per month. It's inconceivable that that's what's actually happening. Their marketing material is intentionally vague, but what's likely happening is that these payment processors are surcharging your patients, shifting the burden of the interchange fees onto them.

This is problematic on several fronts. First, if you accept Visa and MasterCard, you enter into a contract with them. One provision is that if you surcharge for paying with a credit card, that must be disclosed very prominently – and the markup cannot exceed 3%. Some states prohibit surcharging customers altogether, including CT, ME, MA, and NY. Therefore, these payment processors are putting you at risk in multiple ways (not to mention angering your patients when they find out they're paying the credit card fees) and are not indemnifying you for the fallout. *Caveat emptor*.

PPOs Are Paying Dentists with Virtual Credit Cards – Don't Accept Them!

PPOs want to pay dentists with virtual credit cards (VCCs) rather than paper checks. They email a secure credit or debit card number to the practice which can be processed immediately. The PPOs tout the benefits of quick payment and a reduction in paper check fraud. But this is really a scam. The interchange fees on these kinds of payment are far and away the highest you'll have – between 4% and 6%. The PPOs are likely getting kickbacks from the payment processors. Make sure you opt out of virtual credit card payments and only take payment by check. Call the number listed on the EOB statement or other payment communication that comes with the virtual credit card and inform the issuing company that you are opting out. It's painful taking their 30% discount on your fee. Don't make it worse by accepting an additional 5% hit on their VCC payment.

Don't Surcharge Your Patients for Paying with Credit Cards

In our humble opinion, this makes us look cheap and needlessly annoys patients. Fees should be set on the assumption that patients will pay with credit cards. Consider it a bonus when they pay with cash or even a debit card. Debit cards have the lowest interchange fees, it's now illegal in the U.S. for a payment processor to add a markup on top of the interchange fee.

Credit Card Chargebacks are Becoming an Epidemic – How to Protect Your Practice

Card issuing banks have always offered consumer protection for fraudulent or unauthorized charges. The bank would refund the cardholder and chargeback the merchant. Until recently, cardholders used this rarely and only

as a last resort when they couldn't settle the matter with the service provider. Now, consumers bypassing their service providers and going straight to their banks for refunds. In 2023, consumers disputed 105 million charges worth $11 billion. That's up from $7.2 billion in 2019. And the banks are often giving the refunds without even investigating. The presumption is that the cardholder is right, and the merchant is wrong. Fights over a dispute can last for months, and merchants still have to pay a fee for each one, whether they win or lose. To reduce your risk of chargebacks, do the following:

1. Communicate well and repeatedly with your patients regarding treatment plans and the patients' responsibility for their share of your fees. Respond promptly and respectfully to all questions and complaints. If you charge a fee for late cancellations, this should be communicated clearly as well.

2. Make sure your payment processor is identifying your practice clearly on your patients' monthly credit card statements. This avoids confusion and disputes over charges the patients may not recognize.

3. Provide clear and detailed invoices. It's better to use language that is simple for a patient to understand as opposed to dental jargon or acronyms that make sense to you but that a patient may not comprehend.

Having a Home Equity Line of Credit Can Make Sense for a Wealthy Working Doctor and Even for a Debt-Free Retiree

The goal is added convenience and liquidity. These lines of credit typically charge interest at around the prime rate, and having easy access to funds in an emergency adds flexibility. Even if you have plenty of investments, you might not want to sell them if a short-term financial emergency occurs. That could mean triggering an unwanted capital gain in a taxable account or an unwanted taxable distribution from an IRA. These lines of credit charge floating rates, which are currently high, but tapping the home equity line of credit in a pinch and paying it back at your convenience is often the best alternative.

Long-Term Care – Self-Insure, Don't Purchase Long-Term Care Insurance

Long-term care insurance premiums are soaring following years of insurance companies mispricing their risks, rising health care costs and people living longer. A recent Barron's article put a human face on this crisis by profiling an older couple who is caught in a no-win situation. The 80-year-old husband and 60-year-old wife bought a Genworth policy on the wife in 2010 when she was 46. Theirs is a generous policy with an unlimited lifetime benefit with an annual inflation rider. In 2010 the premium was $2,487. This year it's risen to $8,924. Over the past 14 years they've paid $66,460 – and Genworth is seeking a 143% premium increase from the state of New York to maintain the generous benefits as is. The couple can avoid the rate hike but only if they select from one of three painful alternatives -- accept a paid-up policy that caps lifetime benefits at $108,831 or lifetime benefits of $62,554 plus a one-time cash payment of $10,000, or be forced to accept reduced benefits with lower future rate hikes. This is a tragic predicament for everyone in this situation, and there is no easy solution.

But if you've not bought LTCI, or haven't invested too much into such a policy, we urge you to self-insure for this risk instead. Figure a long-term care facility or quality at-home care costs roughly $150,000 per year. But if, like the wife in the Barron's article, you are 46 and realistically have 40 years before such care will be needed, you might expect with 3% annual inflation, that $150,000 will increase to close to $500,000 forty years from now. What if, rather than buying an LTCI policy, you invest an additional $10,000 per year in a conservative mix of stocks and bonds, growing at 6%? In 2066, the savings will have grown to a bit over $1,500,000. That will cover three years of round-the clock care, without having to dip into your other assets, and without being at the mercy of the insurance company's skyrocketing premium increases.