The C&A Newsletter

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"One Big Beautiful Bill" Will Likely End the SALT Workaround; Act Soon Before It's Too Late

The core issue is the $10,000 deduction cap on our federal income tax return for the state and local income taxes (so-called "SALT") we pay. Most states that impose an income tax have adopted a workaround allowing pass-through businesses (S corps, partnerships) to pay the owners' state taxes at the entity level and allow the owners to deduct the full value of that tax. It's an expensive carveout to the U.S. Treasury to the tune of about $20 billion per year. The OBBB is working its way through Congress with an optimistic goal of being signed into law by July 4th. The House version eliminates the SALT workaround altogether. The Senate version keeps it but sadly excludes professional businesses (doctors, lawyers, CPAs) from using it. The ADA is lobbying hard to keep it but is fighting an uphill battle. We don't know what the final law will say. It might prohibit the SALT workaround for all of 2025, or it might prohibit it starting only after the law's passage. If that's the case, you will want to have estimated and prepaid your 2025 state income taxes through your practice before that date. Discuss the details with your accountant ASAP.

Act Fast If You Want a Tax Credit for Energy-Efficient Home Upgrades—Those Breaks Might Soon Disappear

The OBBB seeks to eliminate them. The House version would end the energy-efficient home improvement and residential clean-energy credits for anything installed after 2025. The Senate's version would scrap the credits for installations made 181 days or more after the bill becomes law. Since you can only claim these credits in the year the work is done, you'll need to finish and pay for upgrades soon to qualify. Here's a summary of the two credits, claimed using Form 5695:

- <u>Energy-Efficient Home Improvement Credit</u>: For smaller upgrades like insulation, central AC, heat pumps, water heaters, exterior windows/doors, etc., that meet certain energy-efficiency standards. It covers 30% of costs, up to a $1,200 annual limit. Some items have lower or higher caps.

- <u>Residential Clean-Energy Credit</u>: This is a much bigger tax break for larger renewable energy systems like solar panels, wind, geothermal, battery storage, or fuel cells. It also covers 30% of costs, with no limit for most systems. Fuel cell credits, however, are capped at $500 per half-kilowatt.

Don't Impose a Surcharge on Patients Who Pay by Credit Card

Give your patients reasons to be happy about your practice, not irritated. When we're the customer, we don't like being discriminated against for using credit cards. We like the convenience of not having to carry cash or a checkbook, and we may not want to use a debit card for security reasons. Plus, we love the credit card perks. Rather than pass the merchant service fees through to your patients, do these two things instead.

First, set your fees based on the premise that patients will pay by credit card. If this means raising your baseline fees a couple percentage points, this will be less noticeable than having a sign announcing a credit card surcharge. You get an added benefit by doing this since all of your patients will pay at this rate, not just the ones using credit cards.

Second, if you've not already done so, shift away from your current credit card processor that is likely using a "flat-rate" pricing model to a model that is referred to as either "*cost-plus*" or "*interchange-plus*." This is one of the simplest ways to boost your profitability. With flat rate pricing, the merchant pays a flat rate (or perhaps a couple pricing levels) regardless of which card the customer uses. There is simplicity in this, but that's greatly outweighed by the excessive costs these platforms charge. Cost-plus is cheaper and transparent. The merchant only pays the interchange fee charged by the card network plus a small, fixed markup charged by the payment processor – for example, 0.15% plus $0.10 per transaction. If you haven't proactively sought out a cost-plus pricing model, your bank has likely set you up on a flat rate model. Switching to cost-plus is a no-brainer and should save you 1% in processing fees. We use and have long recommended Dental Card Services Alliance, though there are certainly other platform providers.

Old IRAs and Retirement Accounts From Former Jobs Are Ideal Accounts to Use for Roth IRA Conversions

Maybe you started an IRA in residency and stopped contributing. Perhaps you had a SEP or SIMPLE IRA for a few years before opening a profit sharing plan. These older accounts have been left to run on auto-pilot and perhaps ignored a bit. These are good targets for Roth conversions. Open a Roth IRA at your preferred brokerage firm, and fund it by transferring the cash or assets in the traditional/SEP/SIMPLE into it. It will be taxable income to you, but if the accounts are small the tax hit will be modest. And this will get you started with (or augment) your Roth savings.

Traditional IRAs, SEP IRAs, and SIMPLE IRAs Are All Taken Into Account for the "Cream in the Coffee" Situation With "Back-Door" Roth Contributions

This is a trap for those wanting to take advantage of the back-door Roth IRA contribution. Many Newsletter readers are precluded from making a Roth IRA contribution (because their income is too high) and also precluded from making a deductible contribution to a traditional IRA (because they participate in a practice plan and their income is over a lesser threshold). A third option is always available, that is a non-deductible contribution to a traditional IRA. The reason to do this is because this non-deductible contribution can then be "converted" to a Roth IRA tax-free, the functional equivalent of a direct Roth IRA contribution. Here is the key point . . . It is tax-free UNLESS you have pre-tax assets already sitting in your IRA. If you do, then you have a cream in the coffee problem. You have a mix of both pre-tax and after-tax contributions (or basis) in your aggregate IRA accounts, including SEP and SIMPLE IRAs.

Say you make a $7,000 non-deductible contribution and want to convert that basis. That "cream" is blended in with all of your IRAs' non-deductible assets (the "coffee"), so if you convert your $7,000 to Roth, you will be disappointed. Just like cream blended into coffee cannot be separated, you cannot choose to withdraw only the after-tax portion of your IRA funds separately from the pre-tax portion. When you convert your $7,000 to a Roth IRA, the IRS treats the withdrawal as coming from a mix of both the pre-tax and after-tax funds, based on their proportion in your aggregated IRA accounts. This can make your conversion mostly taxable. It does not matter if these are separate accounts. For this purpose, they are all aggregated together. So, going back to the previous Newsletter item, one other advantage of converting your old retirement accounts to Roth, is that it zeros out your pre-tax IRA dollars and eliminates the cream in the coffee problem for future back-door Roth IRA contributions.

Advice to Young Doctors Looking to Buy a Practice – Try Buying One from a Local DSO

With DSO consolidation, it's harder for young dentists to find good practices to buy, especially in and around the big cities. Our advice: reach out to the local brokers and scour the national and state association websites for practices for sale. One other idea … directly contact the DSOs with offices in your area to see if they are selling off any of their local practices. Not every DSO is well-managed and profitable. For instance, five years ago we represented a general dentist who sold his practice to a mid-size DSO in the Northeast. Over the years, the DSO would delay payments he was owed citing various business difficulties. We've soon come to learn that the DSO is now selling off a number of its practices to general dentists. There is no online database that provides this information in a usable way. But the Association of Dental Support Organizations (ADSO) lists its affiliate members online, and the website Beckersdental.com lists 65 DSOs and gives a short summary on each one.

Fee-For-Service Practices Considering Hiring an In-Network Associate

The appeal is that by hiring an associate who will be a participating provider, the practice will capture new patients who will only go to an in-network dentist. If you have some excess capacity in your schedule, this sounds intriguing. But in our experience, the results are a mixed bag. Adding an insurance component to a fee-for-service practice puts administrative burdens on the front desk and confuses patients who wonder why they aren't paying less by going to the doctor who accepts their insurance. It works better if there is some "separation" between the fee-for-service and the in-network doctors which can justify to patients the different fee schedules. For example, the fee-for-service dentist is mainly doing cosmetic dentistry, implants, or orthodontics, and the in-network associate is doing more preventative care. Or the in-network doctor works in a satellite office. Even a situation where the doctors are doing similar procedures but where one is working across the hall from each other (within the same overall practice) can create enough physical separation to maintain separate fee schedules.

Before hiring that associate, do this first. Monitor (or hire a consultant or ghost call service to monitor) the conversations your front desk team is having with potential new patients. You may find that your team is inadvertently turning patients away with the wrong messaging ("sorry, we don't take that insurance") rather than welcoming them in regardless of their insurance plan participation. If you can capture even a few of these fee-paying patients, that may do the trick to fill up your schedule without having to hire an associate and introduce insurance into your practice.

How Your Team Should Handle New Patient Phone Calls

You're likely so busy that you aren't observing how your team is answering the phone. It's crucial that when a new patient calls that the front desk team does everything it reasonably can to get the patient to schedule an appointment. It amazes us how some front desk people seem to have exactly the wrong attitude. Rather than answering the phone in a happy and welcoming manner, they act like they can't wait to get off the phone. This is your professional training and hard work potentially being squandered. Hire a dental management consultant to call your office and record different types of new patient phone calls. They will play them back for you, explaining what your team is doing well and not so well. (You can even ask a friend make and record these calls.) Here are the basics for how new patient phone calls should be handled:

1. Don’t make them wait. Answer within two rings, and don’t put them on hold.
2. The person answering should answer with “a smile on their face.” That gets noticed, even over the phone.
3. Identify the name of the practice.
4. Identify the name of the person answering.
5. Be happy they called and tell them, “We love new patients!”
6. Take control of the conversation, collecting this needed information – (i) their name, (ii) their number, (iii) how they heard about the practice, and (iv) what dental services they are interested in.
7. If they are fee shopping, don’t provide exact fees immediately. You can provide a general range, but explain that treatment costs vary based on individual needs and the complexity of the procedure. Focus on the value of the treatment. Emphasize the long-term benefits of addressing their dental issue and the quality of care your practice provides.
8. Work to get them scheduled. This is the primary goal of the new patient call. Mention any specials, discounts, or free consultations your practice might offer and third-party financing options if you use them.

Being Lackadaisical About Paying Credit Card Bills May Prevent a Young Doctor From Getting Financing

For new graduates getting financing for practice or equipment purchases, a bad credit history in school can doom a young doctor’s chances of getting the most favorable loan. Fortunately, the banks and finance companies do not usually back away, even when they see huge student loan balances. But what can turn some off is a history of missing payments on credit cards or other debts. They figure that if a person has been indifferent about paying small bills on time, that’s the sign of a “moral hazard.” Some lenders with the best rates and terms simply will decline to lend to such a person. It’s important to maintain a good credit history. The practice management instructors in professional schools should emphasize that point to their students!

Pre-Paying Debt as an Alternative Investment

Let’s say you have a loan with a 6.5% rate of interest. Taking some of your money and paying down that debt is like investing in a guaranteed 6.5% rate of return. If the interest you pay is deductible (as on a home mortgage or business loan), it’s like investing in a guaranteed 6.5% taxable rate of return. In this market, there are no guaranteed 6.5% investments - the highest rate on Treasury bonds is currently around 4.9%. Is pre-paying debt sensible? The two factors we consider are:

1. **Mathematics** - Paying down that 6.5% debt is the equivalent of earning 6.5%. If you are sure that you can invest the money at a higher rate, the math would say to invest your available cash at the higher rate and not pay down the loan. On the other hand, if the money is sitting long-term in a money market account earning 4%, then paying down the higher interest loan is the better alternative - so long as you do not overly deplete your savings.

2. **Psychology** - Some of us have an “old world” mentality and we feel better with less debt. If that describes you, it can tip the scale toward paying down the loan. Fortunately, this is not all or nothing. You could take some of your available money and pre-pay the debt and invest the rest. The decision on pre-paying is a balancing act between the math and the psychology. If you are married, review this with your spouse first. Ideally the two of you will come to the same decision.