

Ordinary + Necessary = Deductible

by Andrew D. Schwartz, CPA & Lawrence B. Keller, CLU, ChFC

Just about everyone has friends, family members, or colleagues at work who are very aggressive with the tax deductions they claim. Every year, at about this time, they start telling you about all of the crazy things they deducted last year. And then they usually try to convince you that what they deducted must be okay, since the IRS never disallowed any of their deductions.

The fact that the IRS didn't question their deductions shouldn't be interpreted to mean that what they claimed is allowable. It simply means that the IRS didn't select this person's tax return for audit. Remember, everything is deductible until you get audited.

So what do the rules really say about deducting your professional expenses? To be allowable, an expense must be both "ordinary" and "necessary" in connection with your profession. For example, purchasing a Palm Pilot to use for work qualifies as ordinary and necessary, and therefore, is deductible. Purchasing a leather carrying case from Gucci, however, probably doesn't qualify. Even though you may view your Gucci carrying case as necessary, it most likely doesn't meet the ordinary test.

Let's take a look at some of the professional expenses commonly incurred by health care professionals:

AUTOMOBILE EXPENSES

Driving between job sites is deductible. So is driving between your home and a temporary job site, job interviews, and conferences. Commuting between your home and a regular place of business generally is not tax deductible.

There are two ways for you to calculate your automobile expenses. You can either claim \$.36 per business mile driven in 2003 (increased to \$.375 for 2004), or base your deduction on the percentage of miles your car was driven for business multiplied by the actual costs incurred during the year. Allowable costs include gas, insurance, repairs, parking at home, and either your lease payments, or if you own your car, a factor for depreciation.

COMPUTER EQUIPMENT

There are two tests you must meet to deduct computer equipment. Purchasing

the computer must be a requirement of your employment as well as for the convenience of your employer. If you buy a computer so you can work at home instead of staying late at the hospital or lab, you're out of luck. Many people find that it's easier to deduct their computer purchases in years they have independent contractor income.

EDUCATION, LICENSES & EXAMINATIONS

Any time something qualifies you for a new trade or business, the cost incurred is not deductible. That's why you can't write off your medical school tuition. Costs incurred in connection with improving your skills in your current profession are generally deductible. Some of the larger deductions are claimed by people working towards an MPH or other graduate degree.

HOME OFFICE DEDUCTION

Prior to 1999, you had to perform your income producing activity within your home office to be able to claim this deduction — which for doctors meant that they had to see patients in their home to qualify. Starting in 1999, it became much easier to claim a home office. As long as you perform administrative and managerial tasks on a regular basis within a portion of your home used exclusively for business, you're eligible for the home office deduction. For renters, this is a great opportunity, since rent is not otherwise deductible on your federal tax return.

INSURANCE

Malpractice insurance premiums and insurance on your business assets are deductible. Life and disability insurance premiums are not deductible.

TEMPORARY JOB ASSIGNMENT

A huge tax deduction awaits you if you take a job for a period of less than one year (including fellowships) with the intent of returning to the city where you were working prior to taking that job. Believe it or not, you can deduct all of your travel, lodging, and half of your food. Basically, it's as if you're on an extended

business trip for up to a year in length.

How you deduct your professional expenses depends on how you were compensated during the year. If taxes were withheld from your pay, then you are considered an employee, and will claim these expenses as a miscellaneous itemized deduction. Those of you who are independent contractors can deduct your professional expenses directly against your private practice or moonlighting income on a Schedule C.

For more information about deducting professional expenses common to health care professionals, or to download an Excel Spreadsheet to help you keep track of your expenses, you can visit www.mdtaxes.com. **RR**

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