

Advantage and the Medical Profession

When your business is caring for victims of natural disasters, epidemics, and other life or death emergencies, who takes care of the doctor?

(Editor's Note: We continue our series of articles covering points of particular interest to various industries, and how Advantage deals with these topics. In our next issue, we'll look at Non-Profit Organizations.)

As with other industries, change is coming quickly to the medical profession and is becoming more profound. Whether doctors have their own practice or they are included in a medical care alliance, they are expected to keep up with new technologies and procedures.

Quickly, consider the changes in the field of genetics and what that has meant to all disciplines. Research is providing a staggering amount of new information with no end in sight.

Mergers, acquisitions, and reorganizations are as much a part of the medical community as in any industry these days. Likewise, medical professionals are also expected to keep up with other business-related changes, including changes to payroll tax laws.

The following is a discussion of payroll and the medical profession, and is meant to help these medical professionals care for themselves.

Medical Success

Medical success depends on many facets, one of which is employee retention. Much discussion of retention revolves around paying everyone justly, accurately, and promptly. To this end, many unique payroll provisions have been written into the federal, state, and local tax codes especially for this industry.

This doesn't mean though, that the medical profession is immune to the myriad of tax law changes that seem to be occurring with more frequency.

What Makes the Medical Profession Different Payroll-Wise

- ❑ Professional courtesies that allow private-practice physicians to practice in hospitals/clinics have 'contractor vs employee' implications.
- ❑ Because doctors are highly compensated, they often have different pay cycles, ranging from weekly to yearly.
- ❑ Most exceed their yearly FICA and FUTA obligations.
- ❑ Doctors frequently ask to have large amounts taken for additional taxes to cover investments, spouses working, and other interests/obligations.

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- ❑ Doctors make extensive use of payroll deduction for Section 125 medical plans, and 401-K, SAR-SEP, and IRA retirement plans.
- ❑ Because doctors pay higher taxes, they are frequently 'next-day depositors,' meaning their payroll taxes must be deposited within 24 hours after pay day.
- ❑ These individuals/organizations frequently file their payroll taxes (and other corporate taxes) using the Electronic Federal Tax Payment System (EFTPS).

Doctors Are Not Alone

Doctors are not alone when it comes to unique pay situations. By the very nature of their work, from emergencies to discharge and everything in-between, no medical professional has a set workweek.

To justly compensate nurses and other specialists for emergency situations, performing multiple tasks, and working extremely long hours, special wage and hour provisions have

been written into federal, state, and local tax codes. Company policy and union negotiations have developed many different pay programs accordingly; for example, multiple shift differentials and on-call rates. Depending on the discipline and situation in the workplace, there are many ways to calculate their compensation.

Areas of Concern

Consider this sampling of payroll issues our medical clients say are important to them:

- * The confidential manner in which their payroll information is handled.
- * Resource allocation for processing payroll, filing taxes, making payroll tax deposits, researching tax law changes, and responding to tax notices.
- * If they outsource their payrolls, knowing their accountant will refer them to a proven leader in the payroll industry.
- * New Hire reporting.
- * Having a flexible payroll system that can;
 - ± Interface with third-party time clock, H/R, or deferred comp (401-K) softwares;
 - ± Calculate O/T using different methods as determined by law, shift differential, and incentives such as per diem and bonuses. Also, deductions for federal, state, and local taxes, employer/employee paid benefits, garnishments, and tax levies;
 - ± Produce sealed, mail-ready checks with statements that include current and YTD information; and
 - ± Process direct deposits.
- * Compliance with tax-filing mandates.
- * Monitoring the tax issues surrounding mergers, acquisitions, or reorganizations, such as successor/predecessor issues for paying unemployment taxes. If handled incorrectly, the new organization could pay additional taxes, unnecessarily.

Accountant's Section

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Top Tax Changes for 1998

House Ways and Means Committee Chairman Bill Archer (R-Texas), released a list of helpful tax changes that took effect the beginning of this year, that he feels will help taxpayers from the childhood years to the education years, and from the savings years to the retirement years.

- * A \$400 per child tax credit for children under 17.
- * A 45% deduction for health insurance premiums paid by small businesses. This premium deduction will increase to 100% in 2007.
- * The deduction for out-of-pocket, charitable transportation expenses increased from 12 to 14 cents per mile.
- * A \$1,500 tax credit for each of the first two years of a child's post-secondary education.
- * The new Roth IRA's.

1998 Mileage Rates

According to IRS Revenue Procedure 97-58, the 1998 optional standard mileage rate for business use of a car is 32.5 cents, up from 31.5 cents in 1997.

Mileage rates are used in computing the deductible costs paid or incurred for operating an automobile for business, charitable, medical, or moving expense purposes.

The charitable purpose mileage rate increased from 12 cents to 14 cents, and the mileage rate for use of a car to obtain medical care or as part of a move remains at 10 cents per mile.

The cents-per-mile rule may not be used for 'luxury' vehicles. Cars first made available for an employee's personal use in 1998 must have a fair market value not to exceed \$15,600 to be eligible for the cents-per-mile rule.

Employer Provided Parking

According to IRS Revenue Procedure 97-57, the tax-free limit on employer provided parking is \$175 a month in 1998, up from \$170 in 1997. The maximum monthly exclusion amount for transportation in a commuter highway vehicle or transit passes remains at \$65.

New Child Tax Credit

TRA '97 gives families with children under age 17 a new tax credit. For 1998, the tax credit is \$400 per child per year. After 1998, the tax credit is \$500 per child per year. The new credit is phased out at higher income levels. It is reduced in \$50 increments for each \$1,000 of adjusted gross income (AGI) or fraction thereof in excess of \$110,000 of AGI for joint filers, \$75,000 for single or head-of-household filers, and \$55,000 for marrieds filing separately.

Higher income individuals will not benefit from the credit. Also, since the credit is not fully refundable, the credit may not fully benefit low income taxpayers. However, since the credit is partially refundable against payroll taxes, families with income as low as \$18,000 get some credit even if they don't owe income tax.

Eligible employees can begin taking advantage of this new tax credit by filing a new Form W-4 with their payroll office.

Caution: Employees who fill out Form W-4 will notice the new Child Tax Credit if they use the worksheet to determine the number of exemptions they should claim. These employees should be aware that *states do not recognize this credit in their formula for calculating AGI*. Those who take the credit (additional exemption) for federal withholding, may be underwithholding for state purposes. Some states have customized W-4s that eliminates confusion, but others do not. Payroll practitioners would be well advised to add a note on an employee's W-4, indicating if the exemptions total applies to federal and/or state withholding.

Extra Time To File W-2s

Congress wants to reward employers who file their information returns (Forms 1099 and W-2) electronically by allowing them until March 31 to file with IRS and SSA. This provision would take effect beginning with information returns filed after 12/31/99. It has already been passed by the House in the IRS restructuring bill, and now awaits Senate consideration.

Test For Employment Status

Rep. Peter J. Visclosky (D-IN) recently introduced legislation that would replace the 20-question test for employment status with a short list of eight questions [H.R. 2646]. Under Rep. Visclosky's test, workers are employees unless they (1) make comparable services available to the general public on a regular basis and represent themselves as an independent contractor regarding their services; (2) can perform services for more than one recipient at the same time; (3) control the means of performing the services; (4) do not perform any services under the control of the recipient; (5) operate under contracts to perform specific services for specific amounts of money; (6) realize a profit or suffer a loss under contracts; (7) are responsible for satisfactory completion of the work and liable for failure; (8) incur significant unreimbursed capital expenses in performing services.

Accountant's Section

Education Reporting

According to the IRS, employers other than educational institutions generally are not required to report 1998 tax-free educational assistance payments to the IRS. The Taxpayer Relief Act of 1997 requires that all those who reimburse or refund qualified tax-free tuition expenses, including Section 127 tax-free employer-provided educational assistance, are to report the tax-free amounts, beginning in tax year 1998. Prior to 1998, there were no requirements to report such tax-free payments.

The Hope Scholarship Credit and the Lifetime Learning Credit, created by TRA-97, contain provisions denying or reducing the opportunity to use the credits if an individual is receiving tax-free educational assistance from another source. To deny an individual credit in such instances, Congress purposefully added language requiring reporting of tax-free educational assistance payments for the first time, leaving it up to the IRS to regulate how to report the information.

Until final regulations are issued, the requirements in IRS Notice 97-73 should be followed. This notice specifically limits 1998 requirements to furnish statements to educational institutions.

In a separate development, the House-passed IRS Restructuring and Reform Act would limit the reporting requirements generally to educational institutions and businesses making educational assistance payments under specific insurance arrangements.

Revised IRS Rules Makes It Easier To Change Cafeteria Plan Elections

Under current IRS rules, cafeteria plan participants are allowed to make new elections or change elections only during open enrollment. Any changes in election after the start of the coverage period are generally prohibited. The IRS has issued temporary and proposed rules [REG-243025-96, T.D.8738] that allows employees to change their health coverage elections in accordance with the special enrollment rights under the Health Insurance Portability and Accountability Act of 1996. The would also permit changes in coverage for a variety of other changes in status. The modified rules take effect in plan years beginning after Dec. 31, 1998. The new rules may be relied on for prior plan years, though.

Under the HIPAA, cafeteria plan participants may change their health coverage elections after the beginning of the plan year if there was loss in other health coverage, or if an employee marries or gains a dependent through marriage, adoption, or placement for adoption. The IRS also permits changes in health coverage elections that are the result of the following:

- » *Legal Marital Status.* Events that change an employee's legal marital status, including marriage, death of spouse, divorce, legal separation, or annulment;
- » *Number of Dependents.* Events that change an employee's number of dependents, including birth, adoption, placement for adoption, or death of a dependent;
- » *Employment Status.* A termination or commencement of employment by the employee, spouse, or dependent;
- » *Work Schedule.* A reduction or increase in hours of employment by the employee, spouse, or dependent, including a switch between part-time and full-time, a strike or lockout, or commencement or return from an unpaid leave of absence;
- » *Requirements for Unmarried Dependents.* An event that causes an employee's dependent to satisfy or cease to satisfy the requirements for coverage as stipulated in the health or accident plan under which the employee receives coverage;
- » *Residence or Worksite.* A change in the place of residence or work of the employee, spouse, or dependent (for example, an employee is covered by a different health plan because of a change in geographical location); and
- » *Medicare/Medicaid Coverage.* A change in election is made because employees, their spouses, or children become eligible for Medicare or Medicaid.

Cobra Alert:

The IRS clarified that employees, their spouses, or dependents who become eligible for COBRA continuation benefits under the employer's group plan, must be allowed to increase contributions to the cafeteria plan to pay for COBRA continuation coverage.

Section 401(K) Plan Elections:

The IRS clarified that rules governing 401(K) plans continue to apply and that these temporary regulations do not govern changes in pre-tax and after-tax elections under a qualified cash or deferred arrangements.

More Coming:

The IRS temporary regulations do not govern election changes made to qualified benefits other than health and group-term life insurance coverage, nor do the regulations address election changes that are the result of taking leave under the Family and Medical Leave Act. Until further guidance is provided by the IRS in these matters, taxpayers are advised to rely on the existing proposed regulations that govern these qualified benefits. The IRS will also clarify in future guidance whether an employee who switches from full time to part time employment and who remains eligible under the employer's health plan can make an election change if part time employees are required to pay significantly higher amounts for the coverage.

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Who Is Advantage and What Do They Offer The Medical Profession?

Advantage Payroll Services is a national service provider, and has been in the payroll business for over 30 years. Advantage is bonded and insured, and offers complete payroll and tax filing services for businesses with payrolls of 1 - 200 employees. Advantage's clients include all types of business categories.

Advantage works on a partnership basis. Advantage has over 40 offices nationwide that are locally owned and supported by a large national corporation located in Auburn, Maine. The Home Office has a state-of-the-art computer system and skilled payroll and tax experts who ensure our clients stay in compliance. This unique combination has resulted in a delivery system that provides a local, personalized service, and is offered at a very affordable price.

Advantage uses a proprietary payroll software, written by our own programmers, that can easily accommodate all of the concerns listed earlier, plus much more. In short, Advantage has the flexibility to meet

the ever-changing needs of the medical profession. Our seasoned professionals can help manage your medical payrolls, allowing the medical professional to get back to what they do best, dealing with natural disasters, epidemics, and other life or death emergencies.

Advantage Is Rated #1

Advantage is proud to have recently been rated, by an independent research group, as the number one payroll service provider for businesses with one to one-hundred employees. Advantage was rated number one among all major service bureaus nationwide. Consideration was given to customer perceptions of service quality, price, and satisfaction.

Call Your Local Advantage Office

If you have a payroll or tax filing question, you can feel comfortable bringing your questions to Advantage, feel confident Advantage will resolve the issue accurately, and be assured Advantage will continue to service your individual situation.

We invite you to contact your local Advantage office and discover why Advantage Payroll Services is "*The Easiest Way In The World To Do Payroll.*" ¥

Corrections / Updates

- * In the Special Year-End Edition, 1997, of *Check Chatter*, in the article "SSA Announces New Social Security Wage Base," the last bulleted item should read, "The 1998 Social Security wage base for self-employed individuals increases to \$68,400 with Social Security and Medicare tax rates remaining at 15.3%." Also in this issue, in the article "New 1998 Payroll Tax Law Changes," the New Employer SUI rate for Connecticut is 4.2%. State unemployment wage bases for the following states are: Alaska \$24,100, Hawaii \$26,400, Illinois \$9,000 (legislation is waiting signature to reduce from \$10,000), North Carolina \$12,600, Rhode Island \$18,200, and Utah \$18,500.
- * In the Fall, 1997 issue of *Check Chatter*, on Page 4, there appears a Tax Tidbit with the IRS TaxFax Services. The first bulleted item deals with dialing from your fax machine and following the tele-prompts. The fax number listed has since been changed as of 12/1/97 to 703-368-9694.