

The IRS Loves Your Dental Practice ... and that is NOT Good

The IRS continues to focus their audit activities in key small business areas. The wise dental practice owner is well advised to be able to defend the following five areas to keep the IRS at a comfortable distance:

- **Reasonable shareholder salary.** S corporations are in the unique situation where some compensation is excluded from payroll taxes. Many dental practices take this too far. The IRS is looking closely at practices who avoid paying a reasonable salary in order to lower their Social Security and Medicare bills. When determining salaries for shareholders, consider their experience, duties, responsibilities and time devoted to the practice. Once you have a picture of their ongoing contributions to the practice, research comparable positions and salary ranges to pinpoint a fair salary. Save your findings and calculations as backup to provide in the event of an audit.
- **Contractors or employees?** Make sure consultants and other suppliers are not employees in disguise. The IRS looks at how much control you have over the work being done – the more control you exert, the higher likelihood you may have an employee versus a contractor. Penalties can be very steep if the IRS decides your consultant is really your employee. If in doubt, ask for a review.
- **Expenses for meals and entertainment.** The IRS is now disallowing any entertainment deductions, even if there is business conducted before or after the event. That means business meal documentation is now more important than ever and should include receipts, who attended the meal, and the business purpose of the meal. Bringing food in for business lunches rather than going out is a safe way to show business intent. If you have an event with both entertainment and food included, get two receipts - one for the entertainment and one for the food.
- **File your Forms W-2 and Forms 1099.** Don't forget to file all required 1099s and W-2s. Most of them are due on or before Jan. 31. The IRS is penalty crazy in this area with up to \$270 per missing or incorrect form.
- **Business or hobby?** Be ready to provide proof your practice is truly a business and not a hobby. Those who fail in the eyes of the IRS can have their expense deductions severely limited, while still required to report the income. Make sure you can answer and provide documentation for these four questions:
 - a. What is your profit motive?
 - b. Are you an active participant in the practice?
 - c. Are you conducting the activity in a business-like manner?
 - d. What expertise do you have in the service or products your practice provides?

Knowing what the IRS is looking for helps you prepare should it turn its focus to your dental practice.