You pay more than your fair share of taxes.

If you made a pie out of all the bills doctors pay, you could see how the tax man takes the biggest slice. Income tax, sales tax, property tax, payroll tax, federal tax, state tax, even city and county tax: it really adds up. As a hard-working doctor, you likely pay at least one third of what you earn in taxes, and every extra dollar you pay in tax is one less dollar you could have saved for retirement.

The IRS has you in their crosshairs and they know there's nothing you can do about it. Of the 328 million people living in the United States, less than 1% are physicians, so Congress knows you don't have the power to defeat the bills they'll pass to increase your taxes. While the biggest loopholes have been closed for high earning professionals, there are still more than a dozen ways to keep taxes under control on the journey toward retirement. Check the list below to make sure you're not missing something.

- [ ] ### Get the truth about Traditional IRAs

The tried and true Traditional IRA has been with us since 1974 yet many physicians fail to fund theirs every year. In fact, your tax preparer may have told you, "You can't do an IRA." That's simply not true. Anyone with earned income can fund one but you earn too much to deduct your contribution. So your tax preparer should have said, "You can fund an IRA but you can't deduct your contribution," and that would be the truth but it's still misleading. Even without the immediate tax break, a Traditional IRA still brings you tax deferral and asset protection since IRA balances up to $1,000,000 are protected from creditors. And last but not least, contributions to a Traditional IRA are the first step in the backdoor Roth IRA contribution strategy. For 2021, the maximum Traditional IRA contribution is $6,000, or $7,000 if you're age 50 plus.

- [ ] ### Take the backdoor route to a Roth

Roth IRAs are great because they let your money grow tax-free forever. Unfortunately, current tax law keeps most physicians from contributing directly to a Roth IRA because they earn too much money. Not to worry: you can still slip money in through the "backdoor" using a tax loophole opened by the Bush administration that has been documented in the Journal of Accountancy. While the process can be complicated, the result is another account you can use to protect your retirement money from current taxation, future taxation and creditors. In 2021, a married couple can use this strategy to contribute up to $12,000, or $14,000 if they're 50 or older.

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☐ ## Buy-and-hold your way to fund tax-efficient returns

Passively-managed mutual funds, also known as index funds, rely on a buy-and-hold strategy designed to match the market's performance by capturing returns of stocks and bonds that make up the index they follow. Since there's less buying and selling in index funds, there's less capital gains to be distributed (sometimes none), so the tax bill tends to be smaller than what you would get with an actively-managed fund and may even result in no taxes due in some years.

☐ ## Don't spend your Health Savings Account… yet

There's a common misunderstanding among physicians about Health Savings Accounts. Known as HSAs, they are often confused with FSAs (Flexible Spending Accounts) and HRAs (Healthcare Reimbursement Arrangements). While FSAs and HRAs propose a use-it-or-lose-it conundrum, HSAs let you leave the money there until you need it. This also means your HSA can grow tax-free unless you make the mistake of spending the money. Instead of tapping your HSA, pay for out-of-pocket medical expenses using your checking account and let your HSA keep growing for retirement. To qualify, you must be covered by an HSA-eligible health insurance plan, so keep your eye out for this option as you go through open enrollment. In 2021, families can contribute up to $7,200, or $8,200 for ages 55 and older.

☐ ## Get the whole match in your 401k, not just part of it

Every doctor knows they should be maxing out their 401k or 403b at work and you already know that you only get your employer's match if you make the minimum contribution BUT there's a twist that some physicians miss. Some will make matching contributions throughout the year then make a "true up" contribution to make sure you get all the match coming to you. In this case, it's okay to front load your plan account by making more contributions in the beginning of the year. But be careful, some employers match on a paycheck-by-paycheck basis, so front loading may cause you to miss out. To get the full match, spread your contributions evenly across the year. In 2021, the maximum elective deferral is $19,500, or $26,000 for physicians who will be 50 or older by year's end.

☐ ## Watch out for risky 457 plans

If you work for a non-profit organization, you may be tempted to contribute to the section 457 plan where you can defer as much money as you can with your 403b. But not all 457 plans are created equal. Those offered by employers other than state or local governments, known as non-governmental plans, gain their tax-favored status only by way of a "substantial risk of forfeiture." This means you could lose everything in the account if your employer goes bankrupt. What's worse, non-governmental 457 plan assets CANNOT be rolled over to an IRA or other employer-sponsored retirement plan, so you must either leave it there (where it's exposed to the risk of forfeiture) or take it all out–perhaps in one lump sum–forcing you to pay taxes in a higher bracket.

Choose the right 401k, not the roth one

You've heard Roth is good, right? It's true that a backdoor Roth IRA is a good move but Roth 401k deferrals are a mistake for most docs. The Roth versus regular decision is all about whether to pay taxes now, or later. If these are your peak earning years, you're probably paying more tax than you'll pay in retirement, so why on earth would you voluntarily choose to pay taxes today? You wouldn't unless you didn't know better. Instead, you could defer your pay into a Traditional 401k today, get a tax break now and wait to pay taxes when you're in a lower bracket to reduce your lifetime tax burden. Do you live in a high tax state like Californa or New York? If you dream of retirement in Washington, Florida or another state that does not collect income taxes, your Traditional 401k deferral lets you legitimately dodge your current state's bills and owe no tax on withdrawals you make after you move. Even if you don't move, you can still save a bundle. In 2021, joint filers earning more than $628,300 (as some double doc families do) are taxed at the top rate of 37% while those who earn up to $172,750 (maybe in retirement) pay only 22%.

Set yourself up with a solo 401k or a SEP-IRA

If you are self-employed and you don't have one of these plans, you are paying more tax than you should. And even if you have a regular job where you're covered by a regular 401k plan at work, you can still contribute to a solo 401k or SEP-IRA if you have earnings from locums, a teaching gig or other side hustles. The decision about which option is better has everything to do with how you're paid, how much you earn and whether or not you will have employees in the future but both plans offer a powerful way to save taxes and gain protection from creditors. In 2021, the most you can contribute to either plan is $58,000, or 64,500 for those age 50 plus.

Add your spouse to your 401k

Self-employed physicians–sole practitioners and private practice partners–can add a spouse to their payroll and then add them to the 401k plan. Even if your spouse already has a job and already maxes out that 401k, they can still participate in the non-elective employer contribution or "profit sharing" portion of the plan. If you're a partner, this may take a bit of negotiation but if you're the boss at your own shop, this is a breeze. In 2021, the maximum contribution from each employer is $38,500.

Cash in on huge tax savings with a cash balance plan

If you're a self-employed physician in a high earning specialty, and you have just a handful of younger support staff or none at all, a cash balance pension plan is a slam dunk for you since you can contribute far more money than a standalone 401k/profit sharing plan. In fact, you might contribute as much as $120,000 more to a cash balance plan than if you had only a 401k plus profit sharing plan. As the business owner, your contributions get an immediate tax deduction. As a plan participant, your benefit is free from FICA and SUTA taxes. And as a physician, you get asset protection from creditors.

☐ Convert stupid life insurance into smart tax deferral

Sometimes doctors are duped into buying expensive cash value life insurance. If that's you, you're not alone, and you're not entirely without options. IRS section 1035 allows you to roll the cash balance of your old life insurance policy into a tax-deferred annuity you can use for your retirement. And if you read the word "annuity" and thought "yuck," fear not: a handful of insurers offer "low load" products where you can invest in cost-effective index funds without the surrender charge that accompanies mainstream life insurance products. While offering asset protection in some states, annuities let your money grow on a tax-deferred basis for retirement.

☐ Charitably minded? Check out a NIM-CRUT

Wouldn't it be nifty if you could give a whole bunch of money to charity, get a tax break and still earn passive income on the gift? It's possible with a special breed of charitable trust known as a net income with makeup (NIM) charitable remainder unitrust (CRUT). While the care and feeding of a NIM-CRUT is somewhat complex, you need to know it lets you set aside a big chunk of money (typically six figures) that can grow with little or no taxable income during your working years and then, when you're retired, you can take a lifetime income based on the value of the trust. The charity of your choice receives the assets from your trust when you die and the value of the trust is excluded from your estate, keeping estate taxes in check.

☐ Think of retirement and tax planning as a process not a project

The tax code changes every year and your situation changes, too, so it pays to take a look at ways to save taxes each and every year. Consider strategies like:

- Harvesting gains in low income years, like the year after you retire,
- Harvesting losses to offset gains, including gains from the sale of practice assets,
- Doing strategic Roth conversions during market corrections or in low income years,
- Investing in tax-exempt bond funds when market conditions make sense,
- Using an installment sale to spread gains from the liquidation of practice assets sold for retirement and
- Timing withdrawals from inherited IRAs to stay below the thresholds for higher brackets.

Save every dollar you need for retirement without worrying about taxes

Failing to stay on top of taxes will not keep you from retiring but it will keep you feeling like you're missing something. With the right advice, you can get the tax breaks you deserve and feel comfortable knowing you've done your best for your family.

Find out if Physician Family is a match for you.
Schedule a call with us at PhysicianFamily.com.