

Benefits Of Being Your Own Boss

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Abstract

In America today, a large percentage of physicians and medical professionals fall into the category of being self-employed. There are lots of advantages to being self-employed. For starters, you get to be your own boss, make your own hours, and decide how hard you want to work. Plus, there are quite a few tax breaks available to you when you work for yourself.

Even if you just do some moonlighting on the side, you're allowed to set up a retirement plan for your business and sock away a portion of the money you earn into a pre-tax account. That holds true even if you work for a hospital or clinic and are currently participating in that company's retirement plan.

Which type plan should you set up? Depending on how much you earn and how much you want to set aside, you'll choose between a SIMPLE IRA, a SEP IRA, or a Solo 401(k) plan. For 2004 you can contribute up to \$18,000 into a SIMPLE or up to \$41,000 into a SEP or a Solo 401(k), depending on your income and whether you participate in a 401(k) plan or 403(b) plan through another employer. If you'll be 50 or older by December 31st, you can contribute an extra \$3,000 into a SIMPLE or a Solo 401(k) this year.

Do you have a child under the age of 18? If so, you'll save some taxes by employing your child. There's a special loophole that exempts children of self-employed individuals from paying social security, Medicare, and federal unemployment taxes on wages paid by a parent. For 2004, as long as your child is under the age of 18, you can pay him or her up to \$4,850, and your child won't owe any income taxes on that money (assuming they have no other income.) Even so, you get to deduct the wages paid as a business expense.

As an additional incentive, your child can contribute the lesser of what they earn from you, or \$3,000, into a Roth IRA each year. Imagine what the money contributed will be worth after 50 years or more of tax-free growth!

Self-employed individuals can now deduct 100% of their health insurance premiums paid during the year. The only catch is that your net self-employment income must exceed the premiums paid.

If you (and your family) are relatively healthy, consider switching to a high-deductible plan and opening a Health Savings Account (HSA) - the new tax-advantaged way to fund your family's healthcare costs. HSAs are discussed in detail in the August, 2004 Newsletter, that can be found at <http://www.mdttaxes.com>.

Another advantage of being self-employed is that you get to deduct certain personal-type expenses against your self-employment income. When compiling your expenses, don't forget to include business miles at \$.375 per mile driven. You should also factor in the business use portion of your computer purchases, internet access, and wireless phone bills. And if you have a dedicated workspace in your home, claiming the home office deduction will help cut your tax bill.

Keeping up with all of the tax breaks available to you if you're self-employed is tricky business. Whether you work for yourself on a fulltime basis, or just do some moonlighting on the side, contacting one of the MDTAXES CPAs will help ensure that you minimize the taxes you pay on your self-employment earnings.

References

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