

The Impact of the New Tax Bill on Your Dental Practice

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Just a few days shy of Christmas, President Trump signed the 2017 Tax Cuts and Jobs Act into law. This 1,000-page bill includes sweeping changes to both individual and corporate taxes.

The bill is designed to simplify that tax code by minimizing or altogether eliminating a number of deductions and exemptions. The United States hasn't seen this kind of financial change since the Tax Reform Act of 1986.

The tax bill will impact individuals, small business, and corporations alike. And according to the American Dental Association, it could benefit your dental practice.

The bill will benefit both individuals and businesses but businesses will see the biggest and most long-lasting gains. Some of the biggest benefits to dentists are:

The bill keeps the student loan deduction and doesn't tax graduate students for tuition they receive as income from higher education programs.

This bill will include a deduction for all pass through businesses, with some income restrictions. And this deduction includes professional services, like dental practices. Businesses will be able to expense up to \$1 million for furniture and office equipment.

And unlike the individual tax cuts, all of the tax cuts for businesses are permanent. It is difficult to address all the changes so let's look at some of the most sweeping changes below.

How the Tax Bill Will Affect Individuals

Although there has been much focus on the reduction in corporate taxes, many individuals will likely benefit from the new tax law. The bill keeps the current seven tax brackets in place but lowers the overall rates; the highest income earners will likely see the most gain.

Employees could begin to see the changes reflected in their paychecks as soon as February 2018. The bill uses a [chained consumer price index](#), which is a measure of how the cost of living rises or falls. It also doubles the standard deduction; individuals will see their deduction increase to \$12,000 while joint deductions will increase to \$24,000.

Prior to this bill, taxpayers could subtract \$4,150 from their income for each dependent claimed on their taxes. The new tax bill eliminates this but it does increase the child tax credit to \$2,000 per child. And it provides a \$500 credit for each non-child dependent, which could be useful for individuals caring for their elderly parents.

The bill also gets rid of most itemized deductions while keeping deductions for retirement savings, charitable contributions, and student loan interest. And the bill repeals the Affordable Care Act's tax on individuals who don't purchase health insurance.

How the Tax Bill Will Affect Businesses

While changes to individual taxes are temporary and somewhat gradual, the changes to business taxes are permanent and more comprehensive.

The United States has always had especially high corporate tax rates. And one of the biggest changes is that the bill lowers corporate tax rates from 35 percent to 21 percent, which is the lowest they've been since 1939.

[It also raises the standard deduction to 20 percent](#) for pass-through business. Pass-through businesses [account for 95 percent](#) of all U.S. businesses. This includes:

- Sole-proprietorships
- Partnerships
- Limited liability companies
- S corporations

This is how many dental practices are structured. This means a business's taxable income [will be reduced by 20 percent](#), which provides a big benefit to all small businesses. So if your annual business income is \$50,000 the government will only tax you on \$40,000 of it.

The hope here is that this deduction will give small business owners enough wiggle room that they can reinvest these savings back into their business. But these deductions phase out for individuals once they earn \$157,500 and joint filers earning \$315,000.

Despite this phase out, professional corporations are excluded from the 20% tax cut when their total taxable income is less than the \$157,500/\$315,000 rate. However, it is available to real estate LLC's and consulting LLC's.

Conclusion

The tax bill will affect almost everyone on a personal level, but many people are wondering what the effect will be on their dental practice.

Most economists have estimated that the bill will provide at least a short-term boost to the economy. Figures from the Tax Policy Center predict that the new tax bill will boost the GDP by .8 percent in 2018. But this growth will likely taper off by 2027, in part because many of the provisions for individuals expire in 2025.

Most American households will receive a tax cut, with the [Tax Policy Center estimating](#) that the average American will receive a tax cut of \$1,610 in 2018. Lawmakers are hoping that this tax cut will lead to an increase in consumer spending. However, the increase in consumer spending is unlikely to be permanent.

Businesses will see a large savings benefit and there has been much speculation about what most businesses will do with that savings. It's difficult to say for sure but [a recent survey from the Federal Reserve of Atlanta](#) showed that 39 percent of companies plan to increase their hiring. And 51 percent said they planned to spend the money on capital investments.

Currently, this plan is estimated to cost \$1.5 trillion over the next 10 years and it is unclear whether the economic growth spurred by the bill will offset the costs. It has been estimated that the bill could increase the deficit by \$448 billion over the next ten years.

Dentists face a number of unique challenges and the previous tax code played a big role in that. The initial reaction from many people seems to be that the new tax law could minimize some of those challenges over time.