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Directions in Residency

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AMA-RFS Meeting Addresses Key Issues

by Adam I. Rubin, M.D., American Academy of Dermatology Delegate to the AMA-RFS

The 30th Interim Meeting of the American Medical Association Resident and Fellow Section (AMA-RFS) took place in Las Vegas, Nov. 9-11. In the AMA-RFS, there were 120 delegates credentialed, representing 31 states and 16 specialty societies. Overall, eight resolutions and five reports were considered. The meeting also saw dermatologists in training take on a larger leadership roll in the AMA-RFS.

With the election of 11 AMA-RFS sectional delegates and 11 AMA-RFS sectional alternate delegates to the AMA House of Delegates (HOD), we have moved closer to accomplishing the longstanding goal of increasing resident and fellow representation in the HOD.

Hillary Johnson, M.D., Ph.D., a second-year dermatology resident at New York University and resident member, AMA Council on Long Range Planning and Development, was elected to one of the AMA-RFS sectional delegate positions. Elizabeth Muennich, M.D., Ph.D., a first-year dermatology resident at Wright State University, and Ohio State Medical Association RFS Delegate, was elected to one of the AMA-RFS Sectional Alternate Delegate positions. Dr. Johnson was endorsed by the American Academy of Dermatology and Dr. Muennich was endorsed by the Ohio State Medical Association. According to Seemal Desai, M.D., AMA-RFS governing council member-at-large, and first year dermatology resident at the University of Alabama at Birmingham, this is the first time that three dermatology residents have held concurrent elected positions in the AMA-RFS.

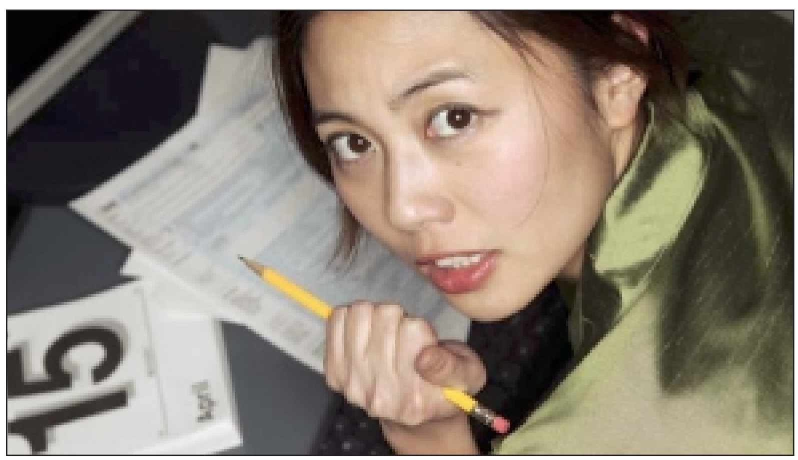
The 11 new sectional delegate and 11 new sectional alternate delegate positions were created to provide one RFS delegate for every 2,000 active AMA-RFS members, as is recorded by the AMA on

See ***Educational Opportunities*** on p.5

sound advice

Moonlighters May Face High Tax Bill on April 15th

by Andrew D. Schwartz, CPA & Lawrence B. Keller, CFP



As the calendar year comes to an end, it is important for taxpayers who "moonlight" to distinguish whether they are compensated as an employee or independent contractor. Whether you work with more than one employer to supplement your salary, pay down your student loans, or build a nest egg, how you're compensated determines how you will be taxed. If you haven't started thinking about your income taxes and have been moonlighting, you could be facing a surprisingly large tax bill on April 15th.

If taxes are withheld from your pay, you're considered an employee. No taxes withheld means you're an independent contractor. Generally, each employer has a set policy as to whether they compensate their moonlighters as employees or as independent contractors.

Here are some of the advantages and disadvantages to being compensated as an independent contractor:

Advantages:

- You can deduct your professional expenses directly against your moonlighting income. For example, if you earn $10,000 moonlighting as an independent contractor, and have $6,000 of unreimbursed professional expenses

See ***Sound Advice*** on p. 3

Inside *this* issue

Sound Advice from p.1

to claim against that income. In this case, you will pay taxes on only $4,000 of net moonlighting income. If you are paid as an employee instead, you will claim professional expenses as an itemized deduction subject to various limitations.

- Independent contractors can establish and contribute money into a pre-tax retirement account based on their net moonlighting income. You have until April 15, 2007 (or Oct. 15 for those filing for an extension) to set up and fund a SEP-IRA for 2006, and sock away up to 20 percent of your net moonlighting income. Amounts contributed reduce your taxable income and grow tax-deferred. Other pre-tax savings opportunities available to independent contractors include SIMPLE-IRAs and Solo 401(k) plans.
- 100 percent of your health insurance premiums can be deducted. As long as you were not covered under an employer sponsored health insurance plan, being paid as an independent contractor allows you to write-off your health insurance premiums paid during the year.

Disadvantages

- Independent contractors are subject to an additional tax known as the "self-employment tax." When you work as an employee, your employer withholds social security and Medicare taxes from your pay at a rate of 7.65 percent, and then matches the taxes withheld. So the government gets 15.3 cents for every dollar earned. When you're self-employed, you're required to report and pay that 15.3 percent tax, known as the self-employment tax, as part of your federal tax return but one half the amount is deducted from your AGI (Adjusted Gross Income). The self-employment tax rate goes down to 2.9 percent once your combined salary and net moonlighting income exceeds $94,200 for 2006 and $97,500 in 2007.
- As an independent contractor, your tax return becomes much more complicated. The days of preparing the 1040-EZ are over. You'll need to complete and send in the long form, along with a Schedule C, Schedule SE, and whatever other tax forms and schedules might be required.
- You might also be required to prepare and submit quarterly estimated taxes. The government generally doesn't want taxpayers to write them a big check on April 15. Depending on how much you earn moonlighting and what else is going on with your taxes, you might need to send the IRS payment every quarter to keep from getting penalized. A 1040-ES form should be used to remit federal estimated tax payments as well as estimates to your state.

Ordinary and necessary

If you moonlight and are compensated as an independent contractor, you can write off your "ordinary" and "necessary" expenses.

Expenses common to residents include books, dues, exams and licensing, malpractice insurance, and professional dues and journals. You can also deduct a portion of certain items used personally as well as in connection with your moonlighting, including automobile expenses, cell phone costs, your home office, Internet access, and the cost of computer equipment and peripherals.

In certain instances, your travel and meals are deductible. Any time you work or attend a meeting outside the general vicinity of where you live on a short-term basis, you can claim your travel, lodging, car rentals, and a daily rate for meals and entertainment known as the "per-diem rate." These rules also apply if you take a fellowship or a locum tenens position that lasts for less than a year.

Track your expenses

Setting up a system to keep track of your professional expenses throughout the year will save you taxes. Here are a few suggestions:

- Use a software program (like Quicken or Microsoft Money) to track all of your expenditures throughout the year. Both of these personal finance programs allow you to assign a category for each check written and credit card purchase made. At the end of the year, simply print out a report that includes all your professional expenses to deduct on your tax return.
- Use a separate credit card for business related purchases. This allows you to easily compile all your professional expenses made during the year, since all your deductible expenditures will be reflected on your monthly credit card bills. Or, even better, use a credit card from one of the companies that sends their customers an annual summary of their activity for the year.
- File your receipts in a folder or envelope. At the end of the year, all you need to do is tally up your receipts to figure out the professional expenses you can deduct.

Monitor your withholdings

Even if taxes are being withheld from your moonlighting income, don't assume that enough taxes are being taken out. That's because each employer withholds taxes as if they are your only employer. For example, if you earn $20,000 from three employers during the year, the amount of federal income taxes withheld from your pay will be significantly less than if you had earned $60,000 from just one employer. To make matters worse, if you tell your employer that you are married, that employer will withhold even less taxes, since the withholding tables for a married person assume your spouse doesn't work. As a general rule, you should have your withholdings based on being single even if you are married.

The 40 percent rule

Moonlighters who are paid as independent contractors have no taxes withheld. In that case, it's generally a good idea to set aside 40 percent of earnings for taxes. Remember, you'll owe federal taxes, state taxes, and self-employment taxes on your net earnings.

Plan ahead

The taxes you'll owe on your moonlighting income are manageable if you plan ahead. Don't let the possibility of a surprisingly large tax bill deter you from taking advantage of moonlighting or consulting opportunities that may arise. DR

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