

PRACTICE AUTHORITY

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4 THINGS
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4 THINGS YOUR TAX PREPARERS WANT YOU TO KNOW

1. MORE IS BETTER

The more we know, the more we can help you optimize your tax liability. If your CPA gives you a tax organizer - answer the questions! They're there for a reason, and you may be missing deductions if you fail to fill in the info.

2. REVIEW BEFORE FILING

The time to review your prepared return is not when you get the notice that it's been E-Filed. Make sure you review and ask any questions **before** your CPA submits your return. It will save time and money in the long run.

THE ANNUAL 1099 TWO-STEP

Step one. Remember that it's January and you're supposed to get 1099s out by... when was it again? Oh yeah, the 31st... Run frantically through your QuickBooks vendor list (if you've been keeping up with it) and figure out who you need to prepare a 1099 for.

Step two. Spend a few hours calling last year's contractors and track down the information you need to get the forms filled out and delivered. Cross your fingers that the IT guy you used nine months ago manages to return your email in time. It took him seven weeks to get that invoice to you; hopefully he's not on vacation again.

Every year clients (and sometimes CPA firms) manage to put off collecting the information they need to accurately report what was paid to contractors until the last week of January. It's stressful, inefficient, and sometimes results in incomplete information submitted to the IRS. Oh, and if your practice operates this way, you're actually not in compliance.

But there's a solution!

Here's how it's supposed to work...

The sign on your building looks a little shabby, so you call your printer and order a new one. After going back and forth with you a few times on the design, you finally settle on a design and they give you a quote for \$1,000, due upon completion of the project. This is when you send the printer a Form W-9, a Request for Taxpayer Identification Number (TIN) and Certification. You inform the printer that you'll need a completed W-9 in order to make the payment. The printer complies, returns the form, creates your sign, and you make your payment. Done. You enter their information into your Vendor section of QuickBooks, and you're ready to go next January.

Now, you have your sign, but you need it installed. So you call your local handyman to get an estimate. You want to add a few other items to the list of work for him to do, and he agrees to hang the sign, repair the handicap rail, paint the front door, and replace a missing tile for \$750. You agree to this price, and just as you did with the printer, you ask that he fill out a Form W-9. He agrees, and goes about his business completing your work. Two days later, he's finished, you're happy, and he asks for payment. However, he hasn't filled out the W-9. He says you can go ahead and pay him, and he'll get it to you later. This is where it gets tricky; you want to pay him, because he's already completed the work, but you need to have a completed W-9.

Luckily, the IRS has a solution for this situation...

It's called Backup Withholding. In situations where an independent contractor has not provided you with their TIN, you've received a notice from the IRS that a TIN is invalid, or you've received a notice that you should withhold because the contractor has previously underreported earnings, you as the payer are required to withhold a flat 28% of the payment amount. The IRS exhaustively details this process in the 72 pages of Publication 1281, but the short version is you will need to withhold this amount, for any service provider you hire that you pay over \$600 in a given calendar year, note it as a liability on your accounting, then fill out Form 945 at the end of the year and send this payment to the IRS by February 1st. If you submit an incomplete or incorrect 1099 will likely receive a notice from the IRS to begin withholding, which you should comply with, and you will need to send a first and potentially second "B Notice" to the contractor (these can be

3. DON'T BE AFRAID OF EXTENSIONS

If you review your return, and realize that you've forgotten to tell your CPA about a new piece of equipment, ask about a potential deduction, etc. but it's close to the deadline, don't panic! Extensions are easy to file, and more cost-effective than filing a return by the deadline and later finding a deduction.

4. EXTENSIONS ARE FOR PAPERWORK - NOT PAYMENTS

One of the biggest mistakes filers make is thinking that because they filed an extension, that means they don't have to make their tax payment until their return is filed. Not true. If you're filing an extension, you'll need to make an estimated tax payment, calculated by your CPA, and turned in by the filing deadline. If you've over-estimated, you'll get a refund. If you ignore it, you'll pay a penalty.

THE ANNUAL 1099 TWO-STEP, CONT.

found in that long IRS publication mentioned above).

Sound like too much work? Well, in case you weren't aware, there are penalties for filing late or incomplete 1099s. The fine increases the longer it takes for you to get the correct information – for 2017 the fines are to the tune of \$50 per 1099 for 30 days late, \$100 per 1099 after 30 days but before August 1st, and \$260 per 1099 if not filed correctly until after August 1st, 2017. The fine skyrockets to \$520 per 1099 or 10% of the reported amount, whichever is greater (with no maximum) if you just decide not to file them at all. So it's absolutely in your best interest to get the right information from the contractors you work with, and backup withholding is generally a quick way to ensure they will provide you with the W-9 you need. This way, everyone gets paid, the IRS is happy, you're not paying fines for non-compliance, and you don't have to waste a lot of time every January calling vendors and getting last-minute information to file on time. Win-win!

THE "WORKING INTERVIEW" MYTH

You may have heard - from a fellow practitioner, practice management consultant, or a continuing education conference - that a great way to test a potential hire is to have them come in for a couple of hours, or even a couple of days, and submit to a "working interview." Great idea, right? You can test their skills to make sure they meet your standards, and see how they interact with the rest of your team. Bonus, you can skip the tedious paperwork and don't have to pay them, right?

Wrong. On many levels.

Though it's commonly touted as an excellent recruiting strategy, especially for dental practices, the "working interview" is a myth for several reasons. The first and most egregious is that it isn't a legitimate practice, at least under Texas standards. For starters, anyone who performs the general work of your practice for your practice must be compensated. Period. You are also required to have documentation for anyone performing work for your practice, either as a W2 employee or a 1099 contractor.

Another component of this myth is practice owners labor under the misconception that since this is a "working interview," they will not be liable for Unemployment Insurance (UI) benefits should the interviewee file with the Texas Workforce Commission (TWC). As previously mentioned, however, you should have employment documentation for this person, so it would stand to reason that you will be considered an employer in a UI case with TWC. (This goes hand-in-hand with the myth about the "90-day probation period." Look for details in a future article!)

Bringing in an undocumented potential employee to work with your team can also open your practice up to liability. Would you really want someone you haven't hired working with patients? Being privy to personal medical information of those patients? Aside from the clear HIPAA violation, consider what would happen if the person made a mistake, or a patient was somehow harmed. Imagine explaining the situation to your insurance company, or in some cases, to a judge.

So how can I ensure I'm making the right hire?

No hiring system is perfect (including a "working interview" scenario, since the candidate is likely to be on their best behavior, even if you made them work for a week before hiring), but there are steps you can take to see if a candidate is a good fit. First, transparency is key. If this is a position where the employee is expected to work long hours, cross-train

“WORKING INTERVIEW,” CONT.

for several positions, hit production goals, or be required to open the office on a regular basis, say it! Making your expectations clear can weed out candidates who may prefer a more flexible schedule, or who wouldn't be happy answering phones 20 hours a week if they are skilled in another area. Ask questions and have them describe how they would handle certain scenarios to get a clearer picture of their working methods as they relate to your practice.

The second step, one that many practice owners skip, is a reference check. Sure, some employees give fake numbers and some practices won't tell you anything useful about the former employee. However, a good reference checker will know how to get critical information to help you make an informed decision about a candidate from someone who can truly speak to their work history – their former employer.

Consider shadowing. Another method of interviewing involves having a potential hire shadow an employee of the same job description for which they would be hired. This is not the same as a “working interview.” For one thing, you would not have the potential hire complete any work that is relevant to the business. They would be following a current employee to view how their job is completed and meet who they would be working with - not acting as a replacement for that employee. Therefore, since they are not performing any true work, they do not need to be compensated for that time, particularly if the shadowing appointment is typical interview length (1-2 hours).

Make sure you're not violating HIPAA regulations if you take this interview route. Keep documented confidential patient information out of sight of the potential hire and do not allow this person into any treatment areas or rooms in which patient medical information is being discussed.

Set up a mock treatment. If you feel that shadowing won't give you enough of a feel for this person's method of working, set up a mock treatment. For example, if you wanted to see how a hygienist performs a cleaning, have her perform a cleaning on yourself or another practice owner. If you have an employee who is willing (and you're willing to take on the potential liability or have them sign a waiver), that should be fine too. This will give you a sample of their work without compromising patient care or violating labor laws.

You're paying attention, but...

Some practice owners may understand the issues with “working interviews” and recognize the alternative methods but still insist that they're the best way to hire. At the bare minimum, they should follow these steps:

- **Fill out appropriate paperwork.** Make sure to get an I9 and W4 filled out before the employee begins working. According to TWC, this person will not be classified as an independent contractor - even for the short duration - because of the nature of the work, the venue, the use of the practice's tools and equipment, and because they are representing your practice. You should also strongly consider conducting a background check prior to the “working interview.”
- **Pay for the time.** You don't have to pay the full hourly rate you would a regular employee in that position, but you should pay at least minimum wage for each hour spent “interviewing,” and payment should be made through your payroll system with applicable withholding, not a check from an office or personal account.
- **Limited sessions.** Limit the amount of time spent working, as well as the scope of the work being performed. Have the person come in for two or three hours, instead of a full two or three days, and make sure the time is logged on your standard time clock. This will support your case that this person wasn't hired as a full-time employee in the event that they later file for unemployment benefits.
- **Get it in writing!** Whatever you decide, make sure you get any agreements you make with potential hires in writing. Work with your employment attorney to draft a document that details the terms of the time spent interviewing as well as the employee classification, and have the employee sign to acknowledge their agreement. Make sure the length of time spent working, rate of pay, and temporary status are included in the agreement. If you decide to retain them as a regular employee, you'll need to submit an offer letter with updated terms to them before they begin working their regular shift.

ADVISOR INQUIRY...

Q: "I bought a small dental practice a couple of years ago, and have two front-desk employees, two assistants, and a hygienist. Two of the employees (one front desk, one assistant) transitioned from the prior owner, the other three I've hired as the practice has grown. The problem I'm having is that there is growing tension between the front desk employees and the clinical employees. I get the feeling that because the front desk manages the schedule, they feel as if they have a sense of authority over the clinical employees, as if they are "in charge" of the office. It's frustrating to the clinical employees when the front desk dictates when lunch breaks or time off can be taken, for example, and frustrating to me when I overhear the front desk employees criticizing how a clinical employee handled a patient. This is not how I want my practice to run, but it's hard to control what happens at the front when I'm seeing patients all day. We don't have an office manager, and I'm the one responsible for making sure everyone gets along and does their job. How can I make my front desk employees see that they're not the ones in charge just because they make the schedule, and make my clinical employees understand that the only person they need to report to is me?"

A: In small businesses with a flat organizational structure (no managerial hierarchy), it can be difficult to set limits on authority from one department to the next, especially in a dental practice where the practice owner is treating patients all day and isn't able to manage in the moment. There are three things you can do to address this issue, and proactively prevent future issues of this nature.

1) Meet with your Team. As a group, and on an individual basis if necessary. Set a designated lunch time (say, from and make your expectation clear that if 11:30am – 2pm, depending on your patient hours) and let your front desk team know that unless a patient immediately requires attention,

THE IRS "DIRTY DOZEN": TAX SCAMS FOR 2017

On February 17th the IRS posted a list of the top 12 scams they're warning filers against for 2017, labeled "the Dirty Dozen." Here's the highlights:

- 1.) Phishing:** Taxpayers need to be on guard against fake emails or websites. The IRS will never initiate contact with taxpayers via email about a bill or refund.
- 2.) Phone Scams:** The IRS has seen a surge of these phone scams in recent years as con artists threaten taxpayers with police arrest, license revocation, etc.
- 3.) Identity Theft:** The IRS continues to aggressively pursue the criminals that file fraudulent returns using someone else's SSN. Though the agency is making progress on this front, taxpayers still need to be extremely cautious.
- 4.) Return Preparer Fraud:** The vast majority of tax professionals provide honest high-quality service. There are some dishonest preparers who set up shop each filing season to perpetrate refund fraud, identity theft and other scams that hurt taxpayers.
- 5.) Fake Charities:** Be on guard against groups masquerading as charitable organizations to attract donations from unsuspecting contributors.
- 6.) Inflated Refund Claims:** Taxpayers should be on the lookout for anyone promising inflated refunds, asks taxpayers to sign a blank return, promises a big refund before looking at records, or charges fees based on a percentage of the refund.
- 7.) Excessive Claims for Business Credits:** Avoid improperly claiming the fuel tax credit, a tax benefit generally not available to most taxpayers. The credit is usually limited to off-highway business use. Avoid misuse of the research credit. Improper claims often involve failures to participate in or substantiate qualified research activities and/or satisfy the requirements related to qualified expenses.
- 8.) Falsely Padding Deductions on Returns:** Taxpayers should avoid the temptation to falsely inflate deductions or expenses on their returns to pay less than what they owe or potentially receive larger refunds.
- 9.) Falsifying Income to Claim Credits:** Don't invent income to erroneously qualify for tax credits. Taxpayers should file the most accurate return possible because they are legally responsible for what is on their return.
- 10.) Abusive Tax Shelters:** The IRS is committed to stopping complex tax avoidance schemes and the people who create and sell them.
- 11.) Frivolous Tax Arguments:** Don't use frivolous tax arguments to avoid paying tax. Promoters of frivolous schemes encourage taxpayers to make outlandish claims even though they have been repeatedly thrown out of court. The penalty for filing a frivolous tax return is \$5,000.
- 12.) Offshore Tax Avoidance:** The recent string of successful enforcement actions against offshore tax cheats and the financial organizations that help them shows that it's a bad bet to hide money and income offshore.

ADVISOR INQUIRY, ANSWER CONT.

employees are allowed to take their meal break at any point during this time frame. If you need coverage in the office at all times, let the team know breaks will need to be coordinated with other team members. Specify that all PTO requests should go through you (for time management, it would be wise to have a system – paper or digital – that allows you to approve or deny requests at your convenience). A well-written policy in your Employee Handbook would also help you address this issue going forward.

You should also meet with your team members individually on a regular basis to check in, ensure goals are being met, etc. These conversations provide the perfect venue for feedback on other team members as well. In talking individually with your clinical employees about how they feel the front desk team is handling issues, you'll have the opportunity to reassure your clinical team members that your opinion of their work is the only one that matters in this practice. You'll also have the chance to address these types of issues with your front desk employees privately and set goals and expectations as to how they should be conducting themselves in their responsibilities.

2) Create an org chart. This is a great example of why organizational flowcharts are helpful, even in a small practice. Having a visual representation of who is "in charge" of whom (and who isn't) is beneficial to making the clear expectation that you are the owner and responsible for handling disciplinary matters, benefits administration, etc. for the people you manage.

3) Manage in the moment. You sound as if you have overheard these critical conversations regarding the behavior of your clinical employees, but did not act on them. Many practice owners prefer to avoid confrontation if possible, but sometimes it's necessary. When you hear one team member criticizing another, speak up! Let them know in the moment that if they have an issue with how a team member is conducting themselves, they need to raise it with you directly. You might find that all it takes is you putting a stop to the office gossip once or twice before team members cease their critical diatribe. Once they realize that you are paying attention to office happenings beyond your chair, they'll get the message.

(Have a question you want answered? Email us!)



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