

Tax Tips for Acupuncture Physicians*

Taking care of your practice is as important as taking care of your clients.

Tracking Income + Expenses

Income - Chances are you're a cash-basis taxpayer, meaning you pay tax on the income at the time of receipt and deduct expenses when you write your check or from the date on your credit card statement. ***For tax purposes, however, you need to remember that income isn't taxed according to the date the service was provided but by the year in which payment is received.***

This can become a little complicated when you don't receive payment at the time of service, which might happen if you bill insurance, for example. Again, keeping good records will help you avoid accidentally omitting paying tax on income or overpaying by paying the same tax in two tax years.

Expense - Operating expenses are the costs you incur in your day-to-day business, such as rent, utilities, advertising and promotional expenses, and acupuncture supplies, to name a few. What you can claim depends on intent and documentation.

Intent addresses how the purchase is intended to be used. If you buy a rug for your acupuncture practice, you can deduct the full cost. But, if you use the rug in your home, too, it's considered a personal expense. If at a later date you decide to use the rug in your practice, you can deduct the fair market value, not the original cost.

First Things First: Keeping Good Records

You'll save many hours (and probably some money) by keeping accurate records throughout the year. The benefits of this practice are worth the time you spend. You'll need this information when filing your taxes, of course, but complete and accurate records can also help you quickly and easily assess where you're succeeding, as well as where you might need to make some adjustments.

For the most accurate financial records, you need to separate your business and personal expenses. Have a business-related checking account and credit card, for example, and keep a record of whom you paid, the amount, the type of expense and the date. You should make all deposits into your business account, from which you'll either transfer money into your personal account or pay yourself a salary.

Beyond being able to easily assess how your business is doing and where you might need to make some changes, keeping good records is imperative if you are ever audited by the Internal Revenue Service (IRS). Both the IRS and your state tax department expect you to keep records of your sources and amounts of income and will ask to inspect your business's financial records during an audit.

Keeping Financial Records as a Acupuncture Physician

Devising a system or a routine for your Acupuncture business finances will help you maintain accurate records on a daily, weekly and monthly basis, saving you hours, maybe days, of work quarterly (when you pay estimated taxes) and yearly.

Tips for Good Record Keeping

- Pay business-related expenses with your business checking account; pay personal bills with your personal checking account.
- Devote one credit card solely to business use.
- Keep a record of every deposit to your checking account as well as every payment.
- Make all deposits of business income directly to your business checking account. Depending on the type of business you have (sole proprietorship or incorporated), you will either transfer money from your business account to your personal account, or pay yourself a salary.
- For every expense, keep a record of who you paid, the amount of payment, the type of expense and the date.
- Keep each year's appointment book or calendar with your tax records for that year. You may need to use it for supporting information about business travel and related expenses.
- The Internal Revenue Service and state tax agencies expect you to keep records of your sources and amounts of income. If you are ever audited, these agencies will inspect billing records and your business's other financial records.

Bonuses of Good Record Keeping

Even if you consider it drudgery, keeping good records for your Acupuncture practice allows you to conduct business more effectively than poor record keeping. For instance:

- If you need to borrow money, lenders will need detailed and accurate financial information.

- Detailed records help you evaluate your business more accurately should you ever decide to sell. (And if your records are easy to assemble, accurate, and neatly kept, your potential buyer will more than likely have a better impression of your business as well.)
 - You can use your billing records to figure out what types of clients are most and least profitable. Use that information to refine your Acupuncture practice's marketing plan. For instance, maybe your most reliable re-bookings come from teachers in the week following their monthly paychecks. A well-timed marketing promotion could encourage more teachers to become clients.
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Here, documentation is important. A canceled check or credit card statement will suffice. Receipts and written evidence, such as logs and notes in your appointment book, are also acceptable. Make a point of recording this information at or about the time of the transaction, and include all relevant information.

Travel, Entertainment, Gifts and Car Expenses

The IRS requires additional information for claiming these kinds of deductions on Schedule C. Travel costs, for instance, are a necessary expense in going to a client's home, but you need to keep in mind that where you live is not the same as your tax

home. According to the IRS, your tax home is your primary place of business, regardless of where you live. Here are some of the basic rules for these kinds of expenses.

Travel. The IRS allows you to deduct travel costs, even if you're not away overnight, if your duties require you to be away from the general area of your tax home (not your residence) substantially longer than an ordinary day's work, and you need to sleep or rest to meet the demands of your work while away from home.

Keep a datebook or calendar throughout the year and include information that will help with your tax records. This can help you be sure you claim all the expenses to which you're entitled for business travel, as small trips can add up over a year. You may also need this information to support what you claim when it comes to business travel and related expenses.

Entertainment. Meals are deductible if they are business-related and are not considered lavish or extravagant by the IRS. You can deduct meals based on the actual cost of the meal, using your receipt as documentation, or by using the IRS per diem rate for the city and time of year. Only 50 percent of the meal expense can be deducted. (Some food purchases are 100 percent deductible, such as food you buy for an open house at your practice, and snacks and beverages you offer your clients.)

Gift. Deductions are limited to no more than \$25 per person, per calendar year. Any expense more than \$25 cannot be deducted unless considered incidental (such as packaging and mailing costs).

Car. You can deduct the cost of operating and maintaining your car when traveling on business, including actual expenses or standard mileage rate, tolls and parking. If you rent a car while away from home on business, only the business-related portion can be deducted.

How To: Bookkeeping Basics

When tracking your business finances, your major sources for information will be your business checkbook and credit card statements. You'll want to enter every transaction in your accounting books, along with other income and expenses, including trades (see below), mileage and others. Typically, you'll need the following basic tools:

Accounting journal—A record of transactions sorted by date.

General ledger—A record listing transactions (taken from the accounting journal) by account type. Two examples of items listed are payments for acupuncture sessions and office supply expenses.

Balance sheet—A financial picture of a business on a specific date with regard to assets, liabilities and

equity. Assets include what you own; liabilities are what you owe. Your equity is essentially the balance difference when you subtract your total liabilities from your assets.

Statement of income and expense (also known as a profit and loss statement)—A summary of income and expenses for a specific period of time. Most cash-basis taxpayers keep books and file income taxes on a calendar year. The profit or loss is determined by subtracting deductible expenses from taxable income. The income you report and pay taxes on in your Schedule C return is the net profit or loss income from line 31 on your Form 1040.

Tax Deductions for Working at Home

If you regularly and exclusively use part of your home or apartment (or a separate structure not attached to your house) as your principal place of business or as a place to meet with clients, you may be eligible for some home-office deductions. The area does not have to be a completely separate room within your home. For example, you might dedicate a larger room or section of your home for business. Again, documentation is key. Take a photo of the space you intend to claim, as an audit could be made several years after you've filed the return and you may have moved in the meantime.

Expenses that may be deducted include the business portion of real estate taxes, mortgage interest, rent, utilities, insurance, maintenance and repairs, and depreciation. The amount of the deduction depends on the percentage of the home or apartment you use for business. You'll calculate the home office deduction on Form 8829 and enter the allowable expense on line 30 of Schedule C. This deduction will decrease your profit, which lowers your income tax and your self-employment tax.

Be aware that these types of deductions are sometimes red flags for the IRS, so you'll want to be sure that you exclusively and regularly use this space for administrative or management activities for your business. These activities do not have to include actually doing acupuncture. You can include the time you spend on important aspects of running your business, such as paying bills, entering financial records, making appointments, studying continuing education material and updating your website, for example.

Tax Implications of Barter

Many people appreciate a good acupuncture, and you may find it helpful to trade acupuncture sessions for other services, whether related to your business (such as printing business cards or painting your office) or personal life (an oil change for your car or painting your house). It's important to keep in mind that these kinds of trades are taxable and should be recorded as taxable income. You may, however, be able to deduct some trades while others will simply be taxable income. For example, if

you trade acupuncture sessions for painting your office, you must include the cost of the acupuncture as income and take the painting expense as a deduction. But if you trade for painting your house, you would declare the price of the acupuncture you provide as income, but you cannot deduct the painting as it is for personal use, not a business expense.

Time to Call a Professional?

Depending on your own comfort level with tax planning and preparation, you may find it helpful to consult with a tax professional. You may also have additional tax obligations, such as city and county, personal property and business license taxes, which you'll want to be sure you're addressing properly, and tax laws and regulations often change. Or you may simply have an unusual or especially complicated situation.

If you decide this may be right for you, look for a tax professional who has experience in working with small businesses. Ask your colleagues for references. Professional tax assistance will mean an extra expense, but in addition to saving time, it may save you money in the long run by helping you avoid penalties or even identifying potential ways to reduce taxes based on your situation.

Keeping good records and understanding the tax implications of different aspects of your business can help you be better prepared for tax time, as well as be more aware of how you're doing throughout the year—all of which can help you build a successful acupuncture practice.

*Adapted from [AMTA Article](#)