

P-H Doctor's Tax Report

Re-Examine Your PC Compensation Package

The compensation you receive is not always fully deductible by your PC. It is disallowed to the extent it is considered "unreasonable." When it comes to determining whether or not compensation is reasonable, it is not just cash that counts.

The government and the courts look at your total compensation picture. Your salary is going to be the major factor — but it is not the only one that counts. Retirement plan contributions, group insurance premiums, sick pay, and medical reimbursements are also considered compensation for tax purposes and are going to be given a close examination.

Prentice-Hall's DOCTOR'S TAX REPORT refers to two new court cases which put this into sharp focus.

Case 1: Dr. Bianchi incorporated his dental practice. His PC's first tax year was only seven days long. During that short period, the PC made a \$16,000 contribution on the doctor's behalf to a retirement plan. It then deducted the contribution on its return for the seven-day tax year. *Court's decision:* No deduction. Reason: It was unreasonable. The court felt that a payment of \$16,000 for seven days work was excessive — and nondeductible — by any yardstick (Bianchi, 39 AFTR 2d 77-894).

Case 2: Mr. Levenson was president of the L&K Company; his son was the vice-president. It was estimated that Mr. Levenson managed about 40 percent of the company's business, his son around 60 percent. But under the compensation setup, Mr. Levenson's salary was never allowed to drop lower than his son's. The Government challenged Mr. Levenson's salary as excessive. The *court's decision* was that the salary was fully deductible by L&K.

One critical factor: Because of his age, Levenson was not covered by L&K's retirement plan and life and major medical insurance setups. The Court felt that Levenson's salary was reasonable when compared to his son's (Levenson and Klein, Inc. 67 TC No. 53).

In advance, you can set up the proof needed to substantiate your compensation. Spell out clearly in your PC minutes the reasoning behind your bonus or salary increase — for example, that prior compensation was inadequate or that your PC's success is largely due to your personal efforts.

Investors in Coal Can Anticipate Low-Taxed Profits

Investors are showing an increasing interest in coal. Demand is and will be increasing. Prices consequently should be rising. In other words, the economic outlook is bright.

But how about the tax outlook? Most astute tax-shelter investors know that the Government imposed two restraints on coal investors last year. First, a proposed regulation virtually destroyed the "advance royalty" shelter. Then the Tax Reform Act hit coal mining partnerships that use non-recourse loans. These two attacks did not knock out all of the tax benefits of investment in coal, says Prentice-Hall's DOCTOR'S TAX REPORT.

While many of the immediate leveraged writeoff benefits may have been eliminated, many tax shelter advantages remain for coal ventures.

For example, most investors go into coal for solid economic reasons and get some tax benefits in the bargain. While most of the attention has been focused on buying into high-writeoff coal deals, buying and then leasing out coal mining rights remains a major attraction.

The royalties you get on this buy-lease arrangement qualify as capital gain. Even better, the holding period

Continued on page 450

Tablets

Percodan® II

DESCRIPTION Each yellow, scored tablet contains 4.50 mg. oxycodone HCl (WARNING: May be habit forming), 0.38 mg. oxycodone terephthalate (WARNING: May be habit forming), 224 mg. aspirin, 160 mg. phenacetin, and 32 mg. caffeine.

INDICATIONS For the relief of moderate to moderately severe pain.

CONTRAINDICATIONS Hypersensitivity to oxycodone, aspirin, phenacetin or caffeine.

WARNINGS Drug Dependence Oxycodone can produce drug dependence of the morphine type and, therefore, has the potential for being abused. Psychic dependence, physical dependence and tolerance may develop upon repeated administration of PERCODAN®, and it should be prescribed and administered with the same degree of caution appropriate to the use of other oral narcotic-containing medications. Like other narcotic-containing medications, PERCODAN® is subject to the Federal Controlled Substances Act.

Usage in ambulatory patients Oxycodone may impair the mental and/or physical abilities required for the performance of potentially hazardous tasks such as driving a car or operating machinery. The patient using PERCODAN® should be cautioned accordingly.

Interaction with other central nervous system depressants Patients receiving other narcotic analgesics, general anesthetics, phenothiazines, other tranquilizers, sedative-hypnotics or other CNS depressants (including alcohol) concomitantly with PERCODAN® may exhibit an additive CNS depression. When such combined therapy is contemplated, the dose of one or both agents should be reduced.

Usage in pregnancy Safe use in pregnancy has not been established relative to possible adverse effects on fetal development. Therefore, PERCODAN® should not be used in pregnant women unless, in the judgment of the physician, the potential benefits outweigh the possible hazards.

Usage in children PERCODAN® should not be administered to children.

Salicylates should be used with caution in the presence of peptic ulcer or coagulation abnormalities.

PRECAUTIONS Head injury and increased intracranial pressure The respiratory depressant effects of narcotics and their capacity to elevate cerebrospinal fluid pressure may be markedly exaggerated in the presence of head injury, other intracranial lesions or a pre-existing increase in intracranial pressure. Furthermore, narcotics produce adverse reactions which may obscure the clinical course of patients with head injuries.

Acute abdominal conditions The administration of PERCODAN® or other narcotics may obscure the diagnosis or clinical course in patients with acute abdominal conditions.

Special risk patients PERCODAN® should be given with caution to certain patients such as the elderly or debilitated, and those with severe impairment of hepatic or renal function, hypothyroidism, Addison's disease, and prostatic hypertrophy or urethral stricture.

Phenacetin has been reported to damage the kidneys when taken in excessive amounts for a long time.

ADVERSE REACTIONS The most frequently observed adverse reactions include light-headedness, dizziness, sedation, nausea and vomiting. These effects seem to be more prominent in ambulatory than in nonambulatory patients, and some of these adverse reactions may be alleviated if the patient lies down.

Other adverse reactions include euphoria, dysphoria, constipation and pruritus.

DOSAGE AND ADMINISTRATION Dosage should be adjusted according to the severity of the pain and the response of the patient. The usual adult dose is one tablet every 6 hours as needed for pain.

DRUG INTERACTIONS The CNS depressant effects of PERCODAN® may be additive with that of other CNS depressants. See WARNINGS.

DEA Order Form Required.

PERCODAN® is a registered trademark of Endo Inc.

Endo Inc.

Manati, Puerto Rico 00701
Subsidiary of Endo Laboratories, Inc.
Subsidiary of the DuPont Company



for long-term treatment is determined by the date on which the coal is mined, not by the date of your lease.

Only coal and iron get this favorable tax treatment. Payments you receive for other minerals are taxed as ordinary income. (However, you get the same capital gain treatment for timber.)

If you lease property from an owner, and then sublease it to an operator, you get the same breaks as an owner.

The section of the Internal Revenue Code that spells out this tax break, Sec. 631(c), specifically includes a lessee who subleases and retains an economic interest. Your tax counsel may explain it accordingly:

You lease from an owner and agree to pay him two dollars a ton in royalties for all coal mined. You sublease to an operator who agrees to pay you \$2.50 a ton. Your gain of 50 cents a ton (the difference between what you get and what you pay) is taxed as long-term capital gains, assuming you have held the coal for the required holding period.

There are coal ventures structured for investors like yourself. But be careful to take the same precautions here as you do when investing in, say real estate. Only go into a syndicate formed by experienced, reputable people. Have the whole deal checked out by your lawyer and accountant. An especially good idea is to find out who your fellow investors are. If possible, get into a deal in which sophisticated coal people in the area are also investors. Instead of banking on one opinion — the syndicator's — get the benefit of two or three expert opinions.

New Tax Law Provides Special Tax Credit for Hiring New Employees

For the large PC down to the self-employed doctor, the most impressive benefit in the 1976 Tax Reform Act may well be the "New Jobs Credit." You can qualify for a tax

credit — a dollar-for-dollar reduction in your practice's tax bill — when you hire a new employee.

Each new employee may net you as much as a \$2,100 credit. Maximum credit per employer: \$100,000.

Prentice-Hall's DOCTOR'S TAX REPORT recently explained how to figure the credit: Your credit is 50 percent of your practice's credit base. Your credit base is the smallest of three different amounts. Consider them one at a time:

Credit Base #1:

This base — the one most employers will use because it is usually the smallest — is the amount by which your *aggregate 1977 Federal Unemployment Tax (FUTA) wages* exceed 102 percent of your 1976 FUTA wages.

Aggregate FUTA wages are the first \$4,200 of each employee's wages multiplied by the number of employees (including yourself if your practice is incorporated). An example demonstrates calculation of this credit base: Dr. Smith is a self-employed doctor. In 1976 he had one employee — his nurse, Miss Brown — who was paid \$10,000. Dr. Smith's 1976 FUTA aggregate: \$4,200 (the first \$4,200 of Miss Brown's salary). In 1977 Miss Brown still receives \$10,000. But Dr. Smith now hires a receptionist — Miss Green — who is paid \$8,000. Dr. Smith's 1977 FUTA aggregate: \$8,400 (the first \$4,200 of Miss Brown's salary and the first \$4,200 of Miss Green's). Dr. Smith's credit base is \$4,116. *Reason:* Dr. Smith's FUTA aggregate for 1977 (\$8,400) is \$4,116 more than 102 percent of his 1976 aggregate (\$4,284). *Result:* Dr. Smith gets a jobs credit of \$2,058 — half of his credit base.

Credit Base #2:

The next base is the excess of your total wages paid in 1977 over 105 percent of your 1976 wages. This base is the lowest — and, thus, the applicable one for figuring the credit — when there has been little in the way of an increase in your total payroll. Consider

Continued on page 466

DRIXORAL®

brand of dextbrompheniramine maleate, NF and d-isopropylamine sulfate
Sustained-Action Tablets

Clinical Considerations:

Indications: DRIXORAL Sustained-Action Tablets are indicated for the relief of symptoms of upper respiratory mucosal congestion in seasonal and perennial nasal allergies, acute rhinitis, rhinosinusitis and eustachian tube blockage. **Contraindications:** DRIXORAL should not be given to children under 12 years of age.

DRIXORAL should not be administered to pregnant women or nursing mothers, until the safety of this preparation for use during gestation and lactation is established. DRIXORAL is contraindicated in patients with severe hypertension and coronary artery disease. **Warnings:** As in the case of other preparations containing central nervous system-acting drugs, patients receiving DRIXORAL should be cautioned about possible additive effects with alcohol and other central nervous system depressants, such as hypnotics, sedatives and tranquilizers. Patients receiving DRIXORAL should also be cautioned against hazardous occupations requiring complete mental alertness, such as operating machinery or driving a motor vehicle.

Precautions: Preparations containing isopropylamine should be used cautiously in patients with the following conditions: hypertension; coronary artery disease or any other cardiovascular disease; glaucoma; prostatic hypertrophy; hyperthyroidism; diabetes. **Adverse Reactions:** The physician should be alert to the possibility of any of the adverse reactions which have been observed with sympathomimetic and antihistaminic drugs. These include: drowsiness; confusion; restlessness; nausea; vomiting; drug rash; vertigo; palpitation; anorexia; dizziness; dysuria due to vesicle sphincter spasm; headache; insomnia; anxiety; tension; weakness; tachycardia; angina; sweating; blood pressure elevation; mydriasis; gastric distress; abdominal cramps; central nervous system stimulation; circulatory collapse.

015

AUGUST 1973

For more complete details, consult package insert or Schering literature available from your Schering Representative or Professional Services Department, Schering Corporation, Kenilworth, New Jersey 07033.

SLS 509