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FINANCIAL FAQS FOR NEW ATTENDINGS

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CFG RESIDENCY OUTREACH RESOURCE LIBRARY

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FINANCIAL WELLNESS IS AN IMPORTANT ELEMENT TO YOUR OVERALL HEALTH

Interview By Carmelyn Vedar

Carmelyn Vedar of CFG Health Network, has asked partner and financial advisor, Katie Bennett from Financial Designs, Inc., some very important questions to help attendings with their financial wellness. A good understanding of financial wellness gives employees the ability to make better, more informed decisions and helps to make successful long-term economic goals. You might have many questions regarding tax implications to how you should tackle student loan debt. This article will provide you some insightful answers to many of your financial questions.

Financial Designs, Inc.

Financial FAQs for New Attendings

Q: What is the difference between being an employee (W2) and an independent contractor (IC/1099)?

A: As a W2 employee you likely have access to group insurance policies and a group retirement plan. Additionally, your employer pays half your employment tax and may provide other benefits like a 401(k) match. This employment status is typically a fairly easy "plug 'n play" approach. However, should you leave that employer, you can't take your group insurance plans with you (aside from the window that COBRA is applicable for health insurance). You also don't have as many tax saving and retirement saving opportunities.

The independent contractor status provides a variety of tax advantages and flexibility but there are more moving parts to manage. As an IC you can save up to $57,000 per year* in a tax-deductible retirement plan (even more if you hire a spouse or use a Defined Benefit plan), purchase *portable* insurance coverage, and save significantly in taxes by deploying a variety of strategies specific to the IC status (i.e. the QBI deduction, business expenses, health insurance/HSA, etc.)

Q: What are the tax implications of an employee (W2) vs an independent contractor (IC)?

A: As a W2 employee, your tax payments are withheld and filed by your employer. Your employer also pays for half of your FICA taxes (see the chart below). As an IC, your taxes are not withheld from your paycheck, and you therefore file quarterly estimates. You also are responsible for 100% of your employment taxes (although the tax savings in other areas usually far out way this tax liability). As an IC you can take additional deductions such as business expenses and health insurance premiums. You can also qualify to deduct 20% of your business income with the QBI deduction that was introduced in 2018.

W2 Taxes (for 2020)	**1099 Taxes (for 2020)**
Your FICA taxes are 7.65% on the first $137,700 of your income and 1.45% on any remainder. This increases to 2.35% on earned income over $200,000 for single individuals or $250,000 for married couples. Your employer also contributes 7.65% on the first $137,700 of your income and 1.45% thereafter.	You pay a 15.3% self-employment tax on your first $137,700 of income and 2.9% on any additional income thereafter. This increases to 3.8% for individuals earning more than $200,000 and married couples earning morethan $250,000. One half of your self-employment tax is deductible on your federal return.

Q: How do I determine the value of an employee benefits package?

A: It's best to work with an expert who can help you estimate the total annual financial value of the offer. If you have two different offers, it can be hard to make an apples-to-apples comparison without having a background in the nuances of insurance, tax and investment planning. FDI doesn't charge clients for these types of consultations.

Q: What are the tax implications of a signing on bonus?

A: A bonus is subject to taxes just like your regular income. If you are an independent contractor, be sure to set aside about a third of the value to account for taxes owed.

Q: What are the tax implications of a relocation incentive?

A: Relocation allowances are taxable as ordinary income. With the 2018 tax changes, relocation expenses are not tax deductible.

Q: Should I buy or rent a home after residency?

A: It depends. Every situation is different. Buying a house after residency can be a reasonable strategy, but it's important to consider your medium-term plan. For example, if you expect to move within the next two years, renting may be a better option. This decision should also be made in context with other aspects of your financial picture as well as current interest rates. In addition to considering home ownership, we advocate that new attendings should prioritize quickly addressing debt and tax-deductible savings opportunities.

Q: What is the best way to tackle student loan debt?

A: Work with an experienced advisor. Just like a home loan, the faster your pay off your debt, the less you will pay in interest. If PLSF is not an option for you, research refinancing options. Be sure to balance your debt pay-off with your tax-deductible retirement savings opportunities. Saving 24-34% in taxes by contributing to a retirement account can far outweigh the interest rate on your loans. Lastly, be sure to be up-to-date on special programs. For example, during COVID temporary rules have been put in place to help people with student loan debt receive temporary financial relief.

Q: Does being an IC affect my ability to buy a home?

A: There are banks that have programs that are structured to recognize the earning potential of a new attending (even if you don't have a history of your potential earnings to show in the application process). For example, US Bank has a special offering just for IC physicians.

Q: As an independent contractor, should I form an entity?

A: It depends. Work with an experienced CPA to make this decision. Depending on your gross income, you may save more if you bypass creating an entity and utilize the QBI deduction. For higher earners, forming an S-Corp can provide some tax savings.

*This reflects the max for 2019; if you are over the age of 50 the max is $63,500

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