

Client Case Study

Internal Medicine Physician – Private Practice

Published by Cobalt PacWest | CPAs & Advisors

Client Profile: Dr. Adams, MD

- **Age:** 52
- **Specialty:** Internal Medicine Private Practice + 1099-NEC Hospitalist Earnings
- **Income Structure:** Multi-entity configuration, including:
 - S Corporation (clinical services)
 - Single-Member LLC (consulting income)
 - Limited Partnership (investment holdings)
- **Family:** Married with two teenage children
- **Net Worth:** \$5.1 million
- **Primary Objectives:**
 - Accelerate retirement planning with optionality by age 58–60
 - Coordinate tax mitigation across diverse income sources
 - Transition practice ownership tax-efficiently
 - Fully fund graduate education for both children
 - Preserve and grow multigenerational family wealth

Advanced Strategic Tax Planning

Multi-Entity Optimization

- **S Corporation** structure for clinical revenue, enabling tax-efficient salary/distributions split
- **LLC (Schedule C)** used for 1099 hospitalist consulting income
- **Family Limited Partnership (FLP)** for passive investment income and generational wealth transfer
- **Reimbursement Strategy:** Implemented *Augusta Rule* and *Accountable Plan* for compliant expense reimbursements across entities
- **Intercompany Leaseback:** Structured internal lease for medical equipment and office space

Retirement Strategy: Defined Benefit + Mega Backdoor Roth

- Layered retirement funding using:
 - Defined Benefit Plan + Solo 401(k) for S Corp
 - SEP IRA for LLC consulting income
 - Mega Backdoor Roth executed via after-tax contributions and in-plan conversions

Education & Estate Coordination

- **529 Plan Super funding:** \$170K per child using 5-year accelerated gifting
- **Grandparent-Owned 529s** to optimize financial aid eligibility
- **Intentionally Defective Grantor Trust (IDGT):** Funded via annual Crummey gifts to facilitate wealth transfer

Real Estate & Passive Income Strategies

- **Cost Segregation Study** conducted on rental property to accelerate depreciation
 - **Healthcare Real Estate Syndicates:** Used for passive, non-correlated income and write-offs
-

Comprehensive Financial Planning Strategy

Investment Management & Asset Allocation

- Centralized portfolio with asset location optimization across tax-deferred, taxable, and Roth buckets
- **Investment Policy Statement (IPS):** Aligned with practice exit, children's education timelines, and cash flow needs
- Ongoing **tax-loss harvesting**, rebalancing, and CPA-coordinated cash flow projections

Retirement Modeling & Scenario Planning

- Modeled three distinct retirement pathways:
 1. Full retirement at 58 (no locums)
 2. Partial retirement with 0.5 FTE hospitalist consulting
 3. Practice sale and transition to medical-legal consulting via LLC
- Developed a **tax-aware withdrawal strategy**, including:
 - Strategic Roth conversions
 - Qualified Charitable Distributions (QCDs)
 - Charitable Remainder Trust (CRT) simulations

Education Funding

- Comprehensive education cost projections through graduate school, inflation-adjusted
- Tax-efficient 529 distributions coordinated with parental AGI thresholds
- **Donor-Advised Fund (DAF)**: Gifted appreciated securities to involve children in philanthropic giving

Estate Planning & Legacy Design

- **Revocable Living Trust**: Core estate structure
- **Irrevocable Life Insurance Trust (ILIT)**: Funded with second-to-die policy for estate liquidity

- **CLAT (Charitable Lead Annuity Trust):** Balances charitable impact with estate tax reduction
- Roth conversions timed to reduce future RMDs and estate tax liability
- Beneficiary alignment and trust integration across all accounts

Risk Management & Asset Protection

- **Umbrella Liability Coverage:** Increased to \$5M for home and rental assets
 - **Malpractice Insurance:** Split between primary practice and consulting activities with separate carriers
 - Reviewed California-specific asset protection strategies, including **homestead exemption optimization**
 - Evaluated **Private LTC Partnership Policy** with inflation protection
-

Practice Transition & Succession Planning

- Conducted formal practice valuation using earnings multiple and goodwill analysis
 - Structured **installment sale** to junior partner over a 5-year period
 - Drafted **Buy-Sell Agreement** with death and disability triggers
 - Created **Deferred Compensation Package** to retain key staff during transition
 - Allocated goodwill to 15-year amortization for enhanced post-sale tax benefit
-

Key Results & Long-Term Benefits

- ✓ **\$95,000+** in tax savings through layered entity structuring and retirement plan optimization
 - ✓ Fully funded, tax-advantaged education plan with financial aid optimization
 - ✓ Turnkey practice succession plan with built-in valuation and tax minimization
 - ✓ Reduced estate tax exposure through Roth conversions and charitable trust design
 - ✓ High-confidence retirement plan with flexible income streams and controlled healthcare costs
-

Summary

This case exemplifies the high-impact value of integrating tax planning and comprehensive financial planning to up-level and enhance financial and tax outcomes. With a coordinated, CPA-led advisory team guiding each component, Dr. Adams has achieved clarity, control, and confidence over his financial future - creating a powerful foundation for personal freedom and multigenerational success.

The complexity of coordinating hospital employment, potential side practices, student loan optimization, family tax planning, and long-term wealth building requires the integrated

expertise that only strategic tax planning + comprehensive financial planning + flawless year-end tax preparation can provide.

If you're a physician juggling your finances, you don't have to navigate it alone.

Ready for Strategic Tax Clarity?

At **Cobalt PacWest | CPAs & Tax Advisors**, we specialize in *strategic tax planning*, *tax compliance*, *CPA-level comprehensive financial planning*, and *advisory services* tailored for physicians, medical specialists, and healthcare families committed to minimizing taxes and building a secure financial future.

Whether you're navigating the complexities of hospital employment, managing side practice income, optimizing student loans, planning for your family's financial legacy, or growing long-term wealth—our integrated approach combines:

- **Proactive tax strategy**
- **Comprehensive financial planning**
- **Flawless year-end tax preparation**

...to help you align today's financial decisions with tomorrow's goals.

Feeling uncertain about your current financial path—for yourself, your family, or your business?

Cobalt PacWest Advisors

**Wondering if there's more you could (and should) be doing to reduce taxes and
accelerate progress toward the life you've envisioned?**

Let's talk. Schedule a complimentary 45-minute consultation with us. We'll understand
your unique needs—and help you move forward with confidence, clarity, and care.

Cobalt PacWest | CPAs & Tax Advisors – Office Locations

La Jolla Office

8910 University Center Ln, Suite 400

La Jolla, CA 92122

Ph: 858.754.8277

Los Angeles Office

1875 Century Park East, Suite 1700

Los Angeles, CA 90067

Ph: 424.230.3162

Orange County Office

3333 Michelson Drive, Suite 300

Irvine, CA 92612

Ph: 949.247.8339

npapagni@cobaltpacwestadvisors.com

www.lajollataxcpa.com

www.cobaltpacwestadvisors.com
