



Financial & Tax Guide for Medical Clinics

A Guide for Practice Owners — 2026 Edition

Running a clinic means caring for patients while also managing billing, staff, insurance payments and taxes. My own career started in dentistry and grew through years in clinics and healthcare administration, working with practice management software, patient services and scheduling. I've seen both sides of the front desk.

This guide covers the financial and tax topics that matter most for medical practice owners, in plain language, so you can plan ahead instead of being surprised at tax time. We're based in Seattle and work with practices across the country, so you'll also find notes for Washington practices along the way. If anything here raises a question about your practice, I'm just a call away, in English or Spanish.

— Diego R., Founder, AviTaxeS & Accounting Solutions

1. Entity Structure & Physician Compensation

Most states require medical practices to be organized as a professional entity, such as a professional limited liability company (PLLC), professional corporation (PC) or professional association (PA), and many states restrict who can own a medical practice. The right structure starts with your state's medical and business laws.

- Group practices often pay physicians through RVU-based compensation, a guaranteed salary or a productivity formula; each has different tax withholding and reporting implications.
- Locum tenens physicians are typically genuine 1099 independent contractors, but a physician working set hours under a clinic's direction, using its staff and equipment, usually is not. Misclassification is a real audit risk.

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Medical practices must be organized as a professional entity, a PLLC or professional corporation, under the Professional Service Corporation Act (RCW 18.100), not a regular LLC. The same framework applies to dentists, chiropractors and other licensed professions.

2. The QBI Deduction Cliff — Medicine Is an SSTB

Medical practices are classified by the IRS as a “Specified Service Trade or Business” (SSTB) under Section 199A. This matters because the valuable 20% pass-through (QBI) deduction shrinks and then disappears entirely as taxable income rises, and physician incomes often run high enough to hit this ceiling. 2026 figures:

Filing status	Deduction starts shrinking above	Deduction fully gone above
Single / Head of household	\$201,750	\$276,750
Married filing jointly	\$403,500	\$553,500

Above the upper figure, an SSTB gets zero QBI deduction, regardless of how the practice is structured. Because physician income tends to be higher than many other small business owners’, more clients in this field actually reach this ceiling.

Why this matters for planning. Many physicians don’t learn about this cliff until their accountant delivers the bad news at filing time. Proactive planning, especially retirement contributions, needs to happen well before year-end, not after.

3. Retirement Planning — A Genuine QBI Strategy

Because retirement contributions reduce taxable income, they’re one of the most powerful tools available for staying under the SSTB phase-out range above, not just a savings vehicle.

- **Solo 401(k):** up to \$72,000 in 2026 (\$80,000 at age 50 and over; \$83,250 at ages 60 to 63, with catch-up contributions).
- **Defined benefit / cash balance plans:** established physicians can often deduct well over \$100,000 per year, and more than \$200,000 in their 50s and 60s. The amount scales mainly with age and is set each year by the plan’s actuary.

A concrete example (simplified)

A physician with \$400,000 of taxable income contributes \$150,000 to a cash balance plan, bringing taxable income down to \$250,000.

- **Married filing jointly:** \$250,000 is below the \$403,500 threshold, so the full 20% QBI deduction comes back.
- **Single:** \$250,000 is still inside the phase-out range (\$201,750 to \$276,750), so only part of the deduction comes back, about a third.

Either way, the physician has also put \$150,000 toward retirement.

4. Revenue Cycle & Insurance Reimbursement

Medical billing is typically more complex and slower-paying than what most other small businesses deal with.

- Medicare, Medicaid and private insurers often take 30 to 90+ days to pay, with frequent claim denials and adjustments.
- Cash-basis accounting can badly distort a medical practice's real financial picture; accrual-basis accounting generally gives a truer view of what has actually been earned.
- Track accounts receivable by payer to catch slow-paying insurers and denial patterns early.

5. Practice Overhead & Equipment

Diagnostic and medical equipment typically qualifies for Section 179 expensing or bonus depreciation, letting you deduct the full cost in the year of purchase.

- In group practices, overhead (rent, staff, equipment) needs a clear, documented allocation formula among partners; an undocumented or informal split is a common source of partner disputes.
- Keep equipment (depreciable) and medical supplies (immediately deductible) in clearly separate bookkeeping categories.
- Malpractice insurance premiums are generally deductible as an ordinary business expense.

6. State & Local Business Taxes

State taxes on a medical practice vary widely: some states tax income, some tax gross receipts, and some cities add their own business taxes. Know which ones apply to your practice before you set budgets.

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B&O tax: Medical practices generally fall under the “Service and Other Activities” classification. The rate depends on your practice’s gross receipts in this classification from the prior year:

Prior-year gross receipts (this classification)	State B&O rate
Under \$1 million	1.5%
\$1 million to \$5 million	1.75%
Over \$5 million	2.1% (since October 1, 2025)

- Many cities, including Seattle, charge their own B&O tax on top of the state rate.
- B&O is based on gross revenue, not profit, so it applies even in a slow or break-even month.
- Washington has no personal or corporate income tax, which partly offsets the B&O cost compared with income-tax states.

Practicing outside Washington? State rules on practice ownership, entity type and business taxes vary. Contact us about the rules in your state.

How we help practices, all year

- **Tax filing:** practice and owner returns, quarterly estimates and state business taxes.
- **Tax planning:** year-end strategy, entity and S-corp review, retirement and equipment timing.
- **Bookkeeping & financial health:** monthly books, insurance-payment and receivables review, and a yearly deadline calendar.

Ready for guidance built around your practice?

AviTaxes & Accounting Solutions offers bilingual (English/Spanish) tax and bookkeeping guidance for healthcare practices, informed by direct experience in clinics and healthcare administration.

Book a free 15-minute consultation to see where your practice stands: [avitaxes.com](https://www.avitaxes.com) · avitaxes@gmail.com · (206) 609-0816

Also free from AviTaxes: the “7 Reasons Insurance Claims Get Denied” checklist and the 2027 Tax Calendar for Dental & Medical Practices, at [avitaxes.com](https://www.avitaxes.com).

Figures in this guide (rates, limits, thresholds) are current as of October 2026. They change, so verify current figures before acting on a specific number.

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