



## **Saving Florence Nightingale!**

### **Tax Planning Considerations for Traveling Nurses During the Corona Virus Pandemic - Part II**

#### **Overview**

In Part I of *Saving Florence Nightingale*, I mentioned the unprecedented times and opportunities facing traveling nurses during the Corona pandemic. Most of the demand has occurred in places deeply affected by the pandemic like New York City, Boston, and Detroit. These circumstances have created a great financial opportunity for traveling nurses. At the beginning of the pandemic, New York City was offering to pay nurses ten thousand dollars per week with free boarding. Nationally the weekly pay for traveling nurses has doubled to approximately \$4,000 per week or \$16,000 per month or \$192,000 per year.

On one hand, the financial opportunity is a once in a lifetime opportunity for the traveling nurse. On the other hand, the level of danger healthcare workers on the frontlines is not unlike soldiers in combat who receive combat pay but unfortunately must get shot at by the enemy in order to receive it.

This article is the second in a series of articles about not leaving money on the table for the Taxman. This article discusses how to avoid turning your biggest opportunity into the nurse's biggest nightmare because the nurse did not withhold properly for this additional income and ended up owing the IRS a bunch of money.

#### **Overview of Rules Dealing with IRS Income Tax Withholding**

In the current scenario, the traveling nurse faces a financial risk of being under withheld for federal income tax reporting purposes. The federal income tax system is a pay-as-you-go tax system, which means that the taxpayer must pay income tax as the income is earned. The taxpayer does this through withholding or making estimated tax payments. If the taxpayer doesn't pay enough tax throughout the year, either through withholding or by making estimated tax payments, the taxpayer may have to pay a penalty for underpayment of estimated tax.

A taxpayer can avoid this penalty if they either owe less than \$1,000 in tax after subtracting their withholding and refundable credits, or if they paid withholding and estimated tax of at

least 90% of the tax for the current year (2020) or 100% of the tax shown on the tax return for the prior year (2019), whichever is smaller. For high income taxpayers, the withholding level in order to avoid a withholding penalty is raised to 110% instead of 100% of the prior year. The income threshold in 2020 for this rule to apply for a joint tax return is \$150,000 and \$75,000 for a tax return for a taxpayer that is married but filing separately.

What does the underpayment penalty look like? A 20% penalty applies to any portion of an underpayment for which there is a substantial understatement of income tax. An “understatement” is defined as the excess of - (1) the amount of tax required to be shown on the return for a taxable year, over (2) the amount of tax imposed that is shown on the return reduced by any rebate. An understatement of income tax for a taxable year is “substantial” if the understatement exceeds the greater of 1) 10% of the tax required to be shown on the return for the taxable year; or 2) \$5,000.

Tax law allows the IRS to waive the penalty if the taxpayer did not make a required payment because of a casualty event, disaster, or other unusual circumstance and it would be inequitable to impose the penalty, or if the taxpayer is retired (after reaching age 62) or became disabled during the tax year or in the preceding tax year for which the taxpayer should have made estimated payments, and the underpayment was due to reasonable cause and not willful neglect.

The IRS allows for the abatement of the penalty if this is the first time that the taxpayer has requested the abatement within the last three tax years. However, the abatement provision does not apply to accuracy-related penalties such as underpayment. The IRS assesses an interest penalty of 5 percent currently on the outstanding balance of taxes owed.

## **Planning Example**

### **Facts**

Nurse Judy, age 45, is a single mother with children who works as a traveling nurse. When the pandemic broke, she accepted a contract with a hospital in New York City who agreed to pay her \$10,000 per week until the end of 2020. Her mother agreed to watch her children. She expects to earn \$280,000 through the balance of 2020. Her net income in 2020 is \$325,000. The hospital in New York provides boarding and meals. Nurse Judy would like to maximize her earnings as much as possible. She would like to accelerate payments on her mortgage and save as much money for retirement as possible.

### **Planning Strategy**

The best way to handle the problem is to know that the problem exists. For the traveling nurse in the example, waiting until April 14, 2021 is too late to realize the gravity of the problem,

Quarterly estimated payments follow the following schedule for 2020:

- 1st Quarter – July 15, 2020 (New extended deadline, changed from April 15, 2020)
- 2nd Quarter – July 15, 2020 (New extended deadline, changed from June 15, 2020)
- 3rd Quarter – September 15, 2020
- 4th Quarter – January 15, 2021

Nurse Judy can hire an accountant or an enrolled agent to create a pro forma of her tax situation for 2020. Nurse Judy or her accountant can use a program such as Quickbooks Self-employed and then use TurboTax (TaxCaster) or an equivalent program to create a trial tax return using Nurse Judy;s income and expenses for 2020 to project the tax estimate for each quarter.

## **Summary**

Traveling nurses more than deserve the financial windfall in the current pandemic given the danger and potential long-term health risk. The goal here is two-fold – 1) Minimize the income tax liabilities associated with the pandemic windfall using creative but legal strategies and 2) Make sure that you are compliant with IRS quarterly estimated payments so that the windfall does not become the IRS pandemic as a result of underpayment of taxes on the additional income. Be well and stay well!

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