CRNA Tax Deductions

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WCG CPAs & Advisors has more than 160 Certified Registered Nurse Anesthetists as 1099 contractors (aka business owners), and it is one of the fastest growing segments in our client base in 2024. As such, naturally we've had several discussions with CRNAs regarding their tax deductions.

Increased tax deductions is one of the primary reasons to ditch that W-2 job and convert to a 1099 contractor. Prior to the Tax Cuts and Jobs Act of 2017, W-2 employed CRNAs could deduct expenses, such as mileage and home office, associated with their work on Form 2106 (Employee Business Expenses) and eventually on Schedule A of their 1040 tax return. That is no more, but in 1099 land, all these wonderful business tax deductions are alive and well.

And yes, you might be a CRNA, but you are also a business owner when operating as a 1099 contractor. Let's get some basic housekeeping matters out of the way before we dive into CRNA tax deductions.

Housekeeping

Business is business.

While being a CRNA has some unique nuances, a 1099 contractor is considered a business owner. Therefore, most of the CRNA tax deductions below are universal to the general business world; we simply put a CRNA spin on them. Everyone wants to feel special, and we get that, but the tax code wasn't written specifically for certain professions or business owners; it was written with a generalist mindset. As such and as small business consultants, we explain and leverage the code to each business owner from their perspective.

Marginal Tax Rate

Quick lesson on small business tax deductions. When you write a check, and it has a tax savings element (office expense, 401k, IRA, charity, etc.) it is not a dollar for dollar savings. For example, if you are in the 22% marginal tax bracket, you must write a check for $4,000 just to save $880 in taxes.

Cash Savings or Tax Savings.

You can save $50,000 today! Yes, today! You just need to write a $150,000 check to your church. Huh? That might not sound like the best idea to a lot of people since so much cash is leaving. In other words, most people are in the cash-saving business, not the tax-saving business. If we can do both, great. However, most tax-savings moves take cash, and cash is what you want to keep. So keep this concept in mind as you review the CRNA business deductions below.

Building Wealth

At the end of your life, you'll measure your financial success on the wealth you built, not the tax you saved. We agree that a part of wealth building includes tax savings, but be careful not to sacrifice wealth for the thrill of a tax deduction (or deferral). Here is an example: let's say you stuff all your available cash into a tax-advantaged retirement account, such as a 401k. A few years go by, and a great rental comes on the market, but your cash is all tied up in a 401k. You just sacrificed potential building of wealth by not having an intermediate investment strategy for the sake of tax deferrals.

The Trick

Here's the trick. The Holy Grail, if you will. You need to find a way to deduct money you are already spending. Let's take automobile depreciation. You are already comfortable with automobiles losing thousands of dollars in value, especially in the early years, so let's find a way to make this degradation in value a tax windfall in CRNA business.

The hardest thing for a new 1099 CRNA is thinking of themselves as business owners. If concepts like revenue, expenses, and profit are foreign, then you are going to struggle for a bit until you get up to speed. A 1099 or locums contract is not just a new way of getting paid; it is a new way to conduct your finances.

Reimbursed by Agency or Hospital

To attract CRNAs, some agencies, hospitals, and clinics will pay for travel, lodging and / or meals with per diem, stipend or some other reimbursement. Cool, right? There are a couple of things to keep in mind on these expense reimbursements:

1. You must have incurred an associated expense equal to or exceeding the reimbursement, and **any excess reimbursement is considered taxable income** (or must be returned, but shockingly, exactly zero people do that).
2. Some agencies, hospitals, or clinics will add these reimbursements to your daily or hourly rate, and issue a 1099-NEC tax form accordingly. Therefore, this combined amount becomes "top-line revenue" on your business tax return since your tax return revenue must equal or exceed the issued 1099s (yes, the IRS computers verify this). In turn, the reimbursements for these expenses will be taxable income unless you've tracked and deducted these same expenses on the business tax return.

We've seen it all different ways so the net-net of all this is to track expenses regardless if they are reimbursed or not.

Business Tax Deduction Concepts

There are some over-arching themes and concepts for all small business deductions. The business expense must be:

1. Ordinary and necessary (**IRS Publication 334**), and
2. Paid or recognized in the current tax year, and
3. Directly related to your business, and
4. Reasonable, and not lavish or extravagant (IRC Section 162 and **IRS Publication 463**).

Let's break these down. An ordinary expense is one that is common and accepted in your field of business, trade, or profession. A necessary expense is one that is helpful and appropriate, although not necessarily required, for your business.

The expense must be related to your business — that seems obvious. Finally, the expense must not be lavish or extravagant. So, your Board of Directors meeting might spend $500 on catering but a $5,000 expenditure to hold your board meeting in Fiji might be considered lavish and extravagant. Be reasonable out of the gate, and it will be hard for the IRS to knock you off your perch.

A lot of this material comes from **Chapter 11 of our book**, Taxpayer's Comprehensive Guide to LLCs and S Corps. Please check it out since we have truncated a lot of the following business tax deductions in this writing.

Here we go… buckle up buttercup because the first CRNA tax deduction is automobiles.

Automobiles

There are two options here. Own the automobile in your business, or own it personally and get reimbursed by the mile. There are two end points to this spectrum. A frugal $40,000 automobile driven 15,000 miles a year is probably better suited to be owned personally. This is because of the tax arbitrage that exists in the mileage rate (62.5 cents for the 2022 tax year) since your automobile likely operates for less than the tax-free reimbursement.

A luxury $90,000 automobile driven 8,000 miles a year for your CRNA business is better suited to be owned by the business. It's the $60,000 automobile that is driven 8,000 miles a year that can be a chin-scratcher. Should you own it personally or own it in the business? It might not matter either way.

We can help you decide which way to go. A few more pointers on automobiles:

- If you own the automobile personally and your S Corp is reimbursing you for the mileage, then all expenses must be paid by you, the person, and not the business. We see this messed up all the time. No biggie, just stop doing it.
- If you own the automobile in your business, you will deduct actual expenses such as gas, insurance, maintenance, etc. You cannot deduct mileage and deduct actual expenses. You must choose one or the other.
- It's likely your CRNA business is an LLC taxed as an S Corp. Therefore, the tax deduction for mileage is done on the S Corp tax return. This is when the business reimburses you, the employee, for the business use of a personal automobile. In other words, there is not a mileage deduction available to an S Corp unless it is a reimbursement made to an employee (**as a sidebar**, an S Corp owner is both a shareholder and an employee).

We could go on and on like Journey's Don't Stop Believing, but we need to move along.

One more tidbit! Rental cars used while doing a temporary duty assignment away from your tax home is a common CRNA tax deduction.

Home Office

The home office tax deduction by itself can be lousy. A typical business owner with a typical home will see $200 to $250 cash in their pocket with a home office tax deduction. Why? The bulk of the home office expense, such as property taxes and mortgage interest, are already deducted on Schedule A of your individual tax return. The $200 to $250 comes from insurance, HOA dues, utilities, and maintenance that are otherwise non-deductible. We are not trying to value-assess your money, and certainly $200 to $250 is nice, but we want to illustrate that it is not some massive hammer of a tax deduction (but there is a caveat below).

Here's another example: $100 in cleaning supplies (which is a lot of cleaning supplies even for the most germophobic Howard Hughes type) will be $100 x 5% (office size relative to house) x 37% (tax bracket) or $1.85 cash in your pocket. You can't even go to Taco Bell on that. **See Temporary Duty Assignment below for an interesting twist on this.**

However, where the home office has a ton of tax deduction potential is mileage. This is the caveat alluded to earlier. Without a home office, your mileage or automobile expense to your contractor gig location is considered commuting and therefore non-deductible. Yeah, that stinks, but check the home office box, and boom, your mileage is suddenly business travel between work locations.

Keep in mind that generally speaking, the Augusta rule where you can rent your house to your business tax-free for 14 days goes out the window when leveraging a home office. What is this August rule you speak of? If you rent your home to anyone, including your business or other businesses, for 14 days or less, that rent income is not taxable (yet the rent paid by others might be deductible for them… a little tax arbitrage). Holding Board meetings for a party of one 14 days a year is not going to fly. Hosting a monthly meeting among other business associates in an attempt to promote your own business, and garner more revenue, certainly works well (WCG has a Pampered Chef owner who earns about $100,000 each year, and she hosts monthly demonstrations in her home. The perfect use of the Augusta rule).

Cell Phone and Internet

Cell phone expenses are generally mixed-use between personal and business, unless you have two cell phones. Same with internet. The business need for cell phones and internet connectivity is huge for CRNAs since managing cases and schedules is a continuous and require business activity. These mixed-use expenses are paid for personally and then reimbursed by the business based on a percentage of business use.

Most CRNAs see anywhere from 60% to 80% business use for cell phones and internet.

Sidebar: Reimbursements for mileage, home office, cell phone and internet are usually done at tax time. Let’s say over the course of the year you take out $200,000 as shareholder distributions from your 1099 CRNA business. We would reclassify a portion of these distributions as reimbursements. Therefore, your $200,000 in distributions might actually be $180,000 in distributions with $20,000 as CRNA tax deductions.

Meals

Your general lunches in the hospital cafeteria are not deductible. However, if you meet with a colleague to discuss the latest locums contract you are considering or that nut job doctor no one likes, and happen to have a meal with this business meeting, then that becomes a tax deductible business meal.

If you are traveling away from your tax home, such as a small weekend jaunt to another hospital, then your travel meals are tax deductible. The two keys are a) away from your tax home and b) substantial rest (hotel or lodging). See Temporary Duty Assignment below.

Per Diem

Sole proprietors including single-member LLC owners, and partners are allowed to deduct the federal per diem rate for meals. Lodging can only be deducted using the actual cost of lodging. Where are S corporations? You are not going to like this. Employees of corporations are eligible for per diem allowances, reimbursements and deductions unless this same employee owns more than 10% of the corporation.

This means that most S corporation shareholders are hosed, and can only deduct (or get reimbursed) for actual meal costs. **IRS Revenue Procedure 2011-47** has this limitation and **IRS Publication 463** states in part “A per diem allowance satisfies the adequate accounting requirements for the amount of your expenses only if…you are not related to your employer.”

Locums or Temporary Duty Assignments (TDY)

The IRS sums this up nicely in IRS Topic 511 Business Travel Expenses which comes from IRS Publication 463-

> You're traveling away from home if your duties require you to be away from the general area of your tax home for a period substantially longer than an ordinary day's work, and you need to get sleep or rest to meet the demands of your work while away.
>
> Generally, your tax home is the entire city or general area where your main place of business or work is located, regardless of where you maintain your family home. For example, you live with your family in Chicago but work in Milwaukee where you stay in a hotel and eat in restaurants. You return to Chicago every weekend. You may not deduct any of your travel, meals, or lodging in Milwaukee because that's your tax home. Your travel on weekends to your family home in Chicago isn't for your work, so these expenses are also not deductible. If you regularly work in more than one place, your tax home is the general area where your main place of business or work is located.
>
> In determining your main place of business, take into account the length of time you normally need to spend at each location for business purposes, the degree of business activity in each area, and the relative significance of the financial return from each area. However, the most important consideration is the length of time you spend at each location.
>
> You can deduct travel expenses paid or incurred in connection with a temporary work assignment away from home. However, you can't deduct travel expenses paid in connection with an indefinite work assignment. Any work assignment in excess of one year is considered indefinite. Also, you may not deduct travel expenses at a work location if you realistically expect that you'll work there for more than one year, whether or not you actually work there that long. If you realistically expect to work at a temporary location for one year or less, and the expectation changes so that at some point you realistically expect to work there for more than one year, travel expenses become nondeductible when your expectation changes.

If you take a locum CRNA position for three months in a lovely Colorado mountain town because the go-to CRNA is on maternity leave, your travel, lodging, and meals are all deductible. Yay! There are some other deductions too, but those are the big ones.

Your lodging is deductible, Yes, but what about an RV or a camper as you travel from town to town, state to state? WCG has several traveling medical personnel (and other business owners such as independent insurance adjusters chasing natural disasters) using an RV as their temporary housing. In these situations, we determine a business use percentage and have the business reimburse you accordingly.

What about groceries? Yes, meal-related groceries are typically deductible as a meals expense.

What about cleaning supplies, toilet paper, etc.? Yes, to a certain degree these are deductible. When you stay at a hotel, they are indirectly charging you for cleaning, cleaning supplies and other things within their cost structure through their nightly rate. Keep it reasonable. Keep it deductible.

Being an Itinerant

Keep in mind the IRS definition of itinerant (**IRS Publication 463**)

> If you do not have a regular or a main place of business or post of duty and there is no place where you regularly live, you are considered an itinerant (a transient) and your tax home is wherever you work. As an itinerant, you cannot claim a travel expense deduction because you are never considered to be traveling away from home.

If you are deemed an itinerant, then your travel, meals, and lodging expenses are no longer tax-deductible. Let's break this down because it is a big deal. If you bounce from locum to locum, contract to contract, and do not return to a "home base" where you regularly live, then your tax home travels with you. If your tax home and your work place are the same, then travel is considered commuting, meals are considered personal and lodging is considered personal rent. In other words, not tax-deductible.

Another way to look at this- it is not about the contract's location or the temporary nature of your contracts, it is all about maintaining a residence where you regularly live ***and also work*** (at least part or some of the time).

Scenario A- You have a home in Dallas. You take a contract in Minnesota for the summer, and then return to Dallas for several months. You accept a contract in Florida the following spring and another in Minnesota that summer. You later return to Dallas. This is a wonderful example of an acceptable temporary duty assignment, and meals, travel and lodging are likely to be tax deductible.

Scenario B- Same situation above, but you do not return to Dallas for 18 months. This one gets a bit tricky. Perhaps the first 12 months are deductible since you always intended to return, but the last 6 months are not. This scenario would need more discussion.

Scenario C- You live in Idaho along with your family. You take contracts in various metro areas (cities) throughout Oregon. You regularly return to your personal residence in Idaho, and magically your family is still there. Oregon would be considered your tax home since you cannot satisfy IRS Publication 463 tax home determination #1 (see below).

Scenario D- Using the RV from above, most of your immediate possessions including your dog travel with you from city to city, contract to contract. You rent out your home back in Dallas. You are likely to be deemed an itinerant.

Tax Home Determination

Questions revenue agents ask when determining residency and tax home (and sometimes referred to an abode).

1. Where is your drivers license? Where is your car registered? Do you have a car?
2. Where do you vote?
3. Where are your possessions? In storage or in your residence?
4. Do you rent your residency to anyone? Where is your family (with you or back home)?
5. Where do you earn your income? Do you earn a substantial amount of income close to your residence?
6. Do you have proof of living expenses such as meals, gas for your car, recreation and utilities showing your return to your residence (this one trips up people a lot)?

Here is another blurb from Publication 463:

> **Factors used to determine tax home.** If you don't have a regular or main place of business or work, use the following three factors to determine where your tax home is.
>
> 1. You perform part of your business in the area of your main home and use that home for lodging while doing business in the area. **Most traveling CRNAs cannot meet this test.**
>
>> *How to read – you generally must earn as much in the metro area of your main home as you do in any other location. For example, home is Florida where you earn $125,000. You earn $80,000 in New Hampshire and another $56,000 in South Carolina on temporary contracts. This satisfies #1.*
>
> 2. You have living expenses at your main home that you duplicate because your business requires you to be away from that home. Read that again- "you have living expenses at your main home." **Most traveling CRNAs also cannot meet this test.**
>
>> *How to read – you must be able to show that you have grocery bills, utilities, recreation expenses, bar bills, dining and other "living life" expenses in all locations (your main home and your other geographical areas). If you only*

have these types of of expenses in your "locums" locations, you will not satisfy #2.

3. You haven't abandoned the area in which both your historical place of lodging and your claimed main home are located; you have a member or members of your family living at your main home; or you often use that home for lodging.

How to read – you must show familial ties to your main home, either directly with your butt staying there or members of your family staying there. If you return only on occasion, and your family such as a spouse, travels with you, #3 is harder to meet. Having said this, #3 is certainly more squishy than the others.

If you satisfy **all three factors**, your tax home is the home where you regularly live. If you satisfy only two factors, you may have a tax home depending on all the facts and circumstances. If you satisfy only one factor, you are an itinerant; your tax home is wherever you work and you can't deduct travel expenses.

WCG CPAs & Advisors follows the rules above. While your friend who travels all over the country for multiple years and deducts all their traveling, meals and lodging means three things- a) they might think they are deducting it but their tax pro quietly doesn't allow it, b) their facts and circumstances are not like yours or c) their tax pro doesn't know the basics. This isn't a gray area. Publication 463 is quite clear. Please stop talking in the O.R. or logging a bunch of time on Facebook. The misinformation will drive you crazy.

Tax Court Cases

One of the best ways to illustrate the issue is a quick review of some Tax Court cases

Barrett v. Commissioner, **Tax Court Memo 2017-195**

Barret was a video producer in Las Vegas, Nevada (this is getting good already). His employer constructed offices in Washington, D.C., which required Barrett to travel to and from several times a year. His average stay in Washington was about two weeks.

Barrett claimed about $55,000 in travel expenses and the IRS challenged arguing that his tax home was in Washington and not Las Vegas. However, the Tax Court disagreed with the IRS because Barrett proved that he did substantial work for his employer in Las Vegas in addition to the work in Washington. As such, his tax home was considered Las Vegas and not Washington. Specifically, the court quoted Markey v. Commissioner (490 F.2d 1249, 1255)-

> Determining the principal place of business includes review of the location where the taxpayer spends more of his time, engages in greater business activity, and derives a greater proportion of his income.

This allowed him to deduct his travel expenses including lodging and meals since he was not commuting to his tax home. A win for Barrett. But… he eventually lost since he could not substantiate his expenses. So while he was allowed to deduct associated expenses, his record keeping was shoddy. Shocking.

Bigdeli v. Commissioner, **Tax Court Memo 2013-148**

Another variant of the tax home issue for business income is the deduction of business expenses. We have yet another Tax Court case that is eerily similar to the Barrett case above. In this, case the taxpayer was an oral surgeon living in Pennsylvania who traveled 130 miles to New York where he worked at a dentist office.

His personal home was Pennsylvania and his tax home was New York. His $55,950 in travel expenses for the two years in question were disallowed because a) they were personal non-deductible commuting expenses and b) his work location and subsequent tax home did not meet the temporary work location rules.

What if Bigdeli had a home office where he performed administrative functions in addition to his primary work functions outside the home? No dice. See Tax Home article below.

Here’s one more, if you still doubt how this rule works:

Michael E. Brown, et al. v. Commissioner of Internal Revenue, No. 19-12653 (11th Cir. 2020)

The Tax Court sustained the disallowance of Brown’s deductions, finding that Pennsauken was his tax home at the time the travel expenses were incurred due to the following factors: His engagement with AFR was indefinite; he worked four days a week in Pennsauken; AFR was his only source of income during the time the travel expenses were incurred; and there was no evidence he had multiple clients at multiple locations. In addition, after the Tax Court concluded that his tax home was in Pennsauken, it found that the travel was primarily motivated by a desire to see his family, with no evidence that the travel had a business purpose.

Here is the full write-up from the **Journal of Accountancy**.

Type “tax home tax court cases” into Google, and you’ll nauseate yourself to sleep.

Insurance

Malpractice insurance is an easy one, so we will move along.

Health insurance which includes dental and vision is fully deductible even if you cover your spouse and / or children. What is also great about health insurance is that the IRS considers it a fringe benefit for certain shareholders, and it is added to overall officer compensation on an S Corp tax return and therefore deducted. Why is this great? Good question! It reduces the amount of actual salary paid and therefore the amount of Social Security and Medicare taxes.

Let’s say your reasonable officer compensation is $100,000. If you also have $10,000 in health insurance, your actual salary will be $90,000, yet your officer compensation will show $100,000. If you are in the 37% marginal tax bracket, this little health insurance deduction saved you 37% in income taxes plus 15.% in Social Security and Medicare taxes. So, this $10,000 actually costs you $4,800 in cash. Sure, it still stinks, but it has less stink.

Disability insurance

Yes, you should have your disability insurance paid by the business. No, it is not an income tax deduction; otherwise the benefits paid would be taxable income. But! It adds to the reasonable salary test like the health insurance example above but only for Social Security and Medicare. Said in another way, you are saving 15.3% in taxes with disability insurance being paid by the business.

Mechanically on the business entity tax return (S Corp, for example), wages + health insurance + HSA + disability are considered Officer Compensation on Line 7. This amount magically is also represented in Box 1 of your W-2, and adjusted for pre-tax 401k employee deferrals. Here’s where the non-deduction of disability happens: on your individual tax return (Form 1040), the W-2 income is brought in, but only health insurance and HSA are deducted as an adjustment for adjusted gross income. In other words, disability is deducted on the S Corp tax return, but later picked up as income on the 1040 tax return resulting in a net-zero effect (it’s not taxed nor is it deducted).

This is in contrast to self-employed health insurance. That is deducted on the S Corp tax return as Officer Compensation, picked up as gross income on the 1040 tax return, and then later deducted on the 1040 tax return as an adjustment to arrive at adjusted gross income (AGI). We call this an “in and out” (like the burger) income comes in as taxable, and then goes out with the deduction. So ultimately, self-employed health insurance is deducted on the S Corp tax return and reduces your K-1 income accordingly. Sure, disability lowers your K-1 income too, but you pick it up as income in wages, hence the net-zero effect as mentioned above.

Phew! That was a lot.

Education

You can deduct education expenses if they improve your current work skills. For example, Alesia Quante's 1099 CRNA Freedom Masterclass is improving your current work skills by making you a more informed business owner and improving your overall CRNA contractor work skills. There are several tax court cases where people have deducted their MBA education under similar pretenses (some successful, and others not so much… it is oddly divided frankly).

Of course, any education or classes required for recertification or continuing education as required by your profession is a CRNA tax deduction.

Professional Attire

The tax court is very clear on this. Any clothing that is suitable for everyday use is not tax-deductible. However, there are some finer points to this. What about shoes that are only allowed in the operating room? Does this rule make shoes a de facto required uniform which is governed by a handbook somewhere, and therefore deductible? Perhaps.

CRNA Tax Strategies

There are some other CRNA tax deductions that are akin to tax strategies. We won't expand on these here, but be aware of:

1. Adding Spouse to Payroll
2. Adding Children to Payroll
3. Using a 401k Plan Over a SEP IRA
4. Roth 401k versus Pre-Tax 401k
5. Tax-Free Rental of Your Home

You can see our blog post on overall **tax reduction strategies** for more explanation. We also have a tax strategy tool that produces a report detailing each tax strategy, the tax savings and the rules. It is super cool, and provides a great what-if discussion on various tax moves. Ask us how.

Good Habits

With any business, and not just CRNAs and not just S Corps, money management is super important. Here are some quick guidelines:

- Have a separate checking account for your business activities.
- If the expense is 100% business, then have the business pay for it. For example, a meal with a business associate.
- If the expense is mixed use, such as a personally owned automobile or cell phone, then pay for it personally and then get reimbursed by your business.
- If you believe a cash outflow is an expense, pay for it with business funds and track it. We will review during tax return preparation. If it is later determined to not be deductible, we will simply reclassify the expense as a shareholder distribution. This does not mean pay everything including your home mortgage with business funds; that is co-mingling and considered bad. But an oopsie here and there because you're a CRNA and not an accountant is okay.

CRNA Tax Deductions Summary

Every business is distinctive, but the rules of tax deductions are universal. We slanted the above the tax deductions for CRNAs, but the underlying eligibility of the tax deduction is not unique.

Wanna chat about your situation? Let’s do it.JTVCd2NnLWNvbnRhY3QtdXMlNUQ=*Jason Watson, CPA is a Senior Partner of WCG Inc., a business consultation and tax preparation CPA firm located in Colorado Springs, and is the author of* ***Taxpayer’s Comprehensive Guide on LLC’s and S Corps*** *which is available online and from mostly average retailers.*