October 9, 2017

Dear Chairmen Hatch and Brady, and Ranking Members Wyden and Neal,

I am writing on behalf of nearly 90,000 member veterinarians of the American Veterinary Medical Association (AVMA) to applaud your efforts to improve our current tax system and to make it simpler and fairer for all Americans. As the Finance and the Ways and Means Committees work to reform the tax code, I would like to highlight some of small business tax provisions I believe will most benefit AVMA member veterinarians.

Most veterinary clinics are small businesses with some organized as limited-liability companies (LLCs), some as S-corporations, and others as C Corporations. Our members treat animals of all types; they can also concentrate on treating specific types of animals such as different livestock and poultry species, companion animals, wildlife and zoo animals and exotic animals. Also, our members can specialize including in surgery, internal medicine, emergency medicine, cardiology, neurology, oncology, dermatology, orthopedics and other veterinary specialties. While their practices differ their reliance on a fair tax code does not. For these reasons, AVMA’s interests straddle both the business and individual portions of the tax code. In our estimation, the following tax provisions would be of highest importance to AVMA member veterinarians.

**Cash Accounting**
AVMA supports the continued use of the cash method of accounting for small businesses. Cash accounting is used by veterinary practices billing under $5 million. Businesses with revenue above $5 million are required by the IRS to use the accrual method. In the cash method, veterinarians book revenue when they receive the money and expenses when they spend money. The cash method of accounting is a simpler and fairer system for veterinarians who often must wait before
being reimbursed for the services they provide to their animal patients. In addition, veterinarians may provide animal owners with extended payment plans for services rendered which delays payment for patient care performed.

**Pass-through Entities**
AVMA supports the fair treatment of business income generated by pass-through entities. As previously stated, many veterinary practices are organized as pass-through entities. As Congress takes steps to reduce the tax rate on C corporations to as low as 20 percent, we encourage you to lower the rate for S corporations or pass-through entities currently taxed at the individual rate. The tax reform outline unveiled by GOP leaders would lower the rate to 25 percent.

**Veterinary Care in High Needs Areas**
AVMA supports exempting awards under the Veterinary Medicine Loan Repayment Program (VMLRP) that are presently subject to 39 percent withholding taxes. Based on precedent set by Congress in 2004,**1** Sen. Mike Crapo with Sen. Debbie Stabenow and Rep. Adrian Smith with Rep. Ron Kind proposed legislation to accomplish this. Each year through a competitive process, the U.S. Department of Agriculture selects between 50-60 veterinarians to participate in the VMLRP. Each participating veterinarian signs a contract with the USDA to practice food animal, mixed animal or public practice (food safety, public health, epidemiology, pathology, molecular diagnostics, virology, toxicology, immunology, bacteriology, serology, foreign animal disease preparedness, and livestock infectious diseases) in a high needs area (federally designated veterinary shortage situations identified by each State Animal Health Official). Exempting VMLRP awards from withholding taxes will give the program parity with the National Health Service Corps program for physicians, dentists and other health care providers practicing in health profession shortage areas.

**Use of Pre-Tax Dollars for Health Care**
AVMA urges expansion and increased flexibility of health savings accounts (HSAs) and flexible spending accounts (FSAs), as well as preservation of the current tax exclusions for employer-provided medical and dental plans. AVMA supports returning the FSA limits to the pre-Affordable Care Act level of $5,000 and continuation of the index to inflation provision. Currently, FSA reimbursement is limited to $2,550 for 2017.

**Higher Education Incentives & Tackling Student Loan Indebtedness**
Veterinarians graduate with an average debt of nearly $150,000 in student loan debt while average starting salaries is around $75,000. Educational debt impacts new and aspiring veterinarian’s practice decisions – including the areas of practice pursued (livestock medicine, mixed animal, companion animal medicine, public health, or another area of veterinary medicine), and whether to work in research, academia, for federal or state governments, or in veterinary shortage or rural area.

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1 The National Health Service Corps’ loan repayment program was exempted from 39 percent withholding taxes by the American Jobs Creation Act (PL 108-357), enacted on Oct. 22, 2004.
Currently, educational loans forgiven under income-driven repayment plans (IDR) such as Pay As You Earn are considered taxable income. IDR plans are essential tools to help manage student debt – letting veterinarians devote 10-15 percent of their income to loan payments each month for 20-25 years. However, the remaining balance that is forgiven is taxed as income. AVMA urges you to make IDR forgiveness tax exempt.

Finally, AVMA encourages you to consider other measures that help relieve educational debt when considering options for streamlining the current patchwork of higher education tax incentives such as allowing employers to contribute pre-tax earnings to help subsidize student loan payments for their employees and expand the exclusion for employer-provided educational assistance programs.\(^3\)

The AVMA looks forward to working with you in the coming months on tax reform. We appreciate the opportunity to provide you with specific business tax reform priorities that would assist veterinarians. Please do not hesitate to contact Gina Luke, Assistant Director, Division on Governmental Relations for the AVMA, at 202-289.3204 if you or your staff have any questions or would like additional information.

Sincerely,

Janet D. Donlin, DVM, CAE
Executive Vice President and Chief Executive Officer

\(^3\) H.R. 795, Employer Participation in Student Loan Assistance Act, S. 796, Employer Participation in Repayment Act of 2017 and H.R. 2551, Student Loan Debt Relief Act.