

McLean, Koehler, Sparks & Hammond

Certified Public Accountants/Business Consultants

Physician Services

Consider tax rules when purchasing new equipment

Knowing rules of equipment depreciation pays off



This is a tale of Quick & Hasty, P.C., and Plan & Ponder, LLC, two successful medical practices.

Each practice operates out of two locations, and each is acquiring new pieces of expensive medical diagnostic and testing equipment. The equipment, fully installed, will cost \$125,000 at each location.

Quick & Hasty (Q&H) is eager to get the new equipment operational in both of its locations. The practice plans to place its order in October so the equipment will be delivered and installed in November. The Q&H medical staff will begin using the equipment with patients in December 2007.

These two pieces of equipment are the only depreciable assets that will be acquired and placed in service by Q&H during 2007.

Plan & Ponder (P&P) also plans to place its order in October. However, on the advice of its tax adviser, P&P will schedule delivery and installation at one location in November 2007 and at the other location in January 2008.

The practice will direct all patients to one location for required diagnosis and testing during December.

Use of the new equipment at P&P's second location will begin in January 2008. These two pieces of equipment are the only depreciable assets to be acquired and placed in service by P&P during 2007 and 2008.

As the table below shows, both Quick & Hasty, P.C., and Plan & Ponder, LLC, will be able to deduct the entire \$250,000 purchase price of the new equipment for tax purposes.

However, by following the advice of its tax adviser and delaying the placed-in-service date for part of the equipment by one month, P&P will reap the benefits of its \$250,000 tax deduction by the end of 2008. At that point, Q&H will have claimed less than 75 percent of that amount.

Two important tax rules come into play in this analysis. One rule allows the immediate tax deduction for up to \$125,000 (new 2007 limit) of tangible personal property placed in service during the tax year.

The second rule limits the amount of depreciation deductions that can be claimed in the first year if more than 40 percent of the depreciable tangible personal property acquisitions are placed in service during the last three months of the tax year.

Q&H's \$250,000 worth of equipment exceeds the \$125,000 deduction limit for 2007. The extra \$125,000 can be depreciated, but the practice's 2007 depreciation deduction is also limited by the 40-percent rule. The depreciation deductions will be spread over six years, assuming the equipment qualifies as five-year depreciable property.

In contrast, P&P receives only a \$125,000 tax deduction in 2007, which is less than that obtained by Q&H. However, P&P is able to deduct the remaining \$125,000 in 2008, improving the value of its tax deductions measured on a present value basis.

It's generally a good idea to discuss major business plans with your tax adviser prior to taking action.

Tax year		A&H	P&P
2007	Cost of equipment placed in service	\$250,000	\$125,000
	Immediate tax deduction under Section 179	125,000	125,000
	Balance available for tax depreciation	125,000	-0-
	2007 tax depreciation under MACRS	6,250	
	Total 2007 tax deductions	131,250	125,000
	Tax savings at (assumed) 30% rate	39,375	37,500
	Present value of tax savings at 6%	39,375	37,000
	Cost of equipment placed in service		125,000
2008	Immediate tax deduction under Section 179		125,000
	Balance available for tax depreciation		-0-
	2008 tax depreciation under MACRS	47,500	
	Total 2008 tax deductions	47,500	125,000
	Tax savings at (assumed) 30% rate	14,250	37,500
	Present value of tax savings at 6%	13,443	35,377
2009	2009 tax depreciation under MACRS	28,500	
	Tax savings at (assumed) 30% rate	8,550	
	Present value of tax savings at 6%	7,609	
2010	2010 tax depreciation under MACRS	17,100	
	Tax savings at (assumed) 30% rate	5,130	
	Present value of tax savings at 6%	3,250	

2011	2011 tax depreciation under MACRS	13,675	
	Tax savings at (assumed) 30% rate	4,103	
	Present value of tax savings at 6%	3,250	
2012	2012 tax depreciation under MACRS	11,975	
	Tax savings at (assumed) 30% rate	3,592	
	Present value of tax savings at 6%	2,685	
All years	Total tax deductions claimed	250,000	250,000
	Total tax savings at 30%	75,000	75,000
	Present value of tax savings at 6%	70,669	72,877

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