

Still putting off
that equipment
purchase?
Dental CPA
Allen Schiff
says buy now
and pay less
with current
tax incentives.



Act Now!

The time to invest in your dental practice is now. Right now, in fact. Because in order to qualify for the accelerated tax write-offs afforded to dentists under Internal Revenue Service Code Section 179, you must purchase and "place in service" new equipment before December 31, 2005.

Understanding IRS Code Section 179

Under ordinary circumstances, most dental equipment will qualify for a five-year write-off, whereas furniture and fixtures will be written off over a seven-year period. However, IRS Code Section 179 allows you to expense the first \$105,000 of qualified purchases in 2005. Thus, by not using traditional depreciation methods over a five- or even a seven-year period, you accelerate the deduction in year-one.

So favorable is Section 179 that many of my colleagues at the Academy of Dental CPAs (www.adcpa.org) refer to this tax loophole as the "Dentist Reinvestment Tax Act"! It is so user friendly that I would encourage you to meet with your Dental CPA as soon as possible to discuss your particular financial situation and determine if the time is right for a purchase.

This valuable provision for dentists - also known as the "\$100,000 expensing provision" (technically \$102,000 in 2004 and \$105,000 in 2005) - was set to expire at the end of 2005, but was extended through 2007 as part of the American Jobs Creation Act of 2004, signed into law on October 22, 2004. The new law extended the provision through 2007, after which the expensing amount will revert back to \$25,000.

The new law also boosted write-offs for tenant improvements. Those costs that are considered a structural component of a building must generally be deducted over 39 years. Under the new law, qualified tenant improvements in buildings more than three years old and placed in service between October 22, 2004 and December 31, 2005 qualify for a 15-year write-off.

That said, there is good news and bad news about tenant improvements. The government giveth and the government taketh away. Although the new 2004 tax law provides for a new faster write-off of tenant improvements placed in service between October 22, 2004 and December 31, 2005, the 50 percent bonus depreciation rule that formerly applied to certain tenant improvements ended December 31, 2004.

Total Purchases	\$ 205,000	
	Deduction	Remaining Cost
Section 179 Deduction	-\$ 105,000	\$ 100,000
Regular First Year Depreciation (20%)	-\$ 20,000	\$ 80,000
Total First Year Deduction	\$ 125,000	

How does Section 179 work?

Combining the Section 179 deduction (\$105,000) with standard depreciation would mean the first \$125,000 of a \$205,000 investment in practice assets could be deducted in full in 2005. (Example at right.)

Keep in mind that receiving an invoice from your equipment vendor dated December 31, 2005 or earlier does not satisfy the "placed in service" requirement. Dental equipment, office equipment, furniture, fixtures, computer hardware and other qualifying items must be on site, installed and usable, in order to meet the criteria of having been placed in service, as well as to qualify for a current-year accelerated tax deduction. In other words, the dental equipment must be delivered and installed by this date.

It is also worth noting that the Section 179 Expensing election has a cap, based on the total dollar amount of Section 179 qualified assets purchased during a given year. The cap completely phases out the use of Section 179 for that year with purchases between \$420,000 and \$525,000 (2005). If you are completing a large project, such as building a new office, you should consider advanced planning to optimize this deduction.

Payment in full by year-end is not required. However, you will need to obligate yourself financially for the equipment purchases. By obligating yourself, you could use a credit card and charge such purchases prior to December 31, 2005, or obtain a commercial loan from a financing institution like Clarion Financial.

The Value of a Cost Segregation Study

Another key consideration for dentists is a Cost Segregation Study, which allows you to write off the cost of a major build out or a real estate purchase in an accelerated fashion. If you are contemplating an acquisition, remodel or build-out in the near future, or if you have completed a remodel or build-out in the last 10 years, a proper Cost Segregation Study could save you tens of thousands of dollars. Estimated tax savings on a \$250,000 project is often in excess of \$50,000.

Obtaining a Disabled Access Credit

Did you know that some equipment

purchases and/or other expenditures related to accessibility for disabled persons can qualify for a credit of up to \$5,000 per year? In short, if you purchase \$10,250 or more of qualifying items, you can take up to a \$5,000 credit (a dollar for dollar reduction in your taxes). Although recent Internal Revenue Service rulings and some court cases have reduced the applicability of the ADA Credit, it is still available for certain expenditures. If you have purchases or expenditures that may qualify, obtain information on accessibility from your vendor and be sure to let your Dental CPA know that you may have qualifying items.

Working with a Dental CPA

As a result of these significant tax benefits, many dentists are meeting with Dental CPAs and equipment vendors, obtaining the necessary information on the equipment specs, and obligating themselves to these purchases. The end of the year is fast approaching, so it is important for you to plan early and get commitments from your equipment vendor to guarantee pre-January 1, 2006 delivery and installation. After all, if you are thinking of transitioning or even selling your practice in the near future, there is no better time than now to begin the retooling process.

A Dental CPA specializes in rendering professional services to dentists. Unlike ordinary CPAs, a Dental CPA has in-depth knowledge of your industry and highly specialized professional skills that will help you take full advantage of available tax breaks. A Dental CPA can also minimize your tax bite while maximizing your wealth. If you're planning to meet with your Benco Dental Equipment Specialist (and I hope you are), then I strongly suggest that you visit www.adcpa.org to locate a Dental CPA in your area, or e-mail me at aschiff@smartllp.com. You could end up saving thousands, even tens of thousands of dollars. ■

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