



Code Section 179...

Allen M Schiff, CPA CFE, examines the tax advantages to purchasing equipment in the fourth quarter of 2009

Did you know? Equipment purchased in 2009 can reduce your Income Tax Liability...Curious? Read on!

This past February, Congress passed new Tax legislation extending the \$250,000 IRS Code Section 179 deduction and the 50% Additional First Year Depreciation (AFYD). They were both scheduled to expire on December 31, 2008 and have been extended through December 31, 2009, (as of the date of this writing).

So, if you are contemplating about purchasing dental equipment during the fourth quarter of 2009, this may be a good time for you! Now is the time to schedule a meeting with your equipment sales rep and consider dental equipment purchases for your dental practice during the fourth quarter of 2009, based on the current income tax laws in place.

IRS Code Section 179, how does it work?

Under current Income Tax regulations, Dental equipment qualifies for a five-year depreciation write-off, in comparison to furniture and fixtures (example: reception area furniture) will be depreciated over a seven-year period.

If you elect to use IRS Code Section 179 for 2009, it will allow you to elect to deduct the first \$250,000 of qualified dental equipment purchases in 2009.

How does IRS Code Section 179 work?

If you are considering purchasing (new Dental Chairs and Units \$60,000, a new Microscope \$40,000) and Cone Beam Dentistry (an

i-Cat at \$175,000) for a total purchase price of \$275,000. The Section 179 deduction (\$250,000) along with the standard depreciation would generate the 2009 depreciation at \$255,000 as follows:

	Deduction	Remaining Cost
Total Purchases		
Section 179 Deduction – 2009	\$ 250,000	\$ 275,000
Regular 2009 Depreciation (20%)	\$ 5,000	\$ 25,000
Total 2009 Deduction	\$ 255,000	\$ 20,000

If you are in the 40% tax bracket, your 2009 tax savings would be as follows:

	Deduction
Tax Savings	
Total 2009 Deduction	\$ 255,000
Assumed Income tax Rate	40%
Total 2009 Tax Savings	\$ 102,000

So, assuming you purchased all of the Dental Equipment as noted above (\$275,000) in 2009, your net cost would be \$173,000 after the Tax Savings, computed as follows: (\$275,000 - \$102,000 (Tax Savings) = \$173,000)

You may ask yourself do I have to pay for the equipment in full, in order to receive the IRS Code Section 179 deduction in 2009?

The quick answer is 'No'. However, you will need to obligate yourself financially for the equipment purchases. In other words, you could obtain a commercial loan from a financ-

ing institution or you could even use a credit card and charge such purchases (as long as they are charged by December 31, 2009).

Understanding IRS Code Section 179 is one thing, but it even gets better!

The Economic Stimulus Act of 2008' (P.L. 110-185), includes a provision for the '50% Bonus Depreciation Deduction'. The 50% Bonus Depreciation is referred to as the Additional First Year Depreciation, AFYD.

The AFYD will allow you to depreciate 50% of the cost of qualifying property acquired in 2009. Used property does not qualify. You must include all assets in a particular useful life class (5 year, for example, Dental Equipment) that you purchased during 2009, not just the last quarter of 2009. If you choose not to use the AFYD, you must elect out of it. There is no maximum deduction. The AFYD is set to expire as of December 31, 2009. See below on how this works.

How does the 50% Additional First Year Depreciation and IRS Code Section 179 work with one another?

Please note, the 50% AFYD is applied first. Then, IRS Code Section 179 is applied up to the \$250,000 limit on the remaining basis as discussed above.

Using the assumptions as noted above - \$275,000 in New Equipment purchases, you could theoretically, deduct the entire purchase in one year, that being 2009! Here is how it works:

First, the 50% AFYD is deducted - \$137,500. Then you take Section 179 on the remaining \$137,500 cost for a write-off of \$275,000 - the entire cost! Your 2009 tax savings under this scenario would be \$110,000; your net cost is \$165,000 (\$275,000 - \$110,000 = \$165,000).

Are there other qualifications I need to be concerned about?

The dental equipment you purchasing during the fourth quarter of 2009 must be delivered and installed and in place by December 31, 2009. Please note: receiving an invoice from your equipment vendor dated December 31, 2009 or earlier does not satisfy the 'placed in service' requirement within current Tax Regulations.

Is there a dollar amount for which phase outs will occur?

There are special tax rules that deal with how much equipment you can purchase during 2009 and still receive the tax break of the \$250,000 write off. The 2009 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

	Deduction	Remaining Cost
Total Purchases		\$ 275,000
50% AFYD	\$ 137,500	\$ 137,500
Section 179 Deduction	\$ 137,500	\$ -0-
Total First Year Deduction	\$ 275,000	

Assuming you are in the 40% tax bracket 2009 tax savings would be as follows:

completely phases out the use of Section 179 for 2009 when the equipment purchases exceed \$800,000 (in 2009).

Are there other considerations I should be aware of?

Yes, if you are building a new office and / or office facility, you should consider advanced planning with your Dental CPA in order to optimize this tax deduction. There is a small section within the Tax Code dealing with Cost Segregation. Please consult with your Dental CPA. They will show you have to apply this Code Section and accelerate the depreciation deduction of a new building and or leasehold improvements.

Working with a dental equipment specialist

I am a firm believer that despite the current economic climate, you must continue to reinvest in your Dental Practice. There is no better time than now to begin retooling your dental practice. The cost of capital (interest costs) are at an all time low. Also, if you are thinking of transitioning or even selling your dental practice in the near future, why not invest in technology today to preserve its present value?

Please consider meeting with your dental equipment specialist as soon as possible in order to obtain the necessary information on the equipment specs. It is important for you to plan early and get commitments from your equipment vendor so that he or she can guarantee you that pre-January 1, 2010 delivery and installation dates are realistic and obtainable.

Working with a dental CPA

These changes as noted above within IRS Code Section 179 are so appealing that many of my colleagues within the Academy of Dental CPAs (www.adcpa.org) refer to this tax break as, 'The Dentist Reinvestment Act of 2009'. Please meet with your Dental CPA as soon as possible to discuss your particular financial situation and determine if the time is right for a major purchases of dental equipment at this time of the year.

Working with a Dental CPA can be very enlightening to you. Afterall, we know the lingo and require minimum dental education. A Dental CPA can minimize your tax liability and at the same time, assist you in the accumula-

	Deduction
Tax Savings	
Total Deduction (above)	\$ 275,000
Assumed Income Tax Rate	40%
Total 2009 Tax Savings	\$ 110,000

tion of your wealth. To locate a qualified member of the Academy of Dental CPAs near you, please visit www.adcpa.org, or contact me via e-mail at aschiff@schiffcpa.com. **1**



Allen Schiff is the Managing Member of Schiff & Associates, LLC (S&A). Prior to forming S&A, Allen was a Partner with Smart and Associates and was their Practice Leader for Dental Practice Management Services. Allen has over 30 years of experience in the areas of dental practice management.

Allen received a Bachelor of Science degree in accounting from the University of Baltimore in June 1975 and is an accomplished speaker on topics such as dental practice management, business planning.

Allen has published numerous articles within the dental industry and can frequently be seen in Dental Economics, as he is a contributing writer to the magazine. In 1998, Allen earned the designation of Certified Fraud Examiner (CFE), having the expertise to resolve allegations of fraud, obtain evidence, take statements, write reports, testify to findings and assist in the detection and prevention of fraud and white-collar crime. Recently, Allen has received the SMART CEO award 4 out of the last 5 years as one of the Top CPAs in the State of Maryland.

Allen is a founding member of the Academy of Dental CPAs.