

MEDICAL EQUIPMENT AND BUSINESS AUTOMOBILES BUYING VS. LEASING

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MEDICAL EQUIPMENT

Medical practices are often faced with the question of whether to buy or lease new medical equipment. Although the economics of the decision should be considered first (i.e. interest rates, personal guarantees, loan terms, balloon payments, end of lease fees, and prepayment penalties), the tax implications should not be overlooked. The tax implications of buying versus leasing may help a medical practice make their decision.

If a medical practice decides to purchase their equipment (through bank financing, capital lease or operating cash) they may be entitled to an immediate tax write-off of up to \$250,000 under the new Economic Stimulus Act of 2008. To qualify for this write-off, total purchases of fixed assets during 2008 must be less than \$800,000, the property must be tangible personal property, which is actively used in the taxpayer's business and for which a depreciation deduction would be allowed. The property must be used more than 50% for business and must be placed in service during 2008 (certain exceptions apply for property contracted for in 2007 but placed in service in 2008).

As mentioned above, a medical practice can purchase equipment through bank financing or leasing. The term "leasing" is often misunderstood by taxpayers when it comes to the tax treatment of such leases. For tax purposes, a taxpayer can enter into a "capital lease" in which they essentially are financing the equipment and will own it at the end of the lease term, similar to traditional bank financing. To qualify as a capital lease certain criteria must be met, one of which is that you own the equipment at the end of the lease for a nominal buy out, known as a "\$1 buyout lease." If your lease qualifies as a capital lease then the taxpayer is eligible to write-off (subject to rules above) the full cost of the equipment in year 1. If your lease does not qualify as a capital lease then most likely you are "renting" the equipment under an operating lease. In this case you are not eligible to write-off the full cost of the equipment but rather just the monthly payments.

Example of Bank Financing or Capital Lease for purchase of equipment

Cost of equipment is \$250,000 at a 35% federal tax rate is \$87,500 tax savings. The \$250,000 equipment, net of tax savings, will only cost the practice \$162,500, before interest expense. (Does not include state tax savings or adjustments)

In addition, some medical equipment purchases and installation costs may qualify for the Disabled Access Credit. Although the cost of the equipment must be reduced by the credit, the dollar-for-dollar tax savings on this credit (maximum of \$5,000) is worth considering. However, those doctors who are subject to the alternative minimum tax (AMT) may not be able to utilize this credit currently and may have to carry it forward to future tax years.

BUSINESS AUTOMOBILES

Another decision taxpayers of medical practices are faced with is whether or not to buy or lease business automobiles. As you may know, passenger vehicles are subject to depreciation limitations, sometimes referred to as "luxury auto limits." As part of the Economic Stimulus Act of 2008, Congress enacted a temporary increase in the allowable depreciation deduction for passenger vehicles (SUV's have different limitations) under the luxury car rules. Under this law, taxpayers will be able to deduct up to \$11,160 as first-year depreciation on business use vehicles purchased and placed in service in 2008. This increase in the luxury car limitation may be relevant if you plan to purchase a new vehicle for use in your medical practice this year.

As an alternative to purchasing a vehicle, you may wish to consider leasing. Generally, lease payments for vehicles used for business purposes are deductible in proportion to the vehicle's business use. However, the lessee must include a certain amount in income during the years the vehicle is leased to partially offset the excess of lease payments over the "luxury auto limits." The increase in the deduction limitation for luxury cars, however, may impact your decision whether to lease or purchase a vehicle.

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