

Physician Practices and the Economic Stimulus Act of 2008: Capital Planning Comes Front and Center

Congress recently passed, and President Bush signed into law, the Economic Stimulus Act of 2008. This Act has been the recent subject of significant media attention, which has been appropriately focused on the tax rebates to be mailed to most individual taxpayers in a few months. Buried in the Act, however, are three provisions that have not received much attention in the press, but affect many taxpayers and businesses for 2008, particularly physicians and physician practices that purchase equipment and other tangible personal property, including automobiles.



BY JOSEPH P. NICOLA, JR., CPA, JC, CVA

absence of an election under Section 179, the cost depreciable property is required to be deducted, or depreciated, over its useful life. The amount of the depreciation deduction is determined under the so-called modified accelerated cost recovery system ("MACRS"). Under MACRS, different types of property generally are assigned applicable recovery lives and depreciation methods. For example, the cost of a new computer purchased by a physician may not be deducted in the year of purchase, absent an election under Section 179. Rather, under the applicable depreciation rules established by Congress, only 20 percent of the computer may generally be deducted in the year of purchase.

Under the Act, an additional, first-year depreciation deduction (referred to as "bonus" depreciation) equal to 50 percent of the cost of "qualified property" may be deducted in the year of purchase. The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service. In addition to bonus depreciation, regular depreciation on the remaining portion of the cost of the property may be depreciated.

Like the one-year benefit under Section 179, the bonus depreciation rules are available only for one year. In order to qualify for the additional first-year bonus depreciation deduction, the property must meet all of the following requirements.

First, the property must be MACRS property with a recovery period of 20 years or less, certain computer software, or qualified leasehold improvement property. Second, the original use of the property must begin with the taxpayer after December 31, 2007. Third, the taxpayer must generally purchase the property and place it in service after December 31, 2007, and before January 1, 2009. If the taxpayer qualifies for bonus depreciation, then the taxpayer must elect out of the new rules if the taxpayer wishes not to apply them.

Automobile Depreciation

In general, most physicians are aware of the rules that limit depreciation deductions of automobiles under the tax law. Referred to as the luxury auto rules, the deduction for depreciation is limited to annual ceilings established by Congress and updated annually for inflation. For 2007, the maximum deduction was limited to \$3,060. The Act increases the deduction for purchases in 2008 by increasing the limit for certain passenger automobiles by \$8,000 for automobiles that qualify. This provision is effective for vehicles purchased in 2008 and placed in service after December 31, 2007 in tax years ending after that date.

The foregoing rules are complex, and their application requires equally complex analysis. If you have questions, contact Joe Nicola at jpnicola@sisterson.com or (412) 594-7006. Joe Nicola is a director in the tax department of Sisterson & Company, LLP, in Pittsburgh.

Section 179 Expensing

Section 179 of the Internal Revenue Code is an incentive provision that permits certain taxpayers to elect to deduct the cost of certain property in the year of purchase. This is a departure from the general rule that the cost is only deductible over the life of the asset through depreciation. As one might expect, this incentive, which has been around for numerous years, is subject to limitations. In general, there are three limitations, two of which have been significantly enhanced in favor of taxpayers as a part of the Act. The first limitation is annual maximum expense limitation, which places a cap on the amount of the current deduction that may be claimed by the taxpayer. For taxable years beginning in 2008, this maximum was scheduled to be \$128,000 of the cost of qualifying tangible personal property placed in service for the taxable year.

Under the Act, Congress has increased the maximum expense amount to \$250,000. This increase is short-lived, however, and is available only for one year (that is, for tax years beginning in 2008). Physicians who are contemplating equipment purchases should consider this opportunity in their capital and equipment planning. The second limitation is the investment threshold. Under this rule, if purchases of qualifying property exceed a threshold, the maximum expense amount decreases for every dollar that the total purchases during the year exceed the threshold.

For tax years beginning in 2008, the threshold was scheduled to be \$510,000. Under the Act, Congress has increased the threshold amount to \$800,000, again for one year only. These are significant, but careful planning is critical, since the third limitation was not changed by Congress. Under that limitation, the amount eligible to be expensed may not exceed taxable income for the year. Thus, as a part of capital and equipment planning, physicians and their practices should consider the impact of the income statement of the practice, and plan accordingly.

Bonus Depreciation

Under the Act, Congress also resurrected the first-year bonus depreciation concept. This concept was originally enacted following the terrorist attacks of September 11, 2001, in order to provide a measure of tax relief for businesses. In general, in the



Parkvale Bank
Great Rates, Friendly Service

Helen Green, Manager
Oakland Office
3520 Forbes Avenue
Pittsburgh, PA 15213
Phone: 412-687-1200

Equal Housing LENDER www.parkvale.com Member FDIC


EXPERIENCE. LEADERSHIP. FLEXIBILITY.

Recognized nationally Quantum Search is committed to the highest level of satisfaction. By forming a unique partnership with our clients and applying our relentless desire to exceed expectations our results are sure. Excellence in people, Excellence in service, Excellence... period. We guarantee it.

Quantum Search - Nationwide Retained Healthcare Executive Search.


QUANTUM SEARCH
www.quantumsearch.com
770.495.8150





CHILDREN OF SPIRIT


- Independent, coeducational Catholic school
- Academic excellence in a university environment
- Value-based education and traditions
- Pre-Kindergarten-8 and Montessori Preschool Program



THE CAMPUS SCHOOL
of Carlow University


3333 Fifth Avenue
Pittsburgh, PA 15213
412.578.6368

Feel at home.



You'll feel right at home at Arrowwood's independent living community. Decorate your apartment any way you like. And don't worry about cleaning, dinner or getting around; we take care of those details.

Whether it's Arrowwood's independent living or the onsite assisted living and skilled nursing care, Southwestern Group's Continuum of Care provides ongoing care in one location - a picturesque, 40-acre wooded campus.



Lewis Run Road,
Pleasant Hills

Call for a personal tour, 412-469-3330,
or visit southwesternhealthcare.com.