

# Take advantage of bonus depreciation and the Section 179 deduction while they last

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2013 is turning out to be a good year for veterinary medicine. The invoice base is rising slightly, and hospitals are looking for innovative ways to further improve their revenue streams. Even better news is that laboratory services are still the number-one profit center in most companion animal hospitals, making up almost 20% of gross income—and that number is rising. Good diagnostics are a key component to quality care. And expanding in-house laboratory testing is a good way to enhance your revenue stream and gain a return on investment while other areas of practice revenue, such as product sales and surgery, are becoming more vulnerable.

## Client compliance: good medicine and good business

Improving client compliance is good for your patients and for your practice. Your veterinary software can help find missed testing opportunities. For example, using the compliance assessment function of the Cornerstone® Practice Management System software, you can determine who in your database is not up-to-date with fecals, heartworm prevention or a junior or senior wellness profile.

## Current tax incentives

For 2013, the purchase of new equipment is eligible for 50% bonus depreciation, meaning that one-half of purchases are eligible for immediate write-off in the year the purchase is made. There are no limits on the amount of equipment, and it doesn't matter whether the

practice has net income or not. If the practice has a net loss after the equipment write-off, the unused loss can be carried back and then forward to offset income in other years. Bonus depreciation is a given unless you opt out.

The IRS tax code Section 179 deduction allows for the deduction of both used and new equipment and of new software purchases. The Section 179 deduction is \$500,000 for 2013 as long as total equipment and software purchases do not exceed \$2,000,000. A Section 179 deduction is not available if the practice has a net loss prior to the deduction or if the deduction creates a net loss. A Section 179 deduction may be considered over bonus depreciation if your state provides better tax treatment or you are purchasing used equipment.

## Incentives expected to be reduced for 2014

While the government has provided this continued stimulus for 2013, radical changes are scheduled for 2014 unless Congress intercedes again as they did at the end of 2012. Bonus depreciation goes away, and the Section 179 deduction gets reduced to \$25,000 based on the purchase of \$200,000 of equipment. These changes, together with the uncertainty of further tax changes in the near future, would suggest making purchases of equipment sooner rather than later to take full advantage of what the government has to offer for tax incentivized investments today.

### Example 1

A practice operating on a calendar-year basis in a 35% tax bracket invests in the Catalyst Dx® Chemistry Analyzer, ProCyte Dx® Hematology Analyzer, SNAPshot Dx® Analyzer, Coag Dx™ Analyzer and IDEXX VetLab® UA™ Analyzer with the IDEXX VetLab® Station. Price: \$61,170. Potential tax reduction = \$21,410.<sup>†</sup>

Potential total savings = \$21,410



Catalyst Dx  
Chemistry Analyzer

ProCyte Dx  
Hematology Analyzer

SNAPshot Dx  
Analyzer

Coag Dx  
Analyzer

IDEXX VetLab UA  
Analyzer

### Example 2

A practice operating on a calendar-year basis in a 35% tax bracket invests in a Catalyst Dx Chemistry Analyzer and a LaserCyte® Hematology Analyzer with the IDEXX VetLab Station, as well as a Cornerstone® Practice Management System and an IDEXX I-Vision CR® System. Investment = \$110,980. May be eligible for \$25,000 up-front rebate off the total purchase. Potential tax reduction = \$30,093.<sup>†</sup>

Potential total savings = \$55,093



Catalyst Dx  
Chemistry Analyzer

LaserCyte Hematology Analyzer  
IDEXX VetLab Station

Cornerstone Practice  
Management System

IDEXX I-Vision CR  
System

## Cost versus revenue

When considering a capital purchase, it's important to estimate the additional revenue that the new instrument or software system would generate for your practice. For example, there are two basic costs associated with in-house diagnostic testing: the cost of the equipment usage and the cost of the test.

Adding in-house diagnostic testing and educating clients about the importance of preventive health care will allow you to increase the number of tests performed. When you spread the equipment cost across a higher number of tests performed, you lower the per-test cost and increase your profit margin.

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## Capture all charges

Practices with integrated practice information management systems are much more efficient, which means less busywork and more time with patients. You can request digital images or diagnostic tests on multiple instruments from a single computer screen, eliminating redundant data entry at each piece of equipment. And all results are automatically logged in the patient record, so the information you need is always at hand, eliminating orphan results and missing data.

In a more efficient practice environment, each doctor could potentially see one more client per day. In a three-doctor practice where the average transaction is \$120, that could mean an extra \$108,000 per year in revenue.

No matter how tightly you try to manage handwritten test logs and invoice notes, when it gets busy and staff members are multitasking, it's inevitable that some tests won't make it into the log book. But you can greatly decrease or even eliminate missed charges by investing in an integrated practice information management system that automatically downloads all test fees into the patient record as soon as they are requested. With an average of \$40,000 lost annually per doctor to missed charges, the typical three-doctor practice could potentially capture \$120,000 per year in additional revenue.<sup>1</sup>

Combine this with the additional revenue from in-house testing plus bonus depreciation or the Section 179 tax deduction and you can see how, even in a tough economy, it makes sense to consider capital investments.

## Financing options

There are a number of good financing options. One-dollar buy-out leases and financed transactions qualify for bonus depreciation and the Section 179 tax deduction. The use of the expensing election under Section 179 is limited by your practice's taxable income, but bonus depreciation is not. And, while the federal law provides continued stimulus, some states have different bonus depreciation and Section 179 provisions. Check with your tax advisor to understand the tax code for bonus depreciation or for the Section 179 deduction in your state.

### Tips for the practice owner

- Make purchases that are sensible and economical.
- Get the buy-in of your doctors and staff to capture lost revenue through system integration.
- Leverage the latest tax and depreciation deductions by fully utilizing bonus depreciation or the Section 179 deduction to the extent possible.
- Choose the financing alternative that makes sense for your practice.
- Consider all the terms and conditions of paying cash, leasing or financing.
- Investing in in-house diagnostic equipment or practice management software can help generate additional revenue and save on your tax bill.
- For 2014, unless altered, the Section 179 tax deduction dollar and investment limits will be \$25,000 and \$200,000, respectively. Bonus depreciation goes away.

<sup>1</sup>This information is for general reference only and is not intended to be tax advice. Please contact your accountant or tax advisor to discuss bonus depreciation and IRS Section 179 and to receive complete details on current regulations, limitations and guidelines as they may apply to you.

### REFERENCES

1. Opperman M. *The Art of Veterinary Practice Management*. Lenexa, KS: Veterinary Medicine Publishing Group; 1999.

**IDEXX offers several capital investment programs. Ask your local IDEXX representative about how you may be able to combine programs with immediate tax write-offs or allowances to further discount your capital investment.**

<sup>\*</sup>Mr. Glassman has a business relationship with IDEXX and receives compensation from IDEXX from time to time. The views expressed in this article are solely those of Mr. Glassman.