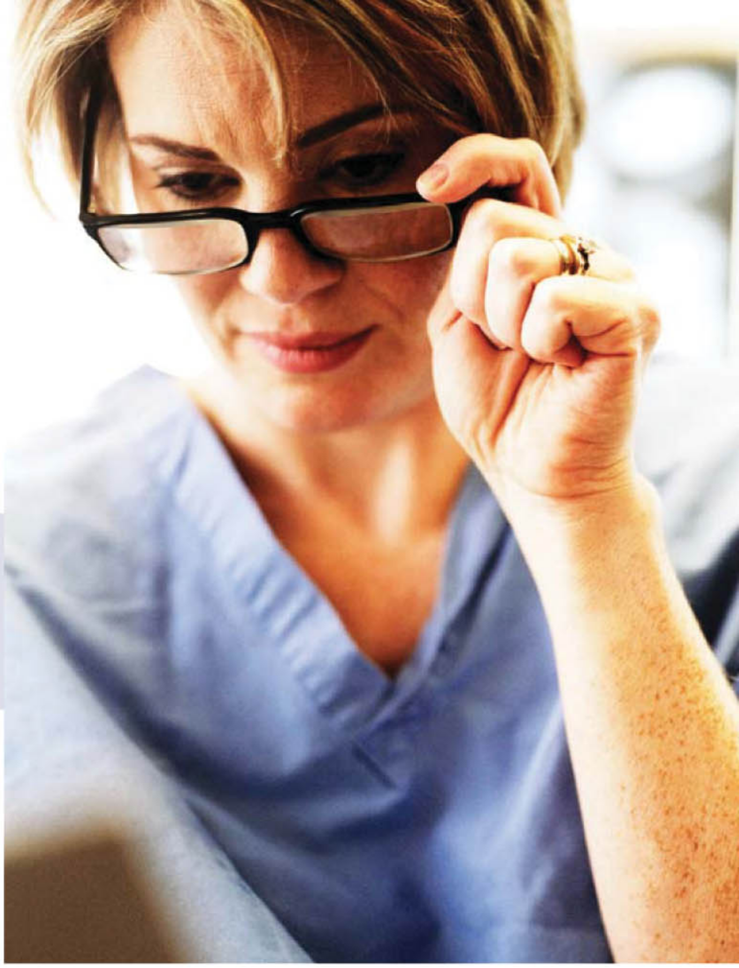
THE DENTIST Reinvestment Act OF 2006



Tax incentives for new equipment purchases just got more lucrative.

Dental CPA Allen Schiff charts the changes and shows you how to take advantage.

DENTISTS HAVE ENJOYED AN EXTRAORDINARY RUN recently in terms of tax savings, and it keeps getting better. For 2006, accelerated tax write-offs for dentists under IRS Service Code Section 179 have increased yet again. Formerly known as the "$100,000 expensing provision" (technically $105,000 in 2005 and $108,000 in 2006), it was set to expire at the end of 2005, but was extended through 2007 as part of the American Jobs Creation Act of 2004, which was signed into law on October 22, 2004. The new law extends the provision through 2007, after which the expensing amount will revert back to $25,000

Section 179 is so favorable 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 also very user friendly, and 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. Like all good things, this will probably come to an end… so find out if you can take advantage while you can.

WHAT IS 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 $108,000 of qualified purchases in 2006. Thus, by not using traditional depreciation methods over a five- or even a seven-year period, you accelerate the deduction in year-one. However, to qualify for the accelerated tax write-offs, you must purchase and "place in service" new equipment before December 31, 2006.

Combining the Section 179 deduction above ($108,000) with standard depreciation would mean the first $128,000 of a $208,000 investment in practice assets could be deducted in full in 2006.

WHY START PLANNING NOW?

Receiving an invoice from your equipment vendor dated December 31, 2006 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 $432,000 and $540,000 (2006). 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 must commit to the

Total Purchases	$ 208,000	
	Deduction	**Remaining Cost**
Section 179 Deduction	-$ 108,000	$ 100,000
Regular First Year Depreciation (20%)	-$ 20,000	$ 80,000
Total First Year Deduction	**$ 128,000**	

order or charge such purchases prior to December 31, 2006, or obtain a commercial loan from a financing institution like Clarion Financial (www.clarionfinancial.com).

MAJOR BUILD-OUTS & REAL ESTATE PURCHASES

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.

AMERICANS WITH DISABILITIES ACT

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 Americans with Disabilities Act 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.

FINDING THE RIGHT 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. It is important for you to plan early and get commitments from your equipment vendor to guarantee pre-January 1, 2007 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@schiffcpa.com. You could end up saving thousands, even tens of thousands of dollars. ■

Section 179 is so favorable
that many of my colleagues refer to this tax loophole as
the "Dentist Reinvestment Tax Act!"