Mueller Prost
CPAs + Business Advisors

PRACTICE STRATEGIES

Tax Benefits for 2013 Equipment Purchases

From cutting-edge diagnostic and therapeutic equipment to robust health information technology, there is no better time than now to invest in your practice. The cost of capital (in terms of interest rates) is at an all-time low. And if you purchased equipment in 2013, there are immediate and tangible tax benefits to your purchases.

The American Taxpayer Relief Act (aka the "Fiscal Cliff Bill") increased the maximum equipment deduction limit, allowing practices that purchase qualifying new or used equipment in 2013 to immediately depreciate up to $500,000 of the cost. In addition, practices that acquired qualifying new equipment may utilize an additional 50 percent "bonus" depreciation allowance.

Understanding Accelerated Depreciation

Under current tax laws, there are a variety of means for depreciating qualifying equipment. In addition to the regular depreciation (five years) for most medical equipment, you can also choose from one of the following for an "accelerated" method of depreciation for equipment purchased in 2013.

- **Section 179 Depreciation** – Use Section 179 to deduct up to $500,000 of the value of equipment during the first year of ownership. By properly using the Section 179 deduction, you can potentially decrease your tax payments and increase cash for other needs. Here's how it might look if you made a qualifying purchase:

Equipment Price	$300,000
Total 1st Year Section 179 Tax Deduction	$300,000
Combined Federal & State Tax Bracket	38%
Total 2013 Tax Savings as a Result of Capital Expenditures	$114,000 ($300,000 x 0.38)
New Equipment Net Cost	$186,000 ($300,000 - $114,000)

- **Bonus Depreciation** – After taking the Section 179 deduction for new equipment purchased, your practice may then be eligible to deduct an additional 50 percent of the remaining balance as a first-year "bonus" depreciation.

  Ultimately, you'll want to meet with your practice's CPA to determine the depreciation method that works best for you and your practice.

Harvest Some Tax Savings

Whether you upgraded your office's computers and network or converted your office into a digital and chartless practice, there are tax benefits available. To reap these "fiscal cliff" tax benefits, the equipment must have been purchased and put into use between January 1, 2013, and December 31, 2013.

By the end of 2013, it must have been ready, available and capable of performing its function. More importantly, you must have been "obligated to purchase" the technology. This means you:

» executed a contract to pay in the future,

» created a liability (i.e., taken out a loan), or

» paid for the equipment in full.

What Qualifies?

Section 179 was designed with businesses in mind. That's why almost all types of business equipment qualify for the Section 179 deduction, including:

» Tangible personal property used in business
» Computers
» "Off-the-shelf" software
» Office furniture
» Office equipment
» Business vehicles

As with anything related to tax deductions, there are exceptions. As you weigh your equipment purchases, keep these distinctions in mind:

Tax Benefits for 2013 Equipment Purchases, cont'd.

- **"Off-the-shelf" computer software** – Software qualifies for the Section 179 deduction in the year you put it into service so long as it is not custom designed and is available to the general public.

- **Business vehicles** – In general, vehicles used in your business qualify for the Section 179 deduction. However, certain passenger vehicles have a total depreciation deduction limitation. Other vehicles, which by their nature are not likely to be used more than minimally for personal purposes, qualify for a full deduction. There are a number of qualifications for vehicles, all with varying tax treatments.

- **Used equipment** – Previously owned equipment (but new to you) qualifies for the Section 179 deduction. However, used equipment does not qualify for bonus depreciation.

- **Partial business use** – In general, with equipment that is purchased for both business and personal use, your deduction will be based on the percentage of time you use the equipment for business purposes.

- **Non-qualifying property** – Some items that do not qualify for the Section 179 deduction include real property — such as land, buildings and permanent structures, including paved parking areas and fences — and heating, ventilation and air conditioning equipment.

Good News, Indeed

Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment purchased or financed during the tax year in which they put the equipment into use. This means when you buy (or lease) qualifying equipment, you can deduct the entire purchase price from your gross income up to the stated IRS limits. For 2013, up to $500,000 of qualifying business equipment (new or used) can be deducted under Section 179. Unless extended by Congress, the Section 179 limitation drops to $25,000 in 2014 and the 50% first-year bonus depreciation expires.

Purchased equipment last year? Your Mueller Prost advisor would be happy to run the numbers with you. Call us at 314.862.2070.

Limits for Tax Year 2013

- Deduction Limit: $500,000
- Limit on Capital Purchases: $2,000,000
- Bonus Depreciation: 50%

AUDIT ALERT:

It's More Than Charts You Need to Watch

Charts are pulled and practices are audited all the time. Increasingly, though, compliance checks are covering more than medical necessity. The IRS has hired additional auditors to specifically focus on some hot-button compliance areas, including the following:

- **Medical building audits** – Physicians who own their medical building are facing increased IRS scrutiny. In particular, auditors are looking to see that you are dotting the "i's" and crossing the "t's" — things like having a formal lease in place and paying expenses for the building out of a practice account. To avoid the cozy transactions that raise IRS ire, experts say the best approach is to treat it as if you were renting office space from someone you didn't know.

  Action: Make lease payments by physically writing a check or transferring money from your practice's account into a separate medical building account.

- **Payroll audits** – So-called "worker misclassification" audits are on the rise as the IRS seeks out practices that are classifying their hired physicians as independent contractors when they are actually employees in the eyes of the law. Worse, there is no corporate shield — the IRS can seek recourse from the practice's owners and officers individually for back payroll taxes plus penalties and interest.

  Here, the IRS is very clear about the distinction of employee vs. contractor, using a three-factor test:

  1. Behavioral control – Does the practice direct and control how the worker does the job (i.e., when and where to provide services, exactly how to provide services, who is to assist them in providing services)?

AUDIT ALERT:
It's More Than Charts You Need to Watch, cont.

2. Financial control – Does the employer control the business and financial aspects of the worker's job (e.g., salary, mileage and equipment reimbursement)? Or does the worker manage his or her own business (including having other clients)?
3. Relationship – What type of relationship is there between the practice and the worker? For example, does the practice provide the worker with employee-type benefits (e.g., insurance, a pension plan, paid vacation)?

Experts in employment law say that, against the backdrop of these three factors, most hired physicians fall under the category of employee.

Action: Before deciding how to classify any worker in your practice, consult with your advisers and make sure you understand these categories. To avoid sending up an audit red flag, don't convert an existing physician employee to contractor status without a significant change in job duties. And if you have workers doing the same job, don't classify some as employees and others as contractors.

- **Sales and use tax audits** – Most states impose a "use tax" on certain personal property purchased for use in their state. Typically, this is property that was purchased from a seller outside of the state. The use tax complements the sales tax by taxing the use of goods inside the state on which no sales tax has been paid. Unlike sales taxes, which are charged and collected by the vendor, the use tax is self-reported by the purchaser.

  Action: If you purchase supplies or equipment from out-of-state vendors, determine what your local taxes are. Ask your CPA for guidance in this critical area

- **Retirement plan audits** – Managing the typical 401(k) plan is incredibly challenging. The rules are complex and ever-changing, and the IRS cuts offenders no slack. Penalties for noncompliance — even unintentional errors — may be severe, and can even result in the loss of a plan's tax-deferred status.

  One of the most common compliance errors involves failing to follow the terms of your plan document — either taking actions that aren't covered or allowed in the plan document, or making changes to the plan document and then not following them in day-to-day practice. For example, maybe you've begun allowing participants to take out loans and hardship distributions, even though these weren't included in your original written plan.

  Action: Make sure you understand how to detect and correct errors in plan administration. Start by downloading the IRS' comprehensive 401(k) Fix-It Guide at http://www.irs.gov/pub/irs-tege/401k_mistakes.pdf.

An Ounce of Prevention

It's a fact of life that the IRS pays more attention to professionals like doctors and lawyers. And with a rise in non-routine audits, the odds are certainly high that the feds may come knocking some day. Spending the time and money now to review your practice's compliance in key areas may be a wise decision.

Our team of audit professionals can provide your practice with audits. Give us a call at 314.862.2070.

Audit Red Flags

1. You've recently expanded into new services or items, such as offering durable medical equipment (DME) or acupuncture services.
2. You've switched your billing company, personnel or billing practices.
3. An employee with knowledge about your billing practices has recently left the company (especially if the departure was not on good terms).
4. You've had a call or visit from a payer representative asking questions and requesting an "educational meeting."

Equipment Leasing and Section 179

The good news when it comes to equipment tax deductions extends to leased, as well as purchased, equipment. If your practice leased equipment, it can take full advantage of the Section 179 deduction.

The advantage of leasing or financing equipment and taking the Section 179 deduction is the fact that you can deduct the full amount of the qualifying purchase in 2013 — without paying the full amount of the purchase in 2013. Here are two ways it can work:

Option #1: Non-tax capital lease.

In a non-tax lease, you are considered to be the owner of the equipment and are, therefore, allowed to reduce your taxable income by the amount of depreciation and interest expense. Utilizing the Section 179 deduction, you can acquire the equipment and then accelerate the depreciation — immediately expensing up to $500,000 in 2013.

Examples of some common non-tax capital leases include the following:

- $1 Buyout Lease – Also referred to as a lease-purchase, this type of lease structure has a fixed monthly payment. The lessee owns the equipment at the end of the lease term for a $1 payment.
- 10 percent PUT Lease – This type of lease structure has a fixed monthly payment with a fixed purchase option. At the end of the lease, you have the option to purchase the equipment at 10 percent of its original cost, renew the lease or return the equipment.

Option #2: Equipment Finance Agreement.

An Equipment Finance Agreement (or EFA) is an alternative financing option that is similar to a lease in that you pay for the use of the equipment monthly. Unlike a lease, your practice (not the lender) actually owns the equipment. When you combine a properly structured EFA with a full Section 179 deduction, the amount you deduct will exceed your cash outlay for 2013.

This bottom-line friendly tax strategy might make using Section 179 and/or bonus depreciation with an equipment lease or EFA the most profitable decision you made in 2013.

To learn more about leasing equipment for your practice, contact your Mueller Prost advisor today at 314.862.2070.

Innovate for Improved Patient Compliance

In today's evolving model of patient-centered care, patients who perceive themselves as partners in the healing process are more likely to make the right choices. Consider these four proactive strategies for encouraging healthy patient behaviors and compliance:

1. Use the right tools. Validated tools, such as the Morisky medication adherence questionnaire, can help assess the likelihood of noncompliance. The free online survey elicits information such as how forgetful patients are or whether they believe they can stop medications once symptoms are controlled.

2. Provide options. There's more than one diet for losing weight, and there's more than one drug to treat depression. Involve the patient in his or her own care by reviewing a reasonable range of treatment options — discussing the benefits and possible side effects of each.

3. Screen for readiness. Determine whether a patient is ready for change by performing a "test close." For example, if a patient with uncontrolled diabetes says he's too busy to exercise, say: "It sounds like time has been your biggest concern when it comes to exercising. If we could find an exercise plan that doesn't take a lot of time, would you be willing to move forward?"

   If the idea is acceptable to the patient, then you can move to the close: "On a scale of 1 to 10, how confident are you that you can adhere to this treatment regimen?" The answer would then either confirm the patient's commitment or invite further discussion.

4. Schedule follow-up. Ask patients to follow up by phone or email in a week with an update on how the plan is working. Or, ask permission for you or someone on your staff to contact them and ask for an update.

For more information, please contact **Mike Prost, CPA/ABV/CFF, CVA, ASA** at 314.862.2070 or mprost@muellerprost.com.