



Uncle Sam says, "Shop!"



By reinvesting in your practice now, you could save thousands of dollars in income taxes. Karen Norris, an accountant who works exclusively with dentists, explains the new law and how it works.

The Job Creation and Worker Assistance Act of 2002 was recently signed into law and provides some very favorable new rules for the write-off of business assets, including software, equipment, leasehold improvements and business vehicles. The new law is retroactive and applies to qualified property acquired and placed in service during a three-year period beginning September 11, 2001. If you have already filed your 2001 tax return, consult your accountant to discuss the possibility of amending the tax return to take advantage of this new rule.

30% Bonus Depreciation

Specifically, the law provides an additional first-year (bonus) depreciation deduction equal to 30% of the adjusted basis of qualified property. The extra depreciation is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service. A Section 179 deduction can continue to be used on property and the remaining adjusted basis will be depreciated over the asset's depreciable life. The order deductions are taken are as follows: Section 179 Deduction, 30% Bonus Depreciation (calculated on the reduced basis after Section 179), and regular depreciation (calculated on the reduced basis after Section 179 and 30% Bonus Depreciation).

An example of this calculation is as follows on the purchase of \$100,000 worth of equipment:

Cost of equipment	\$100,000
Sect. 179 deduction	(24,000)
Adjusted basis	\$76,000
30% Bonus Depreciation	(22,800)
Adjusted Basis	\$53,200
Regular Depreciation (5 yrs., 20%)	(10,640)

This example would provide for \$57,440 in write-offs in the first year. If the taxpayer were in the 35% tax bracket, this could provide a total savings of \$20,104 in income taxes.

Property qualifying for this bonus depreciation includes assets with a recovery period of 20 years or less and certain leasehold improvements. Used property does not qualify.

Additional Depreciation For New Vehicles Used For Business

Under prior law, the maximum first-year deduction for most cars, light trucks and minivans was \$3,060. The new law increases this deduction by \$4,600. A new vehicle is now eligible for a \$7,600 write-off in one year as long as it was purchased and placed in service during the three-year period beginning September 11, 2001. Of course, if your vehicle is used less than 100% for business, the \$7,600 depreciation figure must be reduced accordingly.

Any taxpayer who purchased new qualifying business assets after September 11, 2001 or is contemplating new purchases before September 11, 2004 should consider taking advantage of these favorable new tax laws. ▲



Karen Norris is a certified public accountant and a certified business valuation analyst. She is an owner of The McNor Group, Inc., a consulting and accounting firm working exclusively with dentists. She can be reached at 410-321-4444.