Debating an equipment purchase? Consider taxes—and the big picture

Depreciation on a new unit for your veterinary practice can improve your tax situation. But if it doesn't generate ROI, it's simply not worth it.

Oct 27, 2017. By Camala C. Bailey, CPA, CVA

It's almost the end of the year. Are you wondering if you should buy that new equipment you've been eyeing for the last few months?

The good news is, any equipment you purchase and place into service before year-end can be deducted for tax purposes using the Section 179 depreciation expense. The deduction limitation is $500,000, with indexed increases of $10,000 increments in future years.

Here's a little background: After sitting on pins and needles at the end of too many years to count waiting for Congress to approve Section 179 depreciation each year, I and my fellow CPAs celebrated when the PATH Act made this deduction permanent as of December 18, 2015.

In addition to Section 179 depreciation, bonus depreciation is also an option for 2017. Bonus depreciation allows an immediate 50 percent depreciation deduction on any new equipment acquired and placed in service during the year. The remaining asset basis is then depreciated over its tax life, which is typically five or seven years. In 2018 bonus depreciation will be reduced to 40 percent, and in 2019 it will drop to 30 percent.

Veterinarians often ask me, "What difference does it make if I take Section 179 or bonus depreciation?" Here's the answer: Section 179 can be taken on new or used asset purchases. Bonus is limited to new asset purchases only. If your practice is a partnership or S corporation, Section 179 is separately stated from the practice income and passed through on a K-1 to your personal tax return, where there may be limitations based on your tax situation. Bonus depreciation is taken at the entity level, where it can create a tax loss.

Beyond just the tax aspects, do your homework! Shop around to make sure you're paying a fair price with fair terms. Calculate your return on investment. If you can make your money back in 18 to 36 months, it's most likely a good investment.

Also, don't buy anything that's going to sit in a corner and never be used. Why do I mention this? Because I've seen it happen! Don't throw your money away just to save tax—in other words, don't spend whole dollars to save a few cents.

And, of course, here's the CPA disclaimer: Because every situation is unique, it's always best to seek advice from a tax professional to make sure you're making the best decision for you and your practice.

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