



255 Duncan Mill Road
Suite 402, North York,
Ontario M3B 3H9
Phone: (416) 510-8888
Fax: (416) 510-2699
Email: dcy@dcy.ca

Update Your Office While Saving Taxes

by David Chong Yen

From time to time, your office needs to be updated with new technology (equipment, hardware, software or renovation) to better serve your patients as well as to operate more efficiently.

Tools that cost less than \$500 (taxes included) could be expensed (i.e. full deduction) in the year of purchase; however, any other equipment costing more than \$500 could only be deducted over time. Make sure you identify these items (<\$500) and inform your accountant so proper deductions can be claimed. One interesting concept is to request your suppliers to give you a price break involving instruments close to this threshold.

Timing

In the year of the acquisition, the tax-write off is only 50% of the posted rate (i.e. for equipment, the 1st year deduction would be 10% rather than 20%), therefore it does not matter if you were to acquire the equipment at the beginning or the end of the year. From a cash flow point of view, it might make more sense to acquire the equipment shortly before your year end.

Effective March 19, 2007, the tax write off for certain items has been increased:

- Computer equipment (hardware) – 55% (from 45%)
- Building (e.g. Dental) – 6% (from 4%)

Cost vs. Benefits

There are a variety of equipment available in the market; consider acquiring those that provide the best bang for the buck. For example,

- a. A Rotary Endo which costs less than \$5,000 plus taxes may save you 15 to 30 minutes. Compare the cost to the extra revenue you might generate with the time saved by using this new equipment.
- b. Digital Pan X-ray costs between \$38,000 to \$100,000, plus taxes. To justify acquiring this machine, you need about 540 to 1,430 patients to recover the cost because you will generate approximately \$70 of revenue per patient.

- c. Cerec 3D costs about \$109,000 to \$125,000 plus taxes depending on the milling unit. Did you realize that the price of a Cerec 3D has decreased significantly compared to a year ago. Before you acquire this machine, you should consult your accountant to address any GST issue relating to the Cerec. If you have already acquired this machine but you did not request a GST refund, you might still have a chance to recover the GST. Please check with your accountant. Once registered for GST, you will have the obligation to charge patients GST on sale of toothbrushes, take home tooth whitening and cosmetic dental work. Your patients might not be thrilled to pay GST. In addition, this may involve additional administrative work i.e. filing Nil GST returns even after you have obtained your GST refund.

The following outlines common items purchased by a dentist and their corresponding deduction rates permitted by the tax department:

Type of Expense/Expenditure	Annual Deduction
Leasehold improvements	Expensed over the length of the lease plus one renewal option – a minimum of five years *
Dental & Medical Equipment > \$500	20% *
Dental & Medical Equipment < \$500	100%
Furniture	20%
Computer	55%
Software	30% / 100%
Repairs	100%

By understanding the above, tax planning and therefore tax savings can be obtained through careful analysis.

Classification

When you purchase an item, determine if there are various components involved, e.g. computer hardware, software, equipment, supplies and training. Be sure the supplier's invoice clearly identifies the various components. For example, the training and supplies are 100% deductible in the year. Computer software is fully deductible over a two year period. By doing so, you will save taxes.

Term

If you are starting a practice or if you are acquiring the leasehold from another dentist, you should focus on the term of the premises lease. This will affect the amount you may deduct on an annual basis in connection with the renovation costs/leasehold improvement. Why? Because the amount you spend on renovations must be written off over a number of years as opposed to all at once.

Purchase vs. Lease

There is no obvious answer to the question of whether one should purchase or lease; it all depends on your own situation. The lease payment is fully deductible. You should also determine the repayment term and what penalties exist if you prepay the lease in the future. Prepaying the lease may become an issue if you decide to sell your practice.

On the other hand, if you were to purchase the equipment, the interest on the loan repayment is tax deductible but not the principal repayment. However, you will be entitled to tax deductions relating to the equipment purchased, etc. in the form of a tax depreciation or capital cost allowance.

Although it may be prudent to have new technology, it is not necessarily wise to keep up with the Joneses; instead, focus your spending on what benefits you, your patients & your practice the most when taking the following into account:

- 1) the revenues generated from the expenditure
- 2) the after tax cost of the expenditure
- 3) the clinical aspects of the purchase

David Chong Yen, CFP, CA with an international firm background and more than twenty-four years of experience, advises healthcare professionals and owner-managers. Additional information can be obtained by phone (416) 510-8888, fax (416) 510-2699, or Email david@dcy.ca.

This article is intended to present tax saving and tax planning ideas and is not intended to replace professional advice.