The Economic Stimulus Act of 2008
Good News for the Dental Office!

By Bob Creamer, CPA

On February 13, 2008, President Bush signed into law the Economic Stimulus Act of 2008. What most people know about this law is:

1. Starting May, watch your mailbox for the promised rebate check of $300 - $1,200.
2. Spend your check to buy consumer goods and you will have done your patriotic duty to head off an ugly recession.

However, there has been little discussion about two specific provisions in this new law that can greatly impact the dentist and his or her dental practice. These provisions offer the dentist huge deduction incentives to improve the dental office and to acquire new equipment and technology. Both provisions are for the year 2008 only.

The first provision is an increase in the Internal Revenue Code (IRC) Section 179 deduction from $128,000 to $250,000 for tax years beginning in 2008. At the end of the 2008 tax year, Section 179 will go back to the $128,000 unless modified by Congress. The new law has a purchasing cap of $800,000. Purchases in excess of $800,000 reduce the $250,000 deduction dollar for dollar. At $1,050,000 of purchases, the Section 179 deduction would be reduced to zero.

The second provision is a 50% bonus depreciation deduction. The bonus depreciation can be used to increase deductions for expenditures over the $250,000. Bonus depreciation can also be used when Section 179 is not elected. With few exceptions, bonus depreciation ends on December 31, 2008.

These two provisions work independently of each other. However, they can be used together to produce substantial tax deductions. When used together, the Section 179 deduction must be taken first leaving the 50% bonus deduction to apply against the balance. Here is an example:

Dr. X has need of equipment, office upgrades and technology costing $500,000. These items would bring the dental practice up to a level in both appearance and technology the dentist has been seeking. The doctor is confident that the expenditures will be good for the dental team and the current

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patients. The updated appearance of the dental office will certainly help attract new patients. The upgrade of equipment and technology will greatly assist in achieving the desired standard of care and the efficiency of delivering that care. The additional new patients and increased efficiency of care combine for a formula of success. The dentist, the dental team and the patients are all winners.

The **EXAMPLE** below shows the amount of tax deduction in 2008 that can be taken from a purchase of $500,000. A full $400,000 (80%) could be deducted this year. If Dr. X's tax rate for this $400,000 was 40%, taxes of $160,000 will be saved.

Now, for the best news! Both of these new laws can be used today to create the extra tax deductions, even though the office improvements, equipment and technology are being financed 100%. That means, in our example above, Dr. X has $160,000 of freed up tax dollars. These dollars can be used to pay down the loan on the $500,000 purchase or for other important purposes such as funding the retirement plan.

Why does the government allow these large deductions without the dentist being required to spend the cash up-front? It's simple! The government knows that one of the best ways to move the economy forward is through the production of new equipment and technology. Additionally, the application in the public sector of that new equipment and technology provides for greater efficiencies and profit. The Section 179 deduction and the 50% bonus depreciation deduction are expected to cost the government almost $45 billion in reduced tax revenues. However, the stimulus to our economy is expected to more than offset the lost tax revenue.

What a great opportunity for dentists to get with their dental practice equipment advisor and their accountant to develop a meaningful “treatment plan for the practice.” But don’t delay; these increased levels of deduction have a one year window of opportunity. Take advantage of it before this window closes.

**It’s just good business!**

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| Example 2008 Purchases |
|------------------------|-----------------|
| Cost ........................................................................................................... | $ 500,000 |
| **1st Year Write-Off** | |
| Section 179 Expensing ........................................................................ | $ 250,000 |
| 50% Bonus Depreciation ........................................................................ | $ 125,000 |
| Normal 1st Year 20% Depreciation .................................................... | $ 25,000 |
| Total Deduction 1st Year .................................................................... | $ 400,000 |
| Marginal Tax rate ................................................................................ | 40% |
| 2008 Tax Savings ................................................................................ | $ 160,000 |