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Executive Insight

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Executive Insight

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By Mark E. Hoffman

Time to Lease?

With some tax breaks and economic stimulus measures expiring on December 31, the fourth quarter is a particularly appealing time to lease equipment.

The end of the year is a hectic time for everyone. From a business perspective, closing out the current year's books while planning for the upcoming year can be a tedious and time-consuming process, but healthcare providers that take the time to assess their equipment needs now can reap big benefits.

Although equipment leasing is a popular way for healthcare professionals to obtain new equipment while conserving cash at any time of year, many healthcare providers can take advantage of specific cost-savings opportunities by leasing equipment during the fourth quarter. With some tax breaks and economic stimulus measures expiring on December 31, for many for-profit healthcare providers the fourth quarter of this year is a particularly appealing time to lease equipment.

Healthcare providers considering an equipment acquisition should take the following into account:

Programs Expiring Dec. 31, 2011

■ **IRS Code Section 179.** IRS Code Section 179 is a temporary tax break available through last year's Small Business Jobs Act. This modification to the IRS tax code (section 179) is particularly attractive to businesses with limited capital expenditure budgets. Under Section 179, any company purchasing \$2 million or less in capital equipment during 2011 can deduct up to \$500,000 of that expense from their gross income.

Companies acquiring more than \$2 million in capital equipment during the year will need to manage the tax ownership of those assets to maintain a Section 179 write-off. By working with a qualified partner to lease assets over \$2 million, the lease can be structured so the finance company becomes the tax owner of the equipment, allowing you to maintain your Section 179 deduction on assets below that threshold.

To qualify for the Section 179 deduction, equipment must be purchased and put into use between Jan. 1 and Dec. 31, 2011, and must fall with certain equipment-type definitions. Items that generally qualify for the Section 179 Deduction include:

Many healthcare providers can take advantage of specific cost-savings opportunities by leasing equipment during the fourth quarter.



- Equipment purchased for business use (office machines, etc.)
- Computers
- Computer software
- Office furniture and office equipment
- Tangible personal property used in business
- Business vehicles weighing over 6,000 pounds
- Partial business use equipment – equipment that is purchased for business and personal use. Generally, deductions will be based on the percentage of time the equipment is used for business purposes.

More detailed descriptions of qualifying equipment can be found by visiting the IRS web site.

■ **100 Percent Depreciation.** For a limited time, qualifying businesses can write off 100 percent of the cost to acquire eligible equipment as a depreciation expense on 2011 tax returns. This unprecedented tax break is only available through the end of 2011; in 2012 the bonus drops to 50 percent of the equipment's cost.

All capital equipment is depreciated in some way, whether it's a cash-, borrowed- or leased transaction. Healthcare providers considering new equipment now should evaluate how the depreciation benefit works best for the business based on the organization's current tax position.

OTHER FOURTH QUARTER CONSIDERATIONS

Attractive Rates. During the fourth quarter of the year, equip- ➔

JEFF LEESER

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CORPORATE FINANCE & INVESTMENT

ment finance companies can take advantage of specific tax rules that enable them to pass along lower rates than they can during the first nine months of the year. Healthcare providers leasing capital equipment will find leases most attractively priced during October, November and December.

Mid-Quarter Convention. Any company acquiring more than 40 percent of its assets during the fourth quarter of the year is subject to the “mid-quarter” convention. Generally, mid-quarter convention rules reduce the depreciation available on equipment acquired throughout the year and increase income tax liability.

Using a lease to finance assets acquired during the fourth quarter allows companies to maintain the maximum allowable depreciation on earlier purchases while trading in the tax depreciation on equipment acquired in the fourth quarter for overall lower financing rates. What’s more, most leases allow the user to retain the option to own the equipment at the end of the financing term.

General Benefits. At any time of the year, leasing capital equipment provides many benefits for healthcare providers keeping a close eye on the bottom line. Leasing is a great way for providers of all types and sizes to acquire the equipment to remain competitive while conserving cash. Some lease programs require as little as no money down.

With leasing, adding or upgrading equipment is easy, which protects providers from being stuck with outdated equipment. This is particularly important in the rapidly evolving world of technology and medical diagnostics.

For certain leases, payments can be structured to match cash-flow, which often means the increased revenue generated from the new equipment covers the cost of the monthly lease payment. Additionally, soft costs such as installation, service and support can often be rolled into the lease, allowing healthcare providers to make one predictable monthly payment for both equipment and services.

MAXIMUM BENEFITS

Leasing is a viable alternative to purchasing equipment at any time of the year, but healthcare providers interested in taking advantage of tax benefits and economic stimulus provisions that expire on Dec. 31, 2011 need to act fast. Look for a financially strong and knowledgeable equipment leasing company that understands the healthcare industry, the unique needs of your business and the nuances of fourth quarter leasing, and you’ll have a head start on the competition before the New Year.

Always consult with a tax advisor before making equipment purchasing decisions. EI



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