



# Budget provides accelerated depreciation for EMR purchases

*Rate of depreciation increased from 55% to 100%*

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**On** 27 Jan. 2009, federal finance minister Jim Flaherty presented his fourth budget — this one designed to stimulate the slumping economy and motivate consumer spending.

Of interest to physicians and other taxpayers who operate a business, the government proposed accelerated depreciation (i.e., capital cost allowance or “CCA” in tax language) on specific computer purchases, a move that prompted *CMAJ* to proclaim “Big IT savings possible for MDs” in the 12 Mar. 2009 issue.

The temporary measure will provide a 100% CCA rate for computer hardware and systems software acquired after 27 Jan. 2009 but before 1 Feb. 2011. Unlike many other capital additions, for which the CCA is limited to half the normal amount in the year of acquisition, eligible purchases will not be subjected to this so-called “half-rate rule.” Instead the taxpayer will be entitled to deduct the full cost of an eligible computer system (including the system software) in the first year that CCA deductions are available.

On 26 Mar. 2009, Ontario finance minister Dwight Duncan delivered that province’s 2009 budget and proposed, among other changes, Ontario’s intention to follow the federal lead for specified new computer purchases. Other provinces are expected to follow suit.

To be eligible, the new computer equipment and software must be described under CCA Class 50 of the *Income Tax Act* Regulations, a class that had previously enjoyed a 55% depreciation rate on a declining balance basis.

#### Example 1

Self-employed medical practitioner purchasing \$10,000 of eligible computer equipment before 29 Jan. 2009

<b>Cost</b>	\$10,000
<b>Deduction in year of purchase</b>	\$2,750 ( $\$10,000 \times 55\% \times 0.5$ <half rate rule>)
<b>Tax saving</b>	\$1073–\$1320 (assuming a top federal/ provincial tax rate of 39%-48%)
<b>Depreciation tax saving in following year</b>	\$1,555–\$1,914 (55% of remaining balance at tax rate of 39%-48%)

However, the new proposal will effectively provide the taxpayer with a \$10,000 tax deduction against business income for eligible computer equipment in the year of acquisition. Instead of the half-rate rule and declining balance depreciation of previous Class 50 purchases, the



self-employed taxpayer should receive a tax refund of up to \$3,900 to \$4,800, depending on his or her province of residence. The tax savings within a medical corporation may be considerably lower.

Nevertheless, the proposed federal measure does not provide an absolute increase in tax savings; the rate at which eligible expenditures may be depreciated is increased (i.e., accelerated) but the total amount (\$10,000 in the above example) that may be deducted by the taxpayer is unchanged. Nevertheless, the 100% depreciation rate combined with the elimination of the half-rate rule for these acquisitions will allow the taxpayer to recover his or her tax savings in the year of acquisition, an attractive feature particularly in terms of cash flow.

#### Example 2

Self-employed medical practitioner purchasing \$10,000 of eligible computer equipment between 27 Jan. 2009 but before 1 Feb. 2011

Cost	\$10,000
Deduction in year of purchase	\$10,000
Tax refund	\$3,900 to \$4,800 (assuming a top federal/provincial tax rate of 39%-48%)

However, business decisions should not be based solely on the potential for tax savings. Prudent decision-

makers, particularly when they are considering the acquisition of expensive capital equipment, should carefully compare the additional costs and benefits of the purchase. Suppose a physician's practice is ill-suited for a particular \$20,000 computer addition, but he or she makes the acquisition before 1 Feb. 2011 simply to benefit from the proposed tax advantage. This physician may enjoy a tax saving of \$7,800 to \$9,600 ( $\$20,000 \times 100\% \times [39\% \text{ to } 48\%]$ ), but will suffer a net cash outflow of \$10,400 to \$12,200 and possess an asset of potentially negligible value. Overall, not necessarily an optimal course of action.

In addition to assessing the applicability and benefit of acquiring an electronic medical record (EMR) or of replacing or upgrading an older IT system, prudent physicians should make use of all available resources.

The 12 Mar. 2009 issue of *CMAJ* reported that the government has also heeded the CMA's call for more funding to support conversion of computer systems by providing \$500 million to Canada Health Infoway. In addition, a number of provinces and other jurisdictions offer financial and other incentives for physicians to convert to EMRs or upgrade their existing electronic systems. The prudent physician will review any such incentives with their accountant to evaluate any potential impact on eligible CCA.

Although the federal government's tax proposal is generous and worthy of note, the potential tax saving is only one factor that must be considered by the physician in deciding whether to implement or upgrade computer technologies. Evaluation of any purchase's net benefit to the practice is critical, and it may well involve members of the physician's professional advisory team, such as their accountant, financial planner and lawyer. Services offered by the CMA and the provincial medical associations should also be considered.

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