

## ARTICLE BY: MEDICAL AND DENTAL ACCOUNTING

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### LAP-TOP COMPUTERS

This memorandum explains a tax efficient way of upgrading the practices' technology using lap-top computers and taking advantage of some special exemptions and rules for lap-top computers in the Fringe Benefits Tax Assessment Act and the Income Tax Assessment Act. In summary, the procedure is as follows:

- (a) the doctor buys a lap-top computer for, say, \$5,000;
- (b) the practice company reimburses the doctor for the cost of the lap-top;

The income tax consequences of this are as follows:

- (a) the practice company is able to claim a tax deduction for the amount reimbursed to the doctor. This is because it is a cost of employing an employee and hence apparently deductible, it is not a cost of capital;
- (b) the reimbursement to the employee is a fringe benefit under the Fringe Benefits Tax Rules, ie. it is specifically treated as an exempt fringe benefit. Therefore, no FBT is payable by the employer on the value of the benefit;
- (c) the employee is not required to include any amount in assessable income because exempt fringe benefits are deemed to be exempt income in the employee's hands; (d) the employee's cost base on the lap-top stands at \$5,000 despite receiving the reimbursement. This is because of the depreciation rules in the Income Tax Assessment Act do not contemplate reimbursements to the cost base of plant and equipment and, in particular, do not require the taxpayer to reduce the cost base for the amount of the reimbursement.

There is a limit of one lap-top computer per employee per year and it must only be used for business purposes if depreciation is to be claimed. The cost of the lap-top includes the cost of software installed at the time of delivery.

These rules do not apply to peripherals such as printers, docking stations, enlarged screens and so on.

It is possible to apply the above technique to the contemplated upgrade of the IT capability of the general practice. This is done by having the consultant's supply the computers and the upgraded software as lap-tops invoiced directly to the individual partners. The practice company then reimburses the individual partners for the cost of the lap-tops and the installed software.

For example, if an upgrade involving 4 computers and costing, say, \$4,000 each and \$10,000 of software, each of the 4 partners will be invoiced an amount equal to \$6,500. Each partner pays the invoice personally, and is reimbursed by the practice company. The above consequences then follow on. In summary,, assuming a tax rate of 48% is payable by each partner, this means there will be a double tax deduction for the amount of \$26,000, leaving a net after tax cost of only \$1,040 being 96% of \$26,000. (The 96% is derived from  $2 \times 48\%$ .)

There have been some suggestions that these rules may change soon, and this should be monitored.

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