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Top Six Tax Planning Strategies for Long-Term Care Organizations

Health care regulations are complicated—especially in a time when health care reform is a constant topic of speculation. Long-term care providers in particular have to balance cash flow concerns and changing laws with everyday business practices.

Finding ways to save money isn't simple. However, mechanisms are in place to help long-term care facilities benefit from the tax code—it's just a matter of knowing they're there.

The following six strategies could make an immediate impact on a provider's financial health.

Cost Segregation

The IRS has allowances for depreciation of buildings and property; however, many organizations fail to recognize chances to increase depreciation, which can generate additional cash flow and reduce tax liability.

Cost segregation is an IRS-accepted strategy frontloads depreciation deductions into the earlier years of a fixed asset's ownership. The cost components of a facility are separated into alternate asset classifications as well as recovery periods for federal and state income tax.

This significantly shortens tax lives to five, seven, and 15 years rather than the standard 39 years for commercial properties and 27.5 years for residential income properties. Whether you're building, remodeling, expanding, or purchasing a facility, cost segregation can lessen your income taxes and boost cash flow.

Energy-Efficient Commercial Building Deduction

Section 179D of the tax code provides a financial incentive—up to $1.80 per square foot— to taxpayers who improve the efficiency of their commercial buildings above certain thresholds. A partial deduction of $0.60 per square foot, per system, is available for owners who reduce energy usage through interior lighting, a building envelope, heating, ventilation, or air conditioning. The deduction is based on the square footage of these improvements.

Taxpayers who haven't utilized Section 179D can claim benefits from previous years. Qualified business owners with energy-efficient building components can declare missed deductions by applying for an accounting method change with their current tax return.

Tangible Property Regulations (TPR)

A TPR analysis covers the building structure and nine key building systems separately, rather than the building as a whole. Certain principles are applied to determine if the expended amount must be classified as a capitalized improvement or whether it can be declared a deductible repair. Even if the amount must be filed as a capitalized improvement, businesses may still be able to benefit by electing a partial disposition loss on some components.

Fixed Asset Comprehensive Tax Scrub (FACTS)

Overlooking the proper capitalization of fixed assets could result in the loss of significant benefits—or worse, trouble with tax authorities. A comprehensive tax scrub can unleash gains and expose compliance risks. A FACTS engagement applies certain tax laws to fixed assets. The scrub could provide an immediate tax deferral by accelerating deductions on assets that were placed in service with incorrect tax lives or methods.

Explore Higher Tax Rates

The current tax rates may not be high for long. If your strategy is to hold short-term, you may want to consider the value of buying at a higher tax rate and selling at a lower one. The profitable sale of real property may be subject to depreciation recapture, either at capital gains or ordinary rates.

Investors who hold property for less than five years typically steer away from cost segregation due to recapture, but they may want to reconsider that strategy. Accelerating depreciation deductions at a higher tax rate then selling at a lower rate may increase profit.

Work Opportunity Tax Credit (WOTC)

The WOTC is a federal income tax credit designed to encourage businesses to hire individuals facing barriers to employment based on various criteria. The qualifying criteria are broken up into 14 different target groups, for example, individuals receiving government assistance.

Depending on which target group an individual belongs to, the maximum credit per new hire can range from $2,400 to $9,600. The ultimate value of the tax credit is determined by target group, number of hours worked, and gross wages earned in the applicable period of employment.

We're Here to Help

Our team can help long-term care organizations navigate the tax code to find benefits. Contact your Moss Adams professional if you'd like to learn more about these and other ways to improve your tax strategies. Visit us at: www.mossadams.com/industries/health-care/long-term-care