

Practice Management

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 **DAENEN HENDERSON**
& COMPANY, L L C
CERTIFIED PUBLIC ACCOUNTANTS • CONSULTANTS

www.dhc-cpas.com

3818 Bayou Rapides Road
Alexandria, Louisiana 71303

(318) 445-4585 ■ 1-800-738-6800 ■ FAX (318) 442-1138

Tax planning for medical practices

Learn the details of depreciation before buying equipment

In a volatile economic environment where every dollar counts, your medical practice's leadership needs to know the distinction between traditional tax deductions and depreciation-related tax breaks.

For instance, a medical practice can take an immediate deduction for various types of expenses that can be defined as ordinary and necessary business expenses. These include hand sanitizer, face masks, gloves and stationery. In addition, rent, utilities, advertising, insurance (but not health insurance), maintenance and repair costs are generally considered part of normal operations. Therefore, they may be deductible in full right away.

However, expenses that benefit more than one year may have to be capitalized and written off over several years. Generally, depreciation involves capital assets — including buildings, computers, X-ray equipment, office furniture and, sometimes, vehicles. These items lose their value over time and, therefore, usually offer only gradual, incremental tax breaks under the specific tax rules for depreciation. But two longstanding depreciation-related tax breaks — the Section 179 deduction and bonus depreciation — may offer an exciting tax-saving opportunity.

What is Sec. 179?

When delving into the details of depreciation, it's critical to understand Sec. 179 of the Internal Revenue Code. Why? Because Sec. 179 "allows taxpayers to deduct the cost of certain property as an expense when the property is placed in service." In other words, a medical practice can immediately apply an expense deduction for

purchases of depreciable business equipment, instead of capitalizing the purchases and depreciating them over time.

Bear in mind that the "placed in service" stipulation in Sec. 179 is significant. You can't use the deduction for equipment you're storing for later use. The equipment must be in use for the Sec. 179 deduction to be valid.

For 2022, the maximum deduction was \$1.08 million. This deduction limit is reduced dollar for dollar for qualifying property placed in service in excess of \$2.7 million. The IRS notes that the Sec. 179 deduction applies to tangible personal property, such as machinery and equipment, as well as to qualified real property. This includes



qualified improvement property and some improvements to nonresidential real property, such as HVAC, fire protection and alarm systems.

Depreciation allows for systematic write-offs over the estimated useful life of an asset. This is typically defined as five to 10 years, but specific equipment sometimes has a longer or shorter useful life. For example, computers and medical equipment are classified as having a useful life of five years, while office furniture generally is assumed to have a useful life of seven years.

How does it work?

Let's assume you need to buy medical equipment that you'll use exclusively for your medical practice. The equipment costs \$50,000 and has no salvage value, meaning you can't resell it at the end of five years.

Under normal depreciation rules, you would have to depreciate the equipment over five years at \$10,000 annually. Sec. 179 allows your practice to deduct the entire \$50,000 in the current year. In a 32% tax bracket, your tax savings could reach \$17,500. Thus, the cost of the equipment after the tax savings is \$32,500.

What is bonus depreciation?

Another term often seen in discussions of equipment depreciation deductions is bonus depreciation. This is a tax incentive allowing a company to immediately deduct a significant percentage of the purchase price of eligible assets instead of writing them off over the useful life of the asset. Sometimes it's also called the "additional first-year depreciation deduction."

There are two key elements to bonus depreciation:

1. A significant percentage of the amount spent on eligible purchases can be deducted the year they were purchased, instead of spreading the depreciation over several years, and
2. Last year (2022), bonus depreciation allowed for 100% upfront deductibility of depreciation, which results in 20% depreciation in each following year until its final year in 2026.

Does Section 179 apply to vehicles?

The Section 179 depreciation deduction (see main article) has a controversial history with vehicles. It was once called the "Hummer deduction" or "SUV tax loophole" by critics because Sec. 179 appeared to incentivize people to buy expensive vehicles and then claim a business-related tax deduction for much of the cost.

The IRS has since turned the screws on the deduction regarding vehicles. Only the "business use" part of the Sec. 179 depreciation deduction is applicable to vehicles. For example, personal use — such as commuting to and from work — is *not* applicable. However, if you own multiple medical practices and buy a vehicle, the depreciation deduction may apply.

The Tax Cuts and Jobs Act made significant changes to bonus depreciation, such as increasing the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. But those changes are scheduled to decline by 20% each year until 2027, when they will expire. Consult with your accountant for more information about bonus depreciation and how it may work along with Sec. 179.

How can you get started?

Planning is key to taking advantage of depreciation-related tax breaks. Medical equipment may break down and require replacement immediately. But many assets — such as office furniture or even an X-ray machine — need regular replacement.

And the potential benefit of planning is considerable: By decreasing your tax burden, you can reduce expenses related to taxes and thereby boost cash flow. Tax laws, however, are complicated and constantly changing. Discuss asset acquisitions and whether they'll qualify for Sec. 179 or bonus depreciation with your CPA — preferably before you buy. ▶

Keeping up with cybersecurity is essential to HIPAA compliance

Over the past few years, as a result of the COVID-19 pandemic as well as other developments in the medical arena, practices have increasingly relied on technology. This includes the much wider use of telehealth as well as electronic health records (EHR), online medical portals, and appointment confirmations via email and text.

Although technology is giving physicians, medical staffs and patients much easier access to critical information, it's also opened the door for fraudsters and hackers to steal or corrupt this data. That's why it's important to continue to follow the latest protocols for handling protected health information (PHI).

National standards

Title II of the Health Insurance Portability and Accountability Act (HIPAA), known as the Administrative Simplification provisions, created national standards for electronic health care transactions. Title II covers a lot of ground, but two aspects are particularly relevant to cybersecurity for medical practices:

1. The Privacy Rule. This concerns the use and disclosure of protected health information (PHI) held by "covered entities." According to the rule, covered entities include insurers, medical service providers, and various health care clearinghouses and employer-sponsored health plans, as well as their business associates.

2. The Security Rule. Unlike the Privacy Rule, which applies to all PHI (both paper and electronic), the Security Rule applies specifically to electronic PHI. It describes three types of security safeguards: administrative, physical and technical.

HIPAA and mobile devices

Mobile devices usually transmit and receive PHI via public Wi-Fi and email applications or through unsecure mobile networks, which place PHI at risk of interception. In addition, most mobile devices now can take and store photographs — but photos may violate patient privacy, thus raising compliance concerns. Most of today's smartphones and tablets store data not only on the device itself, but also in "the cloud."

The primary concern is how a doctor accesses patient information. If a physician uses a properly secured smartphone, tablet or laptop to access EHR, the doctor will generally be in compliance with HIPAA. But if the physician saves EHR data or photos to one of those devices, and it's stolen or lost, the doctor might be liable for the HIPAA breach. Liability can be costly — though, if the PHI isn't identifiable, it's probably nothing to worry about.

Data pulled via browsers is generally encrypted, especially through an EHR portal. But physician-to-patient emails outside the portal can be a problem, because the Internet service provider might not be secure — thus, the email communication could fail to meet HIPAA standards.

Access and training

The three standards of the HIPAA Security Rules are: confidentiality, integrity and access. Access typically refers to passwords. Physicians need to fully evaluate which staff members require access and provide training in security protocols.





A major component of cybersecurity is, of course, encrypting patient data. But also important is setting up monitor protection to prevent people who shouldn't have PHI access from reading information off a computer screen — for example, over the shoulder of someone in the office.

For most practices, it's a good idea to document each device's purpose and limit access to it. The next step is to determine how each device should be configured to make it compliant. Doing so may require engaging a HIPAA compliance expert in addition to an IT consultant.

Physician offices also need to develop policies regarding staff use of smartphones — especially now that almost all of them have cameras. The policies should answer such questions as: How and where can employees use their phones? One suggestion: Instruct staff members to *not* bring their phones into exam rooms or other patient treatment areas.

But even that might not be enough. For instance, a staffer might take a photograph of something in the office with a recognizable patient in the background and post it on social media. This could be a HIPAA breach, with financial and legal consequences for the practice.

Stay informed

The issues surrounding cybersecurity for physician practices, particularly regarding mobile devices, will continue to evolve right along with technology. Stay informed about the current best practices to avoid running afoul of HIPAA security rules and protocols. ▶

What does your staff want from you?

You probably have a clear idea of what you want from your staff. But do you know what they want from you? Finding the answers to this question can be highly beneficial for the long-term stability and profitability of your medical practice.

10 common wants

What any staff wants tends to vary based on the size and specialty of the practice, as well as other

factors. But here are 10 common “wants” of many medical staffs:

1. Timeliness and efficiency. Many practices work on what's jokingly referred to as “Doctor Standard Time.” If a physician is constantly late to arrive for work or has regular difficulties keeping on schedule while at work, the negative impacts affect the staff.

2. Open communication. Everyone has a distinct communication style, but no one is a mind reader. Your staff wants to know specifically what you want done and what changes are coming to how the practice operates. It's possible to be too detailed — people rarely want to be micromanaged. But staff members want to be able to interact with physicians freely, without fear of judgment or reprimand if questions come up.

3. Consistent, honest feedback. No one likes criticism, but employees want to know whether you're happy with what they're doing. Praise can be effective when warranted, and criticism should be expressed politely and professionally.

4. To be treated with respect. The members of your staff aren't just replaceable cogs in a machine. They're your team. Sadly, many employee surveys find that many, or even most, staff members don't feel like they get enough respect for doing their jobs. There are multiple components to respect, including:

- Diversity and inclusion,
- Constructive criticism,
- Equal opportunity, and
- Respectful communication.

5. To be trained appropriately. All too often, medical practices throw new hires into the deep end and expect them to swim on their own. It's vital to have formal onboarding and training programs for new staff. Many staffers also want ongoing training in new tasks, as well as to have career growth opportunities.

6. Clear expectations. Staffers want to clearly understand what's expected of them. One good way to start is by crafting a carefully worded mission statement for your practice. Then communicate how each team member can help fulfill that mission. They need to grasp the importance of their respective roles and be given the tools to appropriately meet goals and expectations.

7. Appreciation for a job well done. Regularly identify and publicly recognize notable achievements by staff members. Doing so can be as simple



as saying "Thank you, great job!" at a meeting. But it also can take the form of a certificate of appreciation, a handwritten note or email, or even gift cards and bonuses.

8. Fair and competitive wages. When selecting wage ranges for your staff, are you aware of what your competitors are paying? Have you checked wage benchmarks with professional organizations? The Department of Labor, as well as state governments, also offer data on standard pay rates. Ideally, you want to pay enough to attract and retain good employees while leaving room for raises. One key to setting fair wages is to choose job titles and write comprehensive job descriptions that thoroughly list the duties and objectives of each position.

9. Leadership by example. You probably won't get staff to perform at their absolute best unless you do the same. Always bear in mind that everything you do filters down to how the practice operates. As the saying goes: walk the walk and talk the talk.

10. Accountability for mistakes. When you screw up, admit it. Apologize as necessary. Generally speaking, the right way to apologize at work is to acknowledge the mistake without focusing on your initial intentions and take corrective action based on what you learned.

The right stuff

Keeping these 10 points in mind should help you attract, hire and retain the best people to keep your medical practice thriving. To get more specific, implement an employee survey and act on the issues raised. ▀

Bedside manner matters

5 strategies for dealing with difficult patients

Obviously, patients who visit a physician practice aren't feeling their best. This can make some of them tough to deal with, which is understandable. A few patients, however, may cross the line and become rude or even abusive to you or your staff. Here are five strategies for dealing with difficult patients:

1. Listen and identify the problem. An angry patient may unload every complaint they've ever had with your practice all at once. Under these circumstances, it's tough to determine what the real issue is. Ask direct questions about the patient's visit and current medical situation to understand the specific trigger for the anger.

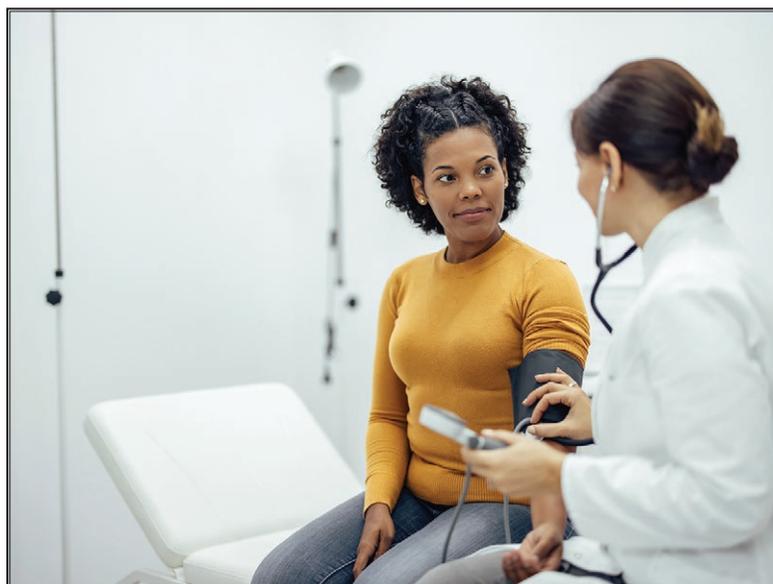
2. Stay in control. If someone yells at you, it's easy to respond in kind — don't. This only escalates the situation. When a patient is in pain or feeling unwell or afraid, that individual may lash out at the first person available. Don't take it personally and train your staff to do the same.

3. Encourage positivity. Sympathize with the patient without adding fuel to the fire or admitting to wrongdoing. Avoid additional negativity. Don't turn the blame back on the person or shift the blame to other staff members or entities. Inform the angry patient that you'll work to resolve the problem as soon as possible.

4. Pursue a solution, but don't promise one. If you can solve the patient's problem, you should do so in a demonstrable way. But sometimes this isn't easy and will take time. For example, long wait times in the reception room or in exam rooms are common triggers. If this happens frequently, tell

the patient that you'll investigate the matter and then take a hard look at your workflow, scheduling and time management. If long waits are because you're short staffed, explain this to the patient and apologize for the delay. Unfortunately, not all problems have a quick solution. Be aware that sometimes all you can offer is empathy, but often that can be enough — people tend to feel better when they know they're being heard.

5. Set boundaries. The Bureau of Labor Statistics reported that injuries from violence against medical professionals rose by 63% from 2011 to 2018, and escalated even more from 2020 through 2022 as the pandemic hit. Above all else, ensure you and your staff are physically and emotionally safe. If a patient's behavior escalates and becomes offensive or threatening, state emphatically that everyone at your practice must be treated with respect and that verbal or physical abuse won't be tolerated. Many medical facilities post signs to this effect. Train yourself and your staff to be ready for the worst and to be able to contact law enforcement immediately when necessary. ▶



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