

Equip yourself to make the best decision for your practice

Health care professionals weigh leasing and purchasing

Many health care professionals, suggests Dr. Gary Stenzler, assume that being a good clinician will keep them on top of their field. “In fact, you have to run a good business too,” says Dr. Stenzler, who operates dental practices in Ontario.

Part of staying on the “leading edge”, he says, involves making the right decisions about equipment — not just what to get and when, but also whether to buy or lease, and from whom.

Such deals can have a huge impact on both your practice and finances. Dr. Stenzler, for instance, negotiated an equipment lease through RBC Royal Bank®, which generated considerable savings for him in monthly payments as compared to a deal offered by a competitor.

His banker, Craig Gibson, says that Dr. Stenzler is “very business savvy”. But Gibson, a Senior Account Manager, Healthcare Professionals, with RBC®, adds that many dentists and doctors

aren't quite as comfortable with the business side of their practice, including equipment decisions.

Those decisions can be complex, filled with practice considerations such as the necessity of certain equipment and its life span, as well as financial questions like cash flow and tax implications.

Here's what doctors and dentists need to keep in mind to make the wisest equipment acquisition choices.

How long will equipment last?

Start with the nature of the equipment.

Lucy Carvalho, a partner in the Montreal plastic surgery practice of her husband, Dr. Charles Guertin, says she often views equipment decisions the same way she would look at acquiring a home or car.

Some equipment is like a house — it will last for a long time, and could be considered a sound investment. (Think dental chairs.) In those cases, as with a house, Carvalho would rather own.





Other equipment, she says, is like a car — something that works well now, but that you might want to change sooner than later. (Think computers.) As with a car, where she always wants the latest model, a lease makes more sense to her.

“Technology changes fast,” says Carvalho, so deciding to lease or buy can come down to whether the equipment is “stable” over time or will become obsolete.

Leasing and buying decisions, however, are rarely that clear cut because of the many financial issues at play. Carvalho and Guertin, who both happen to be accountants too, know that well.

“There are no good or bad solutions — but there are pros and cons to consider,” says Carvalho.

Cash flow and flexibility

“The first consideration is cash flow,” says Dr. Stenzler. “I have a credit line available to me across my practices. So I could make a purchase through my credit, but that would decrease my available cash flow. Leasing can establish an alternative line of credit which keeps my financial cushion intact.”

A pre-approved lease line of credit can be beneficial, says Dave Magier, Vice-President, Equipment Financing for RBC Royal Bank. Similar to pre-approved mortgages, this lease line has a pre-set dollar value. This offers medical and dental professionals the flexibility to act on buying opportunities quickly and at their convenience, whenever they find what’s right for their practice.

Beyond the dollar amount, think of the other terms. For instance, you can negotiate a lease to include maintenance, upgrades and other services. The length of the lease is also a factor; a five-year lease makes sense with equipment that’s expected to last 7-10 years, but not if the equipment will become obsolete in three years.

At the end of the lease, you’ll have the buy-back option to purchase the equipment, or alternatives to renew or simply return it. So that offers maximum flexibility. If you’re leaning toward the buy-back, factor that amount into your total costs, and whether the equipment will still offer value at the end of the leasing term.

In Dr. Stenzler’s case, his buy-back was higher than a negligible amount had he gone with another leasing

provider. But the monthly savings in his deal, over 60 months, more than made up for that.

Think too of the ownership structure of your practice, says Magier. He cites a clinic that involves multiple partners. When upgrading their offices, rather than spending the cash in their capital account (the amount they pool as a portion of their investment in the partnership), they lease the equipment. If a partner leaves or joins before the end of the term, he or she simply ends up paying a pro-rated portion of the usage of the asset.

Leasing can also be beneficial when trying new modes of treatment. Carvalho and her husband leased

a new laser, with an option to buy, because they weren't sure how clients would respond, and whether they would get enough new business to justify the expense. In this case, leasing was a way to test the equipment's potential without making a significant and uncertain investment.

Yet buying offers a form of flexibility too, Dr. Stenzler says. "You could get into a long-term lease, and realize that the equipment doesn't fit with your practice. If you bought it instead, you're free to sell it in the secondary market."

Another consideration — "Some health care professionals just prefer to own it, and not have another party

with what they perceive as control over their equipment," says Magier.

Consider tax implications

Doctors and dentists need to consider the big picture when it comes to their equipment decisions, says Magier. Let's say you decide to buy. With a standard term loan, you have to pay all the taxes (i.e. GST and provincial sales tax) at the front end, and the term loan lender may also ask for a down payment (some term loan lenders, but not RBC, may ask for up to 25%).

"With an equipment lease option, we may be able to provide up to 100% of the costs," says Magier, "which provides some relief on cash flow, preserves your working capital for



other purposes and lets you pay taxes as you go rather than at the front end.”

Leasing can be advantageous from a tax standpoint because usually 100% of the lease payments are deductible when incurred as a business expense. When you own, in contrast, you only get to write off the interest, and depreciate the asset over a set time frame (which depends on the asset).

There are all sorts of tax considerations, and at times, there are some creative solutions when it comes to acquiring equipment.

For instance, Dr. Ian McKee, an Edmonton orthodontist, decided to set up a separate equipment leasing company with his partner, buy equipment through financing provided by RBC and lease the equipment back to himself through this new company. The reason? As an orthodontist, Dr. McKee’s services are primarily “zero-rated” for GST purposes, so he

was able to get back 100% of GST on his purchases. In addition, Dr. McKee had control over the lease terms and RBC financing terms.

Besides the money, flexibility and taxes, health care professionals should also think of how much time they want to spend on managing the process.

“We recognize that for most medical or dental professionals, their biggest issue is time,” says Magier. “If their equipment is coming from multiple suppliers, we can wrap all the invoices into one lease transaction — and our people can help by managing the funding process with all of the suppliers.”

Seek expert advice

Dr. McKee says that costs, rates and terms are all essential when making decisions on equipment acquisitions. But solid and independent advice is even more valuable.

Whichever way you want to finance equipment, it’s just good business sense to rely on the expert resources available to you, whether a lawyer, an accountant or your bank.

RBC, for instance, has account managers across Canada who are specifically dedicated to doctors and dentists, and can provide them with a customized analysis demonstrating the potential benefits of leasing versus buying.

“As it happened, RBC had a more competitive interest rate, but I also like dealing directly with somebody who’s a health care expert, who gets how we do things,” says Dr. McKee. “RBC understood the whole dynamics of my practice.”

To locate a health care professionals specialist near you, visit us at www.rbcroyalbank.com/professionals or call 1-800 ROYAL® 2-0 (1-800-769-2520) to contact a local RBC Royal Bank Business Banking Centre.



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