The Tax Benefits of a Dental Kit

When you enter dental school you are instructed to purchase a “kit” which contains items that help you learn to become a dentist. The current cost of that kit is about $35,000 for the four years at UCSF. When you graduate and begin working you may continue to use some of those items.

Personal vs. Business - While in dental school the kit items are “personal” in contrast to “business.” These distinctions are important from an income tax perspective. When you begin working as an associate you are engaging in “business.” The equipment and supplies that you use are now business related.

Equipment vs. Supplies - Equipment and supplies are treated differently for tax purposes. Supplies or items that you normally consume fairly quickly, or use once like bonding material, or are of little value (less than $500) are considered supplies. They can be deducted on your business tax return or schedule. Items that are used over and over and normally last more than a year like a handpiece, x-ray machine, or dental chair are considered equipment and “depreciated.” Under normal depreciation rules a portion of the cost is deducted over a number of years. However, there are exceptions which will not be explained here.

Cost vs. Fair Market Value - So what do you deduct? Do you deduct what you paid for the item? You might think so but that’s not the case. The tax law states that when you convert a personal item to business use, you deduct the lower of the cost or fair market value at the time it is “placed in service,” in other words, ready to use. Dental equipment and supplies almost always depreciate in value over time. Therefore, if you purchased a handpiece for $1,300, but is now worth $600, then you can only depreciate the handpiece at the fair market value of $600.

Allocating Costs - When you received your kit, there was probably not a cost on each item but rather on a group of items. If that was the case you need to allocate the cost among the items that you received.

Documentation - If you are ever audited by the IRS, the burden of proof falls on you. You would have to explain to the IRS how you made your original cost allocation and how you determined the subsequent fair market value when you became an associate. If you can point to, and substantiate, a similar item that was sold in a marketplace venue like E-bay, that would normally be reasonable enough for the IRS.