



Tax time approaches; check your practice-friendly deductions

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Practice management

As the calendar approaches April 15, it's a good idea for both physicians and owners of the practices they serve to review the tax topics that tend to apply to them.

As they do every year, practice owners, like owners of other businesses, are scouring their financial records now for expenses and investments they can deduct on their 2025 taxes, and the physicians they employ are looking for expenses that their own bosses haven't covered (*PBN 3/13/23*). But it's important to separate what's deductible from what may only look as if it should be.

What to know about bonus and 179

Take bonus depreciation and Section 179, which are often confused as the same thing (*PBN blog 3/17/23*). These both affect your ability to take a large tax deduction on property and business equipment in the first year that you obtain them, as opposed to over the course of a years-long depreciation schedule.

One big difference has to do with how much you can deduct. Section 179 deductions "can't exceed the aggregate amount of taxable income of the taxpayer for such taxable year which is derived from the active conduct by the taxpayer of any trade or business during such taxable year," says Louis Vlahos, a partner with the Rivkin Radler firm in Uniondale, N.Y. That is, "it can't create a loss; stated differently, no taxable income, no Section 179 deduction." Plus, the total value of what you deduct under 179 can't exceed \$2,560,000 for 2025.

Also, explains Logan Foltz, M.D., founder and principal of TaxSmart MD in Gainesville, Fla., "the deduction is limited if your new equipment purchases exceed \$4.09M for the year — and is lost completely at about \$6.65M in new equipment spending."

Bonus depreciation, on the other hand, "is not subject to annual expenditure limits," Vlahos says. "It is not phased out, and is not subject to income limitations," so it can create a loss. And it may be claimed to cover any disallowed Section 179 deductions.

For many years, the law and IRS rules let you apply bonus depreciation to some, but not all, of the cost of your necessary business purchases (including big-ticket medical equipment) in the first year of ownership, rather than expensing it more slowly over time. That was amended by the 2017 Tax Cuts & Jobs Act (TC&JA) to allow a 100% first-year deduction. The TC&JA bonus depreciation feature expired in 2023, but it was reinstated by Congress in the One Big Beautiful Bill Act for 2025.

Also note, says Josh Katz, proprietor of the online tax consultancy Josh Katz CPA, bonus depreciation and section 179 can apply to "capital leasing" arrangements. "A true operating lease — like renting an ultrasound machine month-to-month — is deductible as a rental expense," he explains, "but if the lease is structured more like a purchase — for example, if you're leasing a \$100K MRI scanner for seven years and you own it at the end — that's a capital lease."

You may be able to claim a deduction on depreciation of your physical office space in the first year as well. "Normally, practice owners can't take accelerated depreciation on real estate," Foltz says. "However, if a cost segregation study is performed, you can identify components that qualify, such as wiring, cabinetry, lighting and plumbing, which are eligible." The IRS even has a guide to what they'd expect to see if they audit your cost segregation (see resources, below).

Picking up the check?

With medical business conferences returning after a long COVID layoff, travel and entertainment expenses are a big issue for medical personnel.

David Fesman, president of Med Mart, a Cincinnati-based medical equipment company, notes that while the TC&JA ended the deduction for expenses related to, as the IRS puts it, "entertainment, amusement or recreation" even for business purposes, business meals remain 50% deductible "if the meal has a clear business purpose and is accounted for with the date, meal attendees and subject matter discussed."

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Travel for business conferences, properly documented, is deductible, but Fesman says that practices “get burned most often” when they bring family members along who are not otherwise associated with the business and try to get their costs deducted. “Practices that lump the expenses of the family member’s travel into the same booking also tend to trigger disallowances on the entire trip, rather than just the personal portion of the trip,” he warns.

Katz reminds you that IRS may ask for “substantiation” of these business expenses — that is, “contemporaneous documentation, meaning records created at or near the time of the expense that show the business purpose. For a CME conference, that’s things like the conference agenda, proof of registration, notes from sessions you attended, certificates of completion. If you’re audited and all you’ve got is a credit card statement showing you were in Orlando, that’s not enough. They want to see that you actually attended the medical education and it was relevant to your practice.”

Providers should note that if they lay out for deductible expenses that their medical employers did not reimburse, IRS rules on “Accountable Plan Reimbursements” allow employees “to deduct reimbursements for certain expenses paid from personal accounts, e.g., travel expenses, auto mileage, or a portion of your cell phone bill,” Foltz says.

How about home office?

Physicians increasingly use home offices for their business, including for provision of telehealth encounters ([PBN 11/24/25](#)). Foltz reminds you the area (it needn’t be an entire room) that you claim as a home office for tax purposes must be “used regularly and exclusively for business.”

Vlahos adds that the home office is not a valid expense for an employee of a practice if the employee uses that office for their practice work. A corporation may elect “to rent the home office space from the employee [or] shareholder,” he says, “perhaps under an accountable plan for which the corporation will be entitled to claim a deduction without the employee [or] shareholder’s having to report income.” But this can have Stark Law implications and must be carefully vetted.

An employed physician might moonlight out of their own home office, assuming their contract allows that, and if that independent business is “distinguishable from their employment, and the activity is conducted with enough continuity and regularity to constitute a business,” Vlahos says.

But if you’re the practice owner and have a home office that you also do practice work from, that deduction can work, says Tom Wheelwright, CEO of the Tempe, Ariz., tax consultancy WealthAbility and TFW Advisors, and author of the book *Tax-Free Wealth* and the upcoming *Tax-Free Wealth for Physicians*. Not only that, but if you go back and forth from your practice to your home office in your car, and work in both, “your automobile expenses are a deductible expense as opposed to a commute” ([PBN blog 3/17/23](#)).

Get a SEP break

Wheelwright notes that a practice owner running a sole proprietorship, partnership or S-corporation is eligible for IRS’s 20% qualified business income deduction (QBI, Section 199A).

But note the cutoff for earnings. For married joint filers, that’s \$394,600. Wheelwright suggests a workaround: Start a simplified employee pension (SEP) plan, for which the contribution limit is currently \$74,000. “If I’ve got a physician who’s making, say, [between \$400K and] \$500K a year,” Wheelwright says, “I’d like to see them maximize their contribution so their income gets below \$400K” so they can get that 20% deduction. Plus, Wheelwright says, you can still make that contribution up until the due date of the business return, i.e., September 15, and get the resulting deduction on last year’s taxes.

Heads up, foreign docs

Many practices employ and have some legal responsibility for foreign-born providers working in the U.S. on HB-1 or J-1 visas ([PBN 7/10/23](#)). Vlahos mentions that some may eventually become permanent residents or citizens, meaning they’ll be treated as U.S. persons for income tax purposes. Plus, an H1-B visa holder “may be treated as a U.S. person if they satisfy the so-called substantial presence test,” he adds.

Too many of these physicians are unaware, Vlahos says, that U.S. persons with foreign financial ties have tax filing obligations on that account. For example, if they have “a financial interest in, or signature or other authority over, at least one financial account located outside the U.S., if the aggregate value of those foreign financial accounts exceeded \$10,000 at any time during the calendar year reported,” they must file a Report of Foreign Bank and Financial Accounts (FBAR).

“Whether the account produced taxable income has no effect on whether the account is a foreign financial account for FBAR purposes,” Vlahos adds. “In addition, the individual may have to file a separate form to report ‘specified foreign financial assets’ if the total value of all the specified foreign financial assets in which they have an interest is more than the appropriate reporting threshold.”

Don’t do crimes

Every year brings stories about practices trying to fiddle with their business structure and getting in big trouble for it. On Jan. 29, 2026, the U.S. Justice Department announced the conviction in Boston of Pankaj Merchia, M.D., on federal charges including tax fraud and evasion, in furtherance of which Merchia claimed a number of his businesses “were owned by a co-conspirator. To defraud the IRS, Merchia fabricated a sham transaction, falsely claiming that he sold his medical businesses back in 2008. To ensure that his co-conspirator did not owe taxes, they claimed deductions, spread across many years, for the fabricated sale payment.”

Assuming you're not a would-be criminal, be careful about business arrangements that seek to reduce tax liability, Vlahos says. "Work with an honest and competent adviser," he suggests. "Make sure there is a business purpose for any structure or arrangement that you implement; if there is none, then the tax benefit is likely the only purpose for the structure."

If the IRS thinks that's what you're doing, Vlahos says, they may apply an "economic substance analysis" to your scheme and disallow the deduction on that ground — and it could be worse. "Stay away from anything that seems too good to be true," he adds.

Resources

- IRS, "Cost Segregation Audit Technique Guide": www.irs.gov/pub/irs-pdf/p5653.pdf
- U.S. Department of Justice, "Doctor Convicted at Trial for Defrauding IRS and Health Care Insurers," Jan. 29, 2026: www.justice.gov/opa/pr/doctor-convicted-trial-defrauding-irs-and-health-care-insurers#_msocom_1
- IRS, "Qualified business income deduction": www.irs.gov/newsroom/qualified-business-income-deduction



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- E&M Guidelines
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- CCI Policy Manual
- Fee Schedules
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 - 100-02
 - 100-03
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