Practice Transitions Made Perfect™

Newsletter Article Reprint

Who’s Your Advisor?

October 2007

As the “Baby Boomer” market approaches retirement, we are seeing more and more accountants and financial planners entering the transitions business. It is readily apparent that they have little or no dental practice brokerage or management consulting experience, yet they are setting up transitions, providing legal documents and offering tax strategies for retiring dentists that are often “smoke and mirror” programs that can have devastating results.

Their main interest is to get the retiring dentist to invest his/her practice sale money in order that they (the financial planner or accountant) can manage it. They make a lot more money managing money than they make by providing transition advice. The most common investment vehicle is a Defined Benefit Plan. It is usually set up using an associate who is promised future ownership of the practice by accepting a reduced percentage of collected receivables as payment for the practice over a five year period.

Sounds good so far? There are two problems with this process: First, a Defined Benefit Plan requires a defined contribution based on the participant’s income every year for a minimum of five years. In the event the associate does not work out, (and more often than not, this is the case) the contribution still has to be made. The plan cannot be terminated prematurely without paying all of the previously deferred taxes plus penalties and interest. This can become very expensive. Furthermore, Defined Benefit Plans also require contributions for other employees of the practice.

Second, consider that your practice is sold outright and the proper allocation of assets is made, a large majority of the sale price (90%-95%) will be treated as a Capital Gain and taxed at 15%. Compare this to deferring taxes by contributing the proceeds of the sale into a Defined Benefit Plan and then taking distributions from that plan at ordinary income or 35% resulting in a loss of 20% that the promoters of these transition schemes do not reveal to you. It would take a long time for your money to be “managed” (hopefully growing) for you to realize a 20% gain!

As transition specialists, we do not purport to be investment advisors or money managers. We do know how to successfully assist you with your transition needs. We have specialized in providing brokerage services, associateship to co-ownership processes and solo group structures.

We suggest that you use a specialist to assist you in your transitions decisions and let a legitimate and separate financial advisor assist you in your investment strategies.

Remember, if it looks too good to be true, it probably is!

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