



Practice Transitions Made Perfect™

Newsletter Article Reprint

Taxes and Timing

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There is a lot of speculation out there about the low capital gains and ordinary income tax rates scheduled to “sunset” on december 31, 2010. What will a likely tax increase mean when it comes time to sell your practice? While this is an important consideration, there are other, more important questions to be asked first.

Practice Value.

We are often asked the following question: “What is my practice worth?” The answer is not immediately satisfying — “it depends.” But beyond practice value, what owners really want to know is “How much money will be left in my pocket to fund my retirement or relocation after the sale of my practice?” Now, that really does depend...but on what? Let’s explore that idea a bit more.

Supply and demand.

Many dentists who are at (or beyond) retirement age continue to practice. This means that there are currently not enough practices available for new dentists entering the market or for all of the experienced dentists wishing to relocate. That fact alone has helped to maintain practice values at an all time high.

Here is the flip side of supply and demand: as more and more sellers decide to jump into the market, it could begin to drive prices down. Another reality is that profitable practices in metro areas typically sell for more -- and sell more quickly. This means that smaller practices, and practices in more rural areas, will become harder to sell -- especially for the premium prices we are seeing today. And as credit tightens, seller financing for at least a part of the sale will become more prevalent. The good news is that lenders are still lending, and in many cases, a seller can still be completely cashed out if that is his or her choice.

Equipment.

Newer, up-to-date equipment will always catch the interest of a potential buyer over older, worn and tired equipment. So it will nearly always add to the value of the practice as a whole – this includes dental equipment as well as updated computers and office equipment. It also includes updated office furniture and décor.

Cash is King.

Running a tight ship will put money in your pocket today and contribute to a higher sales price tomorrow. Besides controlling overhead, you need to efficiently collect what you produce. Tip: be sure to watch patient credits that tend to accrue over time, too. A few dollars here and there multiplied by an entire patient base could leave you with an unpleasant surprise when it comes time to zero out those credits and leave a clean slate for your buyer.

Allocation.

A properly allocated sale – of all or part of your practice – can save thousands of dollars in taxes. The reverse is also true. Be sure to work with a reputable CPA and practice broker who can help you keep more of those sales proceeds in your pocket and advise you on timing.

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