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SEPTEMBER 2008

Practice Transitions Made Perfect™

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Death & Taxes



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## Another Adage

We've all heard the truism: "The only thing for sure is death and taxes." Regardless of your political leanings, there, most likely, will be a tax increase next year. The most probable area of increased taxation will be the Capital Gains Tax. At present the Capital Gains Tax is at 15% which was reduced from 28% during the Reagan administration. If implemented it is likely that the tax will be retro-active to January 1st, 2009. If so, any transaction that occurs after that date will be taxed at the higher rate.

This month's feature article will give you an indication of how an increase of the Capital Gains Tax may affect the after tax income that a seller might receive when selling a practice. I am currently advising all clients that are considering selling within the next 18 to 24 months to review the potential impact of this change with their CPA or tax advisor, now, for the purposes of planning.

Hy Smith, MBA | President, ADS Florida



## IRS Announces New Audit Targets and Revival of Random Tax Audits.

IRS audit rates have been rising recently. Moreover, the IRS is targeting its audits more effectively than ever before. Below are the most dangerous areas of audit risk for doctors now.

### 1. Unincorporated Doctors

IRS research shows that sole proprietors underpay their taxes by far more than any other group. For example, small business sole proprietors underpaid their taxes by a total of \$68 billion in 2001, compared to only \$30 billion for all large corporations. As a result, the IRS plans to increase its scrutiny of sole proprietors filing Schedule C. Accordingly, doctors operating as unincorporated sole proprietors face the highest audit risk.

### 2. Salary Levels for S Corporation Doctors

The salary of a doctor operating as an S corporation must be "reasonable" compared to the work done. Some doctors have paid themselves very little salaries (even zero), taking all of their practice profits as a dividend to avoid payroll taxes. Unreasonably low salary levels are a "red flag" to the IRS. To be on the safe side, doctors should draw a salary equal to the greater of \$230,000, or 25% of their total collections, with the balance of practice profits paid out as a dividend.

### 3. Salaries for C Corporation Doctors

The IRS plans to review C corporation tax returns where doctors pay out all of their practice profits in the form of salaries to themselves so to avoid double taxation (first on corporate profits, second as dividend income on the personal return).

### 4. Capital Gains Taxes

IRS officials suspect the government is losing billions of dollars in tax revenue annually because some doctors and other investors purposely inflate the cost basis that they

paid for stocks and real estate sold. This results in reporting lower capital gains when these assets are sold, decreasing the tax revenue received.

### 5. Whole Life Insurance Schemes

The IRS recently issued two notices (2007-83 and 2007-84) indicating plans to increase audits of doctors who attempt to deduct premiums on cash value life insurance policies held inside a VEBA or Section 419(e) trust arrangement. Fortunately, doctors already have the ability to increase savings on a tax-deductible basis through contributions to qualified retirement and defined benefit plans.

### Random Tax Audits Revived

The IRS also recently announced plans to revive its controversial practice of randomly targeting thousands of taxpayers for audits, even when the agency has no reason to suspect them of wrongdoing. IRS officials expect these random audits to provide fresh data to help update the top secret formulas the agency uses to select tax returns for audit, and thus improve their job of combating tax evasion.

These audits come at a time when the IRS faces increasing pressure to take bolder action to slash the "tax gap", the difference between what the government collects each year and what it should be collecting. The IRS estimates that the tax gap now stands at \$290 billion annually.

Article by John K. McGill, M.B.A., J.D., CPA. and courtesy of The McGill Advisory

## Taxes: To Transition Now or Later

With a new administration coming to Washington, we can all expect that some changes are likely. The possibility of tax law changes after the upcoming elections and uncertainty surrounding the current state of the economy, both sellers and buyers have many things to review.

For the seller, the allocation of purchase price comes with the possibility of dramatic tax ramifications. In apportioning the purchase price, the largest amount of the purchase price is usually allocated towards the seller's goodwill. In 2008, the tax on goodwill is set at the capital gains rate, currently fifteen percent (15%).

Plans that have been discussed by the two major party candidates include anything from zero to a ten or twenty percent increase in the capital gains rate (depending on what report you read and when you read it), which means up to \$20,000 additional tax paid to the IRS on every \$100,000 allocated towards goodwill. The other major allocation category is equipment. This category is typically taxed at personal income rates up to the cost basis and then capital gains on the remainder. Currently there is up to a 20% tax differential between goodwill and the seller's personal income rate.

So, as a prospective retiring doctor, what can you do? Obviously there are always two options; transition now or transition later. In this decision, though, you need to discuss with your advisors a strategic plan of action. It may be worthwhile to consider selling before tax policy can be changed, even if you are considering slowing down in your practice and will continue working for another year or two. You might consider part-time employment inside the practice if it is feasible for the purchaser to employ you, and if not, look for employment outside the area of your restrictive covenant.

Your practice may be so profitable that this type or timing of transition would not be in your best interest. Your current take-home pay even with a larger tax liability later may outweigh the ongoing part-time pay plus the comparative tax savings of a practice sale this year. Each situation should be carefully evaluated prior to making the decision to retire from your practice.

As for buyers, the tax implications are probably not a major factor in a decision to purchase now or after 2008.

There is currently an immediate depreciation for equipment of up to \$250,000 which is set to expire after this year. However, the entire purchase price of a practice is depreciable for a buyer: 3-5 years for equipment and 15 years for goodwill, so it is generally an issue of timing and not whether a tax break will be lost.

More of a consideration for buyers continues to be the availability of good practices to purchase. While our own research and statistics from the ADA may indicate that we are in, or will soon be entering into a buyer's market with more sellers than buyers nationally, within the state of Florida this may not be the case anytime in the near future. Florida will continue to be a desirable location to live and a good quality practice with a strong cash flow will sell, sometimes with multiple purchase offers.

So, as a buyer, what should you do? Look now for the good practices, even if they are not in the specific location that you would most desire. This may include looking at practices just outside of the urban areas within a 30-45 minute commute. If that is not realistic, be prepared to pay for a quality practice when it comes available, as nobody can predict when the next great practice will come along. Overall, resist the uncertainty that the economy is currently breeding. Practices statewide have seen some downturns; some down ten to fifteen percent or more this year. This decline, like others we've experienced though, is due to the general state of the economy and is expected rebound as the downward cycle levels off and then turns positive, leaving you with the benefit of delayed work and patients in need of treatment.

A new administrative policy is likely as both candidates are keenly poised to "fix" the economy. Buyers should consider that they will not only see patients coming in for delayed treatment, but the possibility of cash rebates to consumers and investment incentives for business owners. Accelerated depreciation for new equipment may be preserved which could allow for an advantageous environment to replace older chairs, purchase new technology or take the steps to go digital and paperless. Combining these incentives with the possibility that a seller may be further motivated to sell before a tax law change could result in an opportunity for you and a kick start to your private practice career.



# Practice Transitions Made Perfect

## General and Specialty Practice Purchase Opportunities

### NORTH FLORIDA

Contact: Paul Rang, DMD, JD, Don Elsmann, DDS or Melody Elsmann, RDH

		Gross	Buyer Net
Fort Walton Beach	4 ops FFS pano 3 days/week RE Available	Ask \$100K	
Lake City Area	5 ops FFS pano 3 days/week RE Available	\$340K	\$107K
Pensacola	6 ops FFS 3 days/wk Real Estate Available	\$361K	\$104K

### Specialty Practices

North Gulf Coast	Oral Surgery 6 ops Real Estate available	\$1.2M	\$541K
NE Florida	Pedo 6 ops Real Estate Available	\$1.2M	\$485K

### WEST FLORIDA

Contact: Greg Auerbach, MBA or Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	\$729K	\$213K
Sarasota	3 ops FFS		SOLD
Tampa (Carrollwood)	5 + 1 ops - PPO/FFS		SOLD
Tampa (South)	3 ops FFS/PPO Starter/Satellite		PENDING
Venice	4+1 ops FFS/PPO RE Avail	\$585K	\$142K
Venice	3 ops FFS/PPO	\$735K	\$208K

### CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	\$729K	\$213K
Gainesville	4 ops FFS/PPO Pano	\$1.1M	\$333K
Levy County	7 ops 3 days/wk	\$362K	\$145K
Ocala	4 + 2 ops FFS Pano	\$552K	\$171K
Orlando	5 ops FFS digital x-ray and Pano Cerec	\$1.3M	\$443K
Orlando	4 ops FFS/PPO digital x-ray and Pano	\$803K	\$217K
Orlando	3 ops FFS/PPO 3 days/wk RE Avail	\$235K	\$81K
The Villages	7 ops FFS/PPO digital x-ray Pano Cerec	\$1.4M	\$387K
Vero Beach	3 ops Equipped Condo	Ask \$460K	

### Specialty Practices

Central FL	Perio - 2 locations FFS	\$1.1M	\$508K
Orlando	Orthodontics 1 day/wk RE Avail	\$300K	\$77K

### SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

		Gross	Buyer Net
Boynton Beach	3 ops FFS Publix Shopping Center		Ask \$195K
Hialeah	4 ops FFS PPO computer and pan		Ask \$225K
Miami	7 ops PPO/FFS/HMO	\$502K	\$140K
Miramar	8 ops PPO/FFS/HMO		SOLD
N. Miami	5+1 ops FFS/PPO		Ask \$ 97K
Sunrise	4+2 ops PPO/FFS/HMO		UNDER CONTRACT
Tamarac	3+1 ops w/Condo (2 days/wk)	\$388K	\$115K
W. Palm Beach	4 ops FFS/PPO digital x-ray		Ask \$183K

### Specialty Practices

Indian River Cnty	Perio 5 ops new equipment w/Condo	\$770K	\$160K
Palm Beach Cnty	Oral Surgery 5 ops FFS/PPO	\$700K	\$232K
Palmetto Bay	Ortho Startup 4 ops (1 day/wk) w/Condo		Ask \$305K
Miami Lakes	Pedo/Ortho		UNDER CONTRACT

### Practice Ready Facilities

Miami Beach	3 ops Equipped surgical office w/pan/ceph/tomo	Ask \$305K
Lake Worth	8 ops w/street exposure	FOR LEASE
Vero Beach	3 ops Condo w/equipment	Ask \$375K

### Associate Opportunities

Pedodontic: Hialeah, Homestead, Lighthouse Point  
 General: Hialeah, Miramar, Melbourne

### SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Hy Smith, MBA

		Gross	Buyer Net
Ft. Myers Area	5 ops FFS Digital Upgrades, RE Avail	\$780K	\$256K
Marco Island	5 ops FFS - Upscale Interior		UNDER CONTRACT
Naples	6 ops FFS - High End C&B RE Avail	\$1.6M	\$503K
Punta Gorda	4 ops FFS - 1400 SF Long Established	\$650K	\$177K

### Practice Ready Facilities

Ft. Myers 2 + 1 ops Pan/Ceph Major Road

### Specialty Practices

Naples	Proths - 6 ops FFS Only RE Avail	\$1.6M	\$503K
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For the most recently updated listings visit [ADSflorida.com](http://ADSflorida.com)

We currently have buyers looking for the following opportunities:

#### GENERAL DENTISTRY

Broward, Collier, Dade, Hillsborough, Manatee, Orange, Sarasota

#### PEDODONTIST

Broward, Dade, Palm Beach

#### ORTHODONTIST

Broward, Dade

#### PERIODONTIST

Broward, Palm Beach



**Hy Smith, MBA**  
 (239) 262-3077  
[hy@ADSflorida.com](mailto:hy@ADSflorida.com)



Southeast Florida  
**Stuart M. Auerbach, DDS**  
 (954) 431-3624  
[stuart@ADSflorida.com](mailto:stuart@ADSflorida.com)



Jacksonville / Panhandle  
**Melody Elsmann, RDH**  
 (386) 517-6911  
[melody@ADSflorida.com](mailto:melody@ADSflorida.com)



West / Southwest Florida  
**Greg Auerbach, MBA**  
 (941) 746-7959  
[greg@ADSflorida.com](mailto:greg@ADSflorida.com)



North / Central Florida  
**Paul Rang, DMD, JD**  
 (407) 671-2998  
[paul@ADSflorida.com](mailto:paul@ADSflorida.com)



Jacksonville / Panhandle  
**Donald A. Elsmann, DDS**  
 (386) 517-6911  
[don@ADSflorida.com](mailto:don@ADSflorida.com)



## BEST PRACTICES IN BEAR MARKETS

Enhancing Practice Value During Economic Downturns

Friday, November 7th | Embassy Suites Jacksonville | 8:30 am - 4:30 pm  
 Pre-register for a 20% discount and learn more at [ADSflorida.com/insight](http://ADSflorida.com/insight).

insight series

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