



ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

IN THIS ISSUE

FALL 2008

Practice Transitions Made Perfect™

ADSflorida.com

Taxes: Watch & Ward

Last newsletter we spent time discussing taxes and concerns with potential tax changes that could occur in 2009. As a supplement to that discussion, we want to alert our clients and dental colleagues of disturbing information that has come to our attention.

practice legal documents, partnership and solo group structures and complex practice transition strategies. He is revered as one of the two top tax attorneys in the country for the dental community.

In recent discussions with Bill, he brought to our attention some disturbing developments that may very well impact our dental clients and we felt that it would be appropriate to share some of this information with you.

Attorney Bill Prescott*, a close friend and advisor, chairs the Closely Held Business Committee of the American Bar Association Section of Taxation, a tax forum with the IRS and tax attorneys discussing tax and legal issues that affect the relationship with the small business community and the IRS. Bill's specialty is tax law and the preparation of dental

Hy Smith, MBA | President, ADS Florida

*William P. Prescott M.B.A., J.D. is a Practice Transition Attorney from Cleveland, OH where he is a shareholder/partner with the law firm Wickens, Herzer, Panza, Cook & Batista Co. Bill represents dentists and specialty practitioners in practice sales and acquisitions, succession planning, solo and group practice valuations, associate buy-ins, owner buy-outs and group practice operations. www.wickenslaw.com – click "Dental Practice".



Test-Driving a Practice

Timothy A. Brown | President & CEO – ROI Corporation

Many of today's buyers ask if they can work in a practice before making the decision to submit an offer to purchase. While it is a reasonable request, what are the benefits – to the owner or the buyer – and what are the risks?

1. Patients and staff may be unnerved by the sudden arrival – and departure – of the associate dentist, and some patients may even choose to go elsewhere as a result.
2. The owner is required to explain that he or she will be resuming their care; this can lead to a loss of income while the owner and staff are burdened with the task of explaining the short-term change of dentist.
3. The owner may have reduced income hours while feeding patients to the associate to 'impress' them with the busyness of the practice.
4. Any marketing or introductions of the associate may have to be retracted, causing more suspicions or questions from the community.

From the buyer's perspective:

1. He or she wants to become familiar with the day to day style, systems and philosophy of a practice, to ascertain if it matches with his or her philosophy;
2. The buyer wants to learn if he or she is compatible with the staff;
3. The buyer seeks to discover if he or she can perform the normal scope of treatments and keep pace with the owner – who is usually more experienced and skilled with years of experience;
4. The buyer needs to know if he or she is a good 'fit' with the socioeconomic profile of the patients.

We rarely suggest "test-driving" a practice, unless circumstances demand it is necessary, such as specialty practices or those located in remote areas, where there are few other buyers to seriously consider the practice. Our philosophy has always been to allow a buyer to view the office after-hours, when no patients or staff members are present.

From the owner's perspective:

1. He or she wishes to study the buyer's personality to determine if they can manage the practice;
2. He or she wants to know if the buyer is able to produce the income required to service the regular overhead and the debt to purchase the practice;
3. He or she also seeks to train the buyer, in advance of a sale, to pass on techniques to help assure continued quality of care.

We find this policy to be the one that produces successful transitions time and again.

Timothy A. Brown is the President & C.E.O. of ROI Corporation & ROI Capital, companies that specialize in dental practice appraisals, brokerage, consulting, locum placements, associateships and practice financing across Canada.

All of the foregoing is in the genuine interest of both buyer and seller. However, in our opinion, the risks are much greater for the owner, and may have a significant impact upon the practice value (*often negatively*) if the buyer does not proceed to purchase the practice. Consider these risks:



Taxes:
Watch & Ward



Test-Driving
a Practice



The IRS is looking
at YOU!

ADS Florida
Congratulates

John Cowel, DDS to
Rural Health Network
Key West

Anthony J. Koczyk, DMD to
Megan A. Welker, DDS
Marco Island

Jordan Bluth, DMD to
Sayed Fadavi, DDS
Sunrise

The IRS is looking at YOU!

H.M. Smith, MBA
Managing Member, ADS Florida, LLC



For many years, the IRS has pretty much left professional practices alone except for the most egregious violations. At present (and before the financial crises of the week of September 15, 2008) it is estimated that the "Tax Gap," the difference between the amount the IRS needs to run the government and the amount it is taking in, is **\$346 billion dollars!** Of that amount 75% or \$260 billion dollars is attributable to small business that do not pay what the IRS considers is their appropriate share of the tax burden. This includes dental and other professional practices. The IRS is determined to narrow that gap and has committed to pursue small business in order to do so.

There are three main areas of focus that the IRS is concentrating on. In order of priority, they are:

1. Unreported Income
2. S-Corporation distributions (Bonuses and Dividends)
3. Worker Classification (Independent Contractor Status)

Let's examine each of these issues.

Unreported Income

Unreported income is pretty self explanatory. However it can be divided it into two specific categories.

1. Actual cash that comes into the practice that is not reported
2. Personal expenses that are reported as practice expenses.

It is not necessary to address unreported cash. We all know that the IRS expects us to report ALL income that comes into the practice. How can they know? They are aware of practice expense norms. It becomes pretty obvious if laboratory and supply expenses are much higher than the national norms as a function of gross income, there is a possibility that income is not being reported. **IT'S AUDIT TIME!**

Personal Expenses that are reported as practice expenses are actually much easier to determine than unreported income. The IRS will order an audit and you will need to produce the actual proof that the expenses you claim to be necessary are actually practice expenses. Get the shoebox organized, because, **IT'S AUDIT TIME!**

S-Corporation Distributions

S-Corp distributions are also very easy for the IRS to look at. If you take a "*less than normal owners compensation*" and take the difference as a bonus or dividend at the end of the year in order to avoid paying the FICA and Medicare Supplement taxes, **IT'S AUDIT TIME!**

Worker Classification

Worker classification is whether your associate(s) is treated as employees and you are paying the required taxes as an employer or whether they are truly Independent Contractors. The IRS has re-classified the Independent Contractor/Employee test into three main categories:

1. Behavioral Control
2. Financial Control
3. Relationship of the parties

Rather than go into all of the issues with each of these categories, we will give you the five main issues that usually disqualify an associate in a dental practice as an Independent Contractor.

1. If the practice pays the associate, he/she is an employee.
2. If the practice provides patients to the associate, he/she is an employee.
3. If the practice does the scheduling for the associate, he/she is an employee.
4. If the practice determines the working hours of the associate, he/she is an employee.
5. If the associate does not intend to buy into or purchase the practice, he/she is an employee.

If you have an Independent Contractor that meets any one or all of the above criteria, **IT'S AUDIT TIME!**

We strongly recommend that you take this information to heart, because the auditors are gathering and they will be very carefully examining a much larger percentage of small business tax returns in the coming years. The penalties and interest that will be charged to those who fail the audits will be very significant. They are not giving any grace, because they need the money.

After the additional commitments the government has made this month to bail out AIG and the sub-prime mortgage market, it will add an additional \$700 billion to the deficit roles, bringing our national debt to the \$11.5 trillion dollar mark. Their need for tax dollars is increasing as you are reading this.

Take the necessary precautions now to avoid not only an audit, but the additional costs of penalties and interest if you are found to have crossed the line on these issues. Remember, the IRS can and will go back into past years if they find irregularities in the current year audits. Play it safe, play it honest, for your sake!

Practice Transitions Made Perfect

General and Specialty Practice Purchase Opportunities

NORTH FLORIDA

Contact: Paul Rang, DMD, JD

		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	UNDER CONTRACT	
Tampa (South)	3 ops FFS/PPO Starter/Satellite	UNDER CONTRACT	
Venice	4+1 ops FFS/PPO RE Avail	\$585K	\$142K
Venice	3 ops FFS/PPO	\$735K	\$208K

Associate Opportunities

General: Bradenton

CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	UNDER CONTRACT	
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, Pano, Cerec	\$1.3M	\$443K
Orlando	4 ops FFS/PPO digital x-ray, Pano, Cerec	\$803K	\$217K
Orlando	3 ops FFS/PPO 3 days/wk RE Avail	UNDER CONTRACT	
Orlando	5 ops FFS/PPO digital x-ray, Pano, Cerec	\$1.1M	\$360K
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	UNDER CONTRACT	
Hialeah	4 ops FFS PPO computer and pan	Ask \$225K	
Miami	7 ops PPO/FFS/HMO	\$502K	\$140K
N. Miami	5+1 ops FFS/PPO	Ask \$ 97K	
Sunrise	4+2 ops PPO/FFS/HMO	SOLD	
Tamarac	3+1 ops w/Condo (2 days/wk)	\$388K	\$115K
W. Palm Beach	4 ops FFS/PPO digital xray	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	

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
Marco Island	5 ops FFS - Upscale Interior	SOLD	
Naples	6 ops FFS - High End C&B RE Avail	UNDER CONTRACT	
Punta Gorda	4 ops FFS - 1400 SF Long Established	\$650K	\$177K

Specialty Practices

Naples	Proths - 6 ops FFS Only RE Avail	\$1.6M	\$503K
--------	----------------------------------	--------	--------



For the most recently updated listings visit 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



Southeast Florida
Stuart M. Auerbach, DDS
(954) 431-3624
stuart@ADSflorida.com



West / Southwest Florida
Greg Auerbach, MBA
(941) 746-7959
greg@ADSflorida.com



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



Speakers Available For Your Meetings

Learn the latest in transition and exit strategies.

Call ADS Florida 800.262.4119