ADS Florida Insider

EXPERIENCE, INFORMATION AND CONSULTANTS YOU CAN TRUST

OCTOBER 2007 Practice Transitions Made Perfect™ ADSflorida.com

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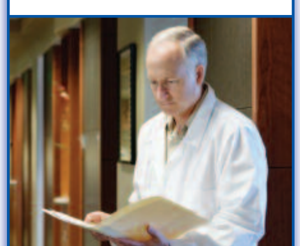

ADS Florida *Congratulates*

Edward Palmer, DDS to
Pedro Martinez, DMD
New Port Richey, FL

Maurees Kramer, BSD, MScD
to Andre Grenier, DMD
Plantation, FL

Luciano Garcia, DDS to
Marios Grigoropoulos, DDS
Plantation, FL

Money, Money, Money

It always amazes me how gullible people are when it comes to money making scams! By now we all have been exposed to the foreign get rich inheritance schemes. While watching a news program the other evening though, there was a report about a young Belgian man posing to be a wealthy heir to the Rothschild family. He circulated with the rich and famous using their money in a Ponzie scheme to stay in luxurious hotels, buy expensive cars and fly on private jets.

Yes, he got caught and did time for his crime, but there were a lot of innocent "wannabees" that lost a lot of money before he ultimately was put out of business. Scams come in many forms. Don't let your practice transition become a victim.

H. M. Smith

Hy Smith, MBA I President, ADS Florida

Who's Your Advisor?

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!

Entity Selection: Part Two

By William P. Prescott, M.B.A., J.D.

Are you forming or purchasing a practice? Are you planning to practice with another doctor? What entity form is appropriate and what do you need to know to select the right one?

There are basically five entities for practice operation. They are a sole proprietorship, C corporation, S corporation, limited liability company ("PLLC" or "LLC") or general partnership. This choice should be driven by two factors; liability protection and tax benefits.

In our last issue, we covered the liability issues relating to the selection of your entity. In this issue, we'll be discussing the tax ramifications. To access part one, please visit our online newsletter archive.

Currently, all entities are almost the same relative to tax issues relating to practice operations, although C corporations do allow for certain "executive" health reimbursements not permitted in other entities, as well as some other benefits. Additionally, S corporations may provide for "reasonable" distributions that escape the 2.9% Medicare tax above the Social Security Wage Base.

The difficulty regarding the tax issues on entity selection is in the sale of the practice or practice interest. In a complete sale, it is best to be an entity other than a C corporation for ten years or more, absent the helpful recent cases allowing for the sale of personal goodwill at one tax level.

To acquire an interest in a C or S corporation, stock must be purchased and sold. The purchaser pays for stock in after – tax dollars and the seller receives favorable capital gains treatment. This tax differential can be "balanced" by adjusting the tax-neutral fair market value by the tax detriment to the incoming doctor versus the capital gains treatment to the seller. We have found this reduction to be roughly 22%.

As an alternative, parties often agree that the value of the stock would be its lowest "reasonable" value, e.g., the value of the tangible assets or "book value" that is even lower, with the personal goodwill payable through compensation adjustments. Here, the incoming doctor's compensation is reduced and the practice owner's compensation is increased through the payment of a "guaranteed bonus" or management fees in exchange for the actual management services rendered. Upon the departure of a shareholder, the stock would still be valued at its lowest reasonable value, as determined by a formula contained in a buy-sell or share redemption agreement. Additionally, the departing owner would receive payments of deferred compensation or continued compensation equal to the value of the personal goodwill or, in fact, the payment of personal goodwill since the Martin Ice Cream and Norwalk vs. Commissioner cases in 1998. However, if the entity is a C corporation, the Pediatric Surgical Associates vs. Commissioner case decided April 2, 2001, creates both with reasonable compensation concerns and difficulty in the payment of compensation adjustments.

Many advisors favor the use of a PLLC for admitting new members and cashing out departing members because when a new doctor is admitted and the PLLC is taxed as a partnership, an Internal Revenue Code Section 754 election is made. This election treats the purchase of the interest similar to a favorable asset sale.

The bottom line is that the greater number of employees you have, the more important it is to consider an entity that provides liability protection. Where two or more doctors practice together, it becomes very important to consider practicing in an entity that provides liability protection.

While advisors can now work around the unfavorable tax consequences of practicing in a C corporation upon admitting a new doctor, cashing out a senior doctor or selling the C corporation's assets, the most difficult entity to work with remains the C corporation.

Fortunately, retirement plans are entity neutral, unlike in the past when the C corporation was clearly the most favored entity.

As to the practice real estate, consider the use of an LLC or a family limited partnership that is taxed favorably as a partnership, as compared with other entities. The LLC or family limited partnership also provides for a limited liability in varying degrees, as the general partners in a family limited partnership are jointly and severally liable for the acts of the other partners.

Meet William P. Prescott

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.

Bill was a former dental equipment and supply salesman for over 16 years who worked primarily with Saslow and Meer Dental Companies and as general manager for Saslow Dental C Northern Ohio.

He has authored the books: *Business, Legal and Tax Planning for the Dental Practice; The Practice Acquisition Handbook; The Limited Liability Company; Other Entities for Dentistry* and, due for release later this year, *Joining and Leaving the Dental Practice*. Bill also writes a quarterly supplement - Business, Legal and Tax Planning for the *Dental Practice*.

Bill is a member of the American Bar Association, Section of Taxation, Closely Held Businesses Committee; Ohio State Bar Association; Cleveland Bar Association; Small Business Council of America, Director and Officer.

He has served as Chair, Subcommittee for Doctors, Lawyers and Other Professionals, 2003-2005; Vice-Chair, Professional Services, 2003-2005; Chair, Closely Held Businesses Committee, American Bar Association, Section of Taxation, 2007-2009.

Reach Bill at 440.930.8067 or wprescott@wickenslaw.com.

Practice Transitions Made Perfect

General and Specialty Practice Purchase Opportunities

NORTH FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Lake City area	5 ops FFS pano Real Estate Available	$354K	$107K
Lake City	7 ops FFS Pano 2 days/week	SOLD	
Live Oak	7 ops FFS Pano 2 days/week	SOLD	
Pensacola	6 ops FFS 3 days/week	$374K	$103K

Specialty Practices

NE Florida	Pedo 6 ops	$1.2M	$450K

WEST FLORIDA

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

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	$705K	$213K
Crystal River	8 ops FFS Pano Real Estate Available	PENDING	
Englewood	4 ops FFS/PPO Real Estate Available	$600K	$190K
New Port Richey	5 ops FFS	SOLD	
Tampa	2 + 2 ops Downtown – Starter/Satellite	Ask $500K	
Tampa	3 ops FFS/PPO Real Estate Available	$550K	$150K
Tarpon Springs	4 ops FFS/PPO – Starter/Satellite	Ask $125K	
Venice	4 + 1 ops FFS/PPO RE Available	$625K	$125K
Venice	3 ops FFS/PPO	$650K	$152K

CENTRAL FLORIDA

Contact: Paul Rang, DMD, JD

		Gross	Buyer Net
Citrus County	5 ops FFS Pano	$705K	$213K
Clermont	4 ops FFS/PPO Pano RE Available	$675K	$191K
Cocoa	6 ops FFS Pano Real Estate Available	$1.1M	$378K
Crystal River	8 ops FFS Pano Real Estate Available	PENDING	
Gainesville	4 ops FFS/PPO Pano	$949M	$333K
Levy County	7 ops 3 days/week	$292K	$58K
Ocala	5 ops FFS	PENDING	
Orlando	6 ops FFS/PPO Pano	$642K	$195K
Orlando	4 ops FFS/PPO Pano	SOLD	
Pasco Co. – NPR	5 ops FFS Real Estate Available	SOLD	
Titusville	5 ops FFS Real Estate Available	$701K	$176K

Specialty Practices

Orlando	Orthodontics 2 days/week	$350K	
Treasure Coast	Prosthodontics	SOLD	

SOUTHEAST FLORIDA

Contact: Stuart M. Auerbach, DDS

		Gross	Buyer Net
Aventura	5 ops FFS C&B	PENDING	
Hialeah	4 ops FFS/PPO Computer & Pan	Ask $225K	
Homestead	2 + 1 ops FFS	PENDING	
Miami	2 ops FFS/PPO	$233K	$135K
Miami	4 ops pano expandable	Ask $167K	
N. Palm Beach	4 ops FFS/PPO Rest Cosmetic w/RE	$1.5M	$321K
Plantation	5 ops FFS Computers & Digital X-Ray	SOLD	
Weston	3 + 3 ops FFS/PPO Digital X-Ray w/RE	$541K	$130K

Specialty Practices

Broward Cnty	PERIO 6 ops FFS w/RE	SOLD	
Palm Beach Cnty	Surgery 5 ops	$700K	$232K

Practices Ready Facilities

Boca Raton	6 ops Equipped	Ask $75K	
Cutler Bay	4 ops with instruments and pano	Ask $117K	
Vero Beach	3 ops *CONDO* w/equipment	Ask $460K	

SOUTHWEST FLORIDA

Contact: Greg Auerbach, MBA or Hy Smith, MBA

		Gross	Buyer Net
Ft. Myers Area	5 ops FFS Pan, RE Available	$650K	$237K
Marco Island	5 ops FFS – Upgrades Inside	$660K	$190K
Naples	5 ops FFS – C&B Available	PENDING	

Associate Opportunities

Hialeah (Orthodontist), Lake Wales - Bartow, Miramar, Stuart, Tamarac, Venice.

Buyer Projected Net Income Assumes 100% Financing

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

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Jacksonville / Panhandle
Donald A. Elsman, DDS
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TRANSITION STRATEGIES 07

Associates, Partnerships & Appraisals, by Hy Smith, M.B.A.

Hy Smith has helped hundreds of doctors with his experience in practice valuation, associateship buy-in arrangements, practice sales, mergers and multi-doctor group arrangements.These information-packed two-day sessions are a must for doctors approaching a Practice Transition.

Tampa, FL November 30 - December 1

Visit **ADS**florida.com or call 1.800.262.4119 x11 for reservations.