



PUTZKI + ASSOCIATES
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Turn Your Practice Goodwill into a Juicy Tax Shelter

Have you ever thought that your practice goodwill is a source of big tax savings for you and your family?

We started to work with a number of our clients to extract tax savings from the goodwill of their practice. The amount you save depends on the market value of the goodwill and your personal circumstances. The average tax savings are:

<u>Goodwill</u>	<u>Tax savings</u>
\$500,000	\$90,000
\$750,000	\$140,000
\$1 million	\$180,000

To implement this tax strategy contact Leif at 604-669-7558.

**VISIT US
 AT PDC
 BOOTH 945!**

Future For New Dentists Has Never Been Brighter

Dentistry was once considered the most desirable profession in the country in terms of income and prestige. However, many new dentists today are rather depressed about their career prospects. At first glance, going into practice today does not look that appealing anymore. The demand for dental services is declining, as cash strapped Canadians cannot afford treatments not covered by their dental insurers, who are constantly trimming their coverage. The overpopulation of dentists - especially in urban areas - makes it almost impossible get a full time associateship. Then there is the threat of large corporate dental providers taking an increasing market share. In addition, practices for sale are scarce and very expensive. For example, it would take \$1 million today to purchase a practice that was only worth \$500,000 a few years ago. Thus, it comes to nobody's surprise that an estimated two-thirds of dental practices show declining revenues each year.

Despite the doom and gloom, the future for young dentists is bright.

If there are no attractive associate positions available in the part of the city you like to practice in, then you have to create a position. Contact the dentists with declining revenues. The deal is that you will build up the patient flow by expanding practice hours to evenings and weekends. If the trial period is successful, you can buy into the practice at a set price which excludes the goodwill of your patients. The selling dentist loves the idea of boosting patient revenues which also lowers his/her share of the overhead. This gives you an awesome opportunity to become a practice owner for a small investment.

You may also wish to consider a scratch start up in a growing area of the city. Pick a retail space in a visible location. It should be at least 1800 sqft. sufficient for 6 operatories, to allow for patient growth and perhaps a future partnership. Many smaller clinics only have two to four operatories and cannot grow revenues to offset

rising expenses because they already reached capacity. Also, set a tight budget for building the space and purchasing equipment.

Moreover, you will never reach the income potential of the practice unless you hire the best people and give them leading edge business systems. There are good people out there not happy in the current position, who will jump ship for a challenging opportunity and an inspiring work climate. You can scout for the right person yourself or hire a head hunter. Your practice must have business focus with good systems in place to monitor operations on a daily basis, enabling you to take remedial action immediately. When it comes to the business side of practicing dentistry you need to expand your network of advisors to include non-dentist consultants.

No matter what career path you choose, either as an associate or practice owner, you must learn how to provide excellent new patient experiences on a consistent basis. You need to create trust quickly with the patient, or the patient will not accept your treatment plan.

Many young dentists have problems communicating with patients. For example, they use clinical jargon to hide their lack of confidence or they continue to pitch the comprehensive treatment plan long after the patient stopped listening. Learning the art of patient communication is critical, and it makes a difference between producing \$25,000 a month or \$60,000. The boost in income will go a long way in paying down the student loan.

The young dentists starting their careers today know the dental market and have no illusions that they cannot continue the business of practicing dentistry as their predecessors did. A focus on the business side while providing top quality dentistry with the highest professional integrity is the formula for professional success, prosperity, and a bright future.



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WHAT WE DO BEST

- Accounting
- Practice Transitions
- Practice Management
- Estate Planning
- Tax Planning
- Practice Valuations
- Financial Planning
- Fraud Prevention

Top 5 Costly Bookkeeping Mistakes

Many dentists consider bookkeeping a chore of Sisyphean proportion. Regrettably, they do not appreciate that up-to-date bookkeeping data and financial statements are the most important tool in managing a dental practice in today's high overhead and competitive environment.

Below is a list of costly bookkeeping mistakes that numerous dentists make.

1. Not matching revenues and expenses

Dentists often look at their bank account as a gauge of how well the practice is doing. Like many business people, dentists confuse "cash flow" with "profits". You can have great cash flow, but low profit. Cash flow statements just track the deposits and actual payments in the period. Profit and loss statements, on the other hand, are based on the "accrual" method of accounting, which means that revenue and related expenses are recorded in the same period. Hence, it is the profit and loss statement, not the cash flow statement that gives you the true picture of your financial performance. To illustrate: your monthly cash flow statement is \$20,000 higher than the net income on your profit and loss statement. Which statement is correct? Your new associate generated \$50,000 of cash flow, but you did not pay his/her \$20,000 fee until the following month. As a result, this amount is not shown in the cash flow statement but recorded in the income statement as an associate fee payable. Since it is a big bookkeeping effort to prepare monthly financial statements, consider compiling them every quarter, just like large companies do.

2. Not reconciling the bank account

Even if you do not do any bookkeeping during the year, the one important step is to prepare a monthly bank reconciliation. This important task compares the transactions in the bank statement with your office records of bank deposits and disbursements. The bank reconciliation gives you the assurance that all the deposits are properly recorded in the bank and any debits or charges are valid and recorded in your books. It is a time-consuming task for your accountant to reconcile bank balances at the company's year-end and provide a detailed analysis of 12 months of banking transactions. In addition, by not reconciling your bank statements promptly, you may also jeopardize your recourse against the bank in case of a bank error.

3. Doing it yourself

Some dentists believe that bookkeeping is easy and they can do it themselves rather than paying somebody else. However, many soon realize the complexity of this job (e.g., learning the accounting software) often results in that they stop doing the bookkeeping altogether. The result of which is that they drop off boxes to their accountant to clean up the mess at the end of the year. To overcome this hurdle, hire an accountant who has dental industry knowledge. An accountant is not only able to prepare meaningful financial statements each month or quarter, but can also provide you with invaluable practice management advice.

4. Combining personal and practice expenses

Oftentimes dentists use the practice bank account to pay personal expenses. Keep your personal and business expenses separate. Transfer funds from your practice bank account to your personal account from which you pay all your personal and living expenses. This will both simplify the bookkeeping and help you managing your personal finances and income taxes.

5. Exposing yourself to fraud and embezzlement

A lot of business owners, including dentists, fail to incorporate strong internal controls in the bookkeeping systems. Fraud in the dental practice is rampant; it is estimated that up to 60% of dental practices have been embezzled. To prevent fraud, you must build in internal controls to achieve these two major objectives:

- a. Ensure that all dental procedures are billed correctly. This can be accomplished by comparing daily treatments per dental charts to the posted treatments in the system. Fee write-offs must be investigated.
- b. Reconcile the daily cash receipts to the bank deposits. Ensure that all patient receipts are deposited in the bank and old outstanding accounts receivable and discounts are followed up.

The foundation of sound financial management is a bookkeeping system that accurately tracks the profitability and produces reports on a timely basis. This means that you will be able to take remedial action quickly, thus avoiding costly bookkeeping mistakes.

Refire! Don't Retire

As you approach the remainder of your life, what are you going to do to make it fun and meaningful? This is the question Ken Blanchard, the author of "The One Minute Manager" and Morton Shaevitz pose to the readers of their latest book with this catchy title. They point out that too many people see their later years as a time to endure, rather than as an exciting opportunity.

You need to refire intellectually to learn from a new perspective.

- Be open to learn – look for learning in every situation.
- Be a reader – constantly search for new information.
- Be teachable – let others mentor you.
- Be courageous – venture into new areas.
- Be persistent – stay with it when it's difficult.

According to Blanchard when you stop learning, you might as well lie down and let them throw the dirt over you. So step out of your comfort zone and learn something new. You never know where that will lead to.

Avoid Tax On Sale Of Practice Real Estate

The start of any new year brings inevitable questions about the future of your personal and professional lives. If you are approaching the age of 65 (or if you are still a ways off but just want to plan ahead), it's important to consider the logistics of retiring from your practice. It is a seller's market and you know that there are many young dentists eager to take over your practice.

Using this scenario, let us assume the following: your dental corporation ("Dentalco") owns the practice assets, consisting of goodwill, equipment and leaseholds worth about \$1,000,000. Your holding company ("Holdco") originally purchased the practice real estate for \$400,000 which has a current fair market value of \$1,200,000. In addition, Holdco owns \$500,000 of portfolio investments.

Since Dentalco only owns the practice assets, you and your family members can sell the shares without any tax consequences. If the sale of the practice real estate is part of the deal, you are not eligible for the capital gains exemption because Holdco has other investment assets. If you sell the practice real estate, there will be significant tax consequences. On the sale of the clinic real estate, Holdco pays tax on a \$800,000 capital gain, and recapture of depreciation, which your accountant estimated to be \$100,000.

Consider the following strategy to avoid income taxes altogether when you sell your practice real estate.

Instead of Holdco selling the real estate asset, restructure Holdco so that you can sell the shares tax-free avoiding recapture tax and capital gains.

Currently the Holdco shares do not currently qualify for the exemption because it owns significant portfolio investments.

To gain access to the capital gains exemption on the "Holdco" shares, the portfolio investments of \$500,000 need to be transferred to another company. This process of transferring non-eligible assets on a tax-free basis to another corporation is called "purification." Use a dental accountant who has lots of experience in purifying dental corporations.

In the eventuality you do decide to sell both shares of "Dentalco" and "Holdco," you are eligible to claim the capital gains exemption that enables you to deposit the funds into your personal bank account tax-free. If you sell your dental practice without the real estate, the shares of "Holdco" do not qualify for the capital gains exemption because the real estate is no longer an active practice asset, but rather a secondary rental property.

If you decide to sell the "Holdco" shares after you have sold the practice, you are still entitled to the tax free proceeds by locking in (or crystallizing) your capital gains exemption on the shares.

Below are strategic steps to help you take advantage of the exemption later on.

1. You amend the articles of "Holdco" to create a new class of preferred shares, each with a redemption value of \$1 per share.
2. Assuming a total share value of \$1.2 million, which is equal to the value of the practice real estate, you sell the shares of "Holdco" to "Holdco" for \$1.2 million in exchange for 1.2 million preferred shares.
3. You file a special tax election to protect yourself against the possible CRA challenge of the fair market value of the shares transferred.

As a result of the above steps, you have locked in your capital gains exemption, as the new preferred shares now have a tax cost of \$1.2 million. This allows you to sell the shares of "Holdco" up to \$1.2 million tax-free.

If you were planning on retiring to your Shangri-La on a sundrenched beach property in about five years, it would be wise to start planning now. You can put the money in your pocket without paying any tax, provided you and your family members take advantage of the \$800,000 capital gains exemption.

The High Cost of Cutting Back

Often dentists bring up the topic of slowing down, to spend more time with friends and family or reignite the passion for dentistry by taking in-depth continuing education.

Very few put pencil to paper to figure out the financial consequences of working less. On the surface it looks straightforward. If you produce \$1 million and the overhead is 60% or \$600,000, then reducing the production by a mere \$100,000 would only mean an income drop of \$40,000.

The loss of income is much higher. Here is how you calculate the real cost of cutting down.

Break down the overhead into fixed and variable costs. Assume the only variable expenses which fluctuate with production are dental supplies and lab fees, which you determine to be 18%. \$108,000 is then the variable cost and the fixed cost are \$492,000 of the \$600,000 of total overhead. It is only the variable cost you save when you reduce the production.

Current income (\$1,000,000 gross - \$600,000 overhead)	\$400,000
Less: reduction of gross revenues	(100,000)
Add: variable expenses saved (18% of \$100,000)	18,000

Revised income	\$ 318,000

To sum up, you reduced your revenues by 100,000 or 10%, and your loss of income doubled by 20% to \$82,000.

Here is a double whammy. A \$100,000 decrease in revenues also reduces the value of the practice. At current market rates, the practice goodwill declines by about 70% or \$70,000 in our illustration.

The total loss of income and equity is about \$150,000! That is a huge price to pay for just taking a bit more time off.

CURRENT OPPORTUNITIES

PRACTICE SALES

VICTORIA, BC Established practice, 4 ops, medical professional building, solid patient base.

VANCOUVER, BC Ideal boutique space available for oral surgery clinic, fantastic lease.

VANCOUVER, BC Brand new clinic with prime exposure, all top of the line equipment.

COWICHAN VALLEY, BC Above average cash flow, family practice, newly renovated.

DUNCAN, BC Overhead 50%, 4 operatories, owner retiring.

VICTORIA, BC Great team and excellent work life balance. Located in professional building, 3 fully equipped operatories.

GULF ISLANDS, BC Family practice, owner retiring. More details to come.

NORTH VANCOUVER, BC New partnership opportunity in a brand new clinic. Details available soon.

RICHMOND, BC Partnership opportunity, large established patient base, well managed.

WHISTLER, BC Ideally located in the heart of the Village. Partnership opportunity with a well established clientele base.

VANCOUVER, BC Partnership opportunity in a very established clinic over looking False Creek, 4ops, fully digital with all the mod-cons.

VANCOUVER, BC Stellar retail location, 4 ops, new practice, 2 partnerships opportunities available.

CAMPBELL RIVER, BC Revenues above industry standard. Ownership opportunity in a large established family dental practice.

VERON, BC Practice and real estate for sale! Well established practice for sale with 5ops.

ELKFORD, BC Centrally located in high traffic shopping area, 3 op family practice.

CHEMAINUS, BC 3 op clinic with fantastic practice growth over the last two years. Owner very motivated.

LANGLEY, BC Prosthodontic opportunity in a high grossing practice.

ASSOCIATE POSITIONS

AIRDRIE, AB | SPARWOOD, BC | COURENAY, BC | COWICHAN VALLEY, BC | CHILLIWACK, BC

LOCUM POSITIONS

ELKFORD, BC

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