Is Now a Good Time to Sell My Dental Practice?

Prepared by: Kameron H. McQuay, CPA/ABV, CVA
Director
Blue & Co., LLC
One American Square
Suite 2200
Box 82062
Indianapolis, Indiana 46282

Ph 317.633.4705
kmcquay@blueandco.com
www.blueandco.com
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Q. Is now a good time to sell my dental practice?

A. As consultants for over 150 dental practices in the Midwest, it’s no surprise we get asked this question often. With the majority of Americans unsure about the status of the recession...is it over?...will it double dip?...what’s the economic future?...more dentists are turning to their CPAs and other advisors for guidance to decide the right time to cash out of one of the largest, if not the largest, investment in their portfolio.

Q. I have been thinking of possibly selling my Practice for a few years now but have been holding off due to the decline in the value of my retirement savings accounts and the uncertainty with the economy. Do you think now is a good time to move forward with a sales strategy?

A. Think of this situation similar to home sales in recent years. Several homeowners who wanted to sell had been “waiting it out” due to declining home prices. Then when it seemed as if prices had stabilized and the government provided home buying tax credit incentives, there was an onslaught of houses for sale throughout the country. Despite the recovering economy and the tax credits for buyers, home prices continued to decline due to the high inventory level of houses for sale.

It might be a wise idea to seriously consider selling the Practice now before the mad rush of delayed sellers enters the marketplace and increased supply forces prices downward. And with the baby boomer generation approaching retirement age, the amount of dental practices for sale is most likely on the rise in the near future. However, many factors affect the value of a Practice and your personal circumstances should dictate when you should sell. Please consult your CPA or valuation specialist for details on your particular situation.

Q. The Bush tax cuts were extended through the end of 2012, but I am uncertain about whether they will be extended past then. How would higher tax rates impact my decision to sell the Practice?

A. While tax avoidance should not be the main objective of any business decision, 2011 and 2012 are key years in tax law and it is important to be aware of the tax implications. The biggest issue affecting sellers of dental practices is the preferential rate of capital gains tax. Each sales transaction consists of a unique set of tax issues; however, in most transactions the seller will be subject to capital gains tax on the majority of the gain.

Currently, the tax rate on long-term capital gains is 15%. Congress passed a law in 2003 and extended it in 2012 to lower the capital gains rate from 28% to 15%. Without an additional extension from Congress, the capital gains rate will increase to the 28% level for any transaction occurring on or after January 1, 2013. Example under current law:

Dentist A sold her practice on December 31, 2011 and recognized a capital gain of $500,000. The capital gain tax owed would be $75,000.

Dentist B sold his practice on January 1, 2013 and recognized a capital gain in the same amount, $500,000. The capital gain tax owed would be $140,000.

Tax savings of $65,000 or 13% of the sales price, if sold during 2011 or 2012. In addition to the capital gains tax rate, the tax rates for ordinary income will also increase in 2013 under current law.
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Each transaction presents a unique set of tax consequences so please consult your CPA or tax adviser to fully understand the tax implications of your particular situation.

Q. Are there any incentives for potential buyers of my Practice in 2011?

A. Yes! Financing the Practice acquisition is less burdensome than in recent years. Interest rates are still historically low and common professional opinion indicates that rates will remain unchanged or rise only slightly within the next few months. Recent media attention has also been targeted towards the increase in small business lending by large banks. Although it is still much harder for a new dentist to secure credit now than it was pre-recession, there is no doubt it is much easier to obtain financing for an existing Practice/patient base than it is to secure credit for a start-up Practice.

For tax years beginning in 2010 and 2011, the 2010 Jobs Act amendments permit taxpayers to expense up to $500,000 of the cost of qualifying property under Code Sec. 179, reduced by the amount by which the qualified investment exceeds $2,000,000. Qualifying property includes depreciable tangible personal property purchased for use in the active conduct of a trade or business and qualified leasehold improvements. The expense deduction of $500,000 will drop to $25,000 for qualifying assets placed in service after 2011.

If the buyer were going to buy any new equipment, the current tax laws allow them in certain instances to take advantage of accelerated “bonus” depreciation for any fixed assets – equipment, furniture, office equipment, and qualified leasehold improvement property – they purchase. These tax laws are set to expire on December 31, 2011. During 2011 first time use property may be 100% expensed under the current bonus depreciation rules, which has neither the investment nor the income limitation of Code Section 179.

Both of these alternatives would allow a purchaser a faster deduction for their capital investment. Anything that can be done to give a purchaser improved cash flow in the early years after purchasing a practice is going to make a purchase more attractive to the buyer.

So in conclusion, yes it could be a good time to sell your practice. As always, please consult your CPA or tax advisor for details surrounding your particular situation.