

# THE END GAME: CRITICAL STEPS TO PREPARE YOUR DENTAL PRACTICE FOR A TRANSITION

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You have reached the final stretch of your career in dentistry and you're ready to start the practice transition process. Finding the right buyer is just one piece of the puzzle. The transition planning process is complex, and you should hire an experienced, qualified team to provide the financial, tax and strategic guidance you need to take the sale across the finish line.

Once you have your team in place, here are the critical steps you must take to coordinate a successful transition and secure the most value for your practice.

## Financially preparing for a practice transition

### Clean the numbers

The quality and accuracy of your financial statements play a significant role in valuing and positioning your practice for sale. You may review your financial statements and assume that your expenses are appropriate and accounted for, but when you're

preparing for a business sale, you need to apply a magnifying glass to every line item.

You must make sure expense categories are correct and the amounts listed in each category are where they should be, everything from lab fees to supply costs. From a valuation and transition planning perspective, you also need to flag your personal expenses if they are mixed in with your business expenses. Many practice owners fall into the habit of using their practice accounts for personal needs since it's difficult to separate the two. But when you're preparing for an impending transition, your financial team needs to create a picture that shows what the practice financials will look like without you, the current owner, included. In other words, you want to show the buyer exactly what the practice and its operations would cost if they took the reins.

The bottom line is that clean numbers drive value. By scrubbing the data and helping potential buyers better understand the financial health of your practice, you will ultimately get more value for the business when you move into the sale phase.

### Present fair market value compensation data

Many doctors are the sole practitioner of their practice, and thus they often don't pay themselves what the industry would consider a fair market value wage. As a result, many dentists don't understand their true profitability, which can be a big challenge during the transition planning and sale processes.

Why? Let's say that a dentist suffers an injury that affects her ability to perform patient care. The dentist has to hire an associate to work on her behalf and will likely pay that individual a fair market value wage to work the practice. However, that dentist has paid herself \$20,000 in annual wages, when in reality, she has performed dentistry equal to \$300,000 in the marketplace. When it comes time for that dentist to sell or transition her practice, this compensation decision skews the numbers associated with the practice's profitability based on fair market value to a potential buyer.

As I mentioned above, the goal is to show buyers an accurate picture of what the practice financials would look like absent you with a new owner at the helm. Compensation is a very important piece of the larger puzzle, so it's essential to ensure your personal wages line up with your appropriate fair market value.

## Key considerations post-transition

Once you have sold your practice and started the transition process, your to-do list doesn't end. Here are some action steps and considerations to keep in mind during and post-close.

### Evaluate tax strategies and sale types

Before we dive in, I want to reiterate the importance of engaging a dental-specific CPA to help you navigate the complexities of the sale and tax planning processes. CPAs experienced within the dental industry have first-hand knowledge of transitions that have gone well and those that have gone poorly and can bring those insights to your situation.

To fully understand the tax impact of your sale, it's essential to understand the structure of the sale itself. There are two types of sales: an asset sale and a stock sale. In an asset sale, the buyer will purchase some or all of the assets in your dental practice, which include both tangible items (e.g., your dental equipment, furniture, fixtures, etc.) and intangible, or "goodwill," items (e.g., your phone number, location, etc.). At a basic level, a stock sale is when the seller transfers their ownership in the practice to the buyer without separate conveyances for the tangible and intangible items.

Both of these structures come with their own tax nuances. If you are going through an asset sale, for instance, the allocation of the purchase price is important because how the proceeds are allocated directly impacts how you are taxed on those proceeds. Physical assets and goodwill have different tax treatments, which impact both federal and state tax obligations.

Generally speaking, sellers prefer stock sales and buyers prefer asset sales due to the tax treatments and resulting benefits of each respectively.

### Assess payment timelines

Another important question to consider during the closing process is when you get paid and how. The answer depends on your buyer. While there may or may not be an escrow amount that your bank holds back for a period of time, the majority of the

proceeds from the sale of your practice will be wired to you at closing when it's a dentist-to-dentist sale.

If you are selling the practice in-part or in-full to a dental group or a dental service organization (DSO), then the sale proceeds you receive upfront may be less than the sale price. The contract will have specific terms that state when and how you may receive additional funds. It's very important for your team of CPAs and your attorney to help you navigate the conversation before negotiations and up until the close process is complete. Don't wait until you've already started negotiating to ask for assistance.

## The bottom line

Throughout the sale process and beyond, it's critical to enlist the help of a qualified professional who can weigh your options and ensure that you achieve the sale outcomes that fit best with your personal goals.

**If you're thinking about selling your business contact a Patterson territory representative or visit <https://www.pattersondental.com/services/practice-transitions>**

## About the author

Kelli Henley, Dental Services Advisor at Aprio, LLP, specializes in helping dentists navigate transition planning and practice sales, valuations and purchases. She brings to her role extensive knowledge and experience in performing income tax compliance and business valuations specific to the dental industry. She enjoys building lasting relationships with her clients and coaching them on complex financial matters so they can manage their practices and navigate transitions in ownership with confidence.