

TRANSITIONS

Summer Issue 2008

News & Information from

THE
SNYDER
GROUP
LLC

The Transition & Financial Experts for the Dental Profession.

Pre-Tax Transitions:

A Good Deal for Buyers and Sellers.

It's always good to know your options. A pre-tax acquisition offers a sophisticated, non-conventional approach which may provide significant savings for both buyer and seller when a practice is changing hands. Simply put, a pretax acquisition allocates a payment from the buyer using pretax dollars toward the purchase price. The seller's and buyer's tax objectives should be met for the transaction to be successful.

While the completion of the purchase may take many forms, the essence of the transaction is that it creates a charge against the income of the dental practice, which is deductible to the dental practice and not taxable to the buyer. It also may take some form of deferred or non-deferred compensation to be paid to the seller. This may include using a retirement vehicle for the deposit of sale proceeds to the seller.

For a buyer, a pre-tax acquisition offers significant savings over a traditional "after-tax" purchase. For example, to afford a \$400K practice using after-tax dollars, a buyer would have to report enough income to be left with \$400,000 after paying taxes at ordinary income rates. In effect, a buyer would have to earn \$727,000 to pay taxes of \$327,000 and still have \$400,000 left to pay the seller. That's because at a federal tax rate of 35 percent, plus Medicare and self-employment tax, the effective tax rate for a buyer would be about 45 percent. (Based on the state in which the transition occurs, a buyer's tax rate could be even higher!) Substantial savings are realized with pre-tax acquisitions, as a result.

For a seller, a pre-tax sale offers excellent advantages, as well. A seller can receive almost 100 percent of the proceeds rather than a lesser amount after deductions for taxes. Plus, when proceeds are placed in a retirement vehicle, the seller enjoys the deferral of reporting the sale proceeds as income, the deferral of tax on that income, and the deferral of tax on the earnings in the retirement account for a minimum of five to six years for the qualification of the retirement plan to be effective. The pre-tax acquisition, then, can be a win-win situation for buyer and seller.

For more information on pre-tax acquisitions, please contact TSG partner, Bruce Bryen, CPA at 1-800-988-5674, extension 112.

Welcome

Change is the only real constant in life, so it pays to be on the lookout for opportunities that offer potential for growth in your business, or in your wallet. This issue of Transitions focuses on non-traditional solutions and ideas that hold great promise for those who are willing to consider them. You'll learn about the huge tax advantages to both buyers and sellers who conduct pre-tax acquisitions instead of traditional "after tax" transitions when a practice changes hands. You'll see how purchasers who look beyond the obvious and examine a practice's operating expenses before signing the deal can avoid potential pitfalls. You'll meet successful partners who built their partnership on trust and a handshake, before formalizing their partnership agreement through TSG's transition services. You'll also learn about the advantages of new tax laws, added economic incentives for small businesses, and our special 4-part webinar series, which provides CE credits, at minimal cost. We hope these insights help you grow your practice, increase your wealth, and contribute to your overall success! Enjoy.



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From Associate...to Partner...to Success.

When Dr. Marvin Sonne, and Dr. Michael Shapiro first decided to become partners in their suburban Detroit practice, they had already developed a strong, respectful relationship as owner and associate for four years. Their trust in each other was so strong that, on a gentleman's agreement and a handshake, they designed and built a new, 3,700 square foot state-of-the-art facility years before inking their partnership agreement.

For both men, partnership was a certainty. They looked toward The Snyder Group (TSG) to make the process simple and fair so that they could formalize the deal, and look toward a promising future.

Dr. Sonne, the senior partner, contacted The Snyder Group after Benco representative Mary Scott highly recommended the firm. He was pleased when he learned that TSG could handle the transition and address the needs of both parties simultaneously. Dr. Tom Snyder worked with the doctors to establish the partnership, listening carefully to their concerns and goals for the future.

"I didn't want any surprises," said Dr. Sonne, who had been in a previous partnership. At age 58, he understood that he and Dr. Shapiro, who was 31 at the time, had an ideal situation. "I knew that I would continue to practice for a while. I knew that Dr. Shapiro was the right person, and that patients would have an easy transition," he said.

After conducting a thorough practice valuation, TSG

determined a fair price for selling the first half of the practice to Dr. Shapiro. Both parties agreed to the buy-in cost, and the details of the transition were spelled out in plain English in their partnership agreement. In addition to stating the method for determining future value of the practice, the agreement included contingencies for disability, death and other scenarios, and what measures would be taken to ensure the partners' family interests in such unforeseen circumstances. Then, TSG worked with both doctors' accountants and attorneys to finalize the agreement.

"It was very apparent that Dr. Snyder was looking out for both of us, with integrity and honesty," said Dr. Shapiro. "He clarified everything and all the details made perfect sense," he said.

For example, although Dr. Sonne's exit strategy is to retire by age 65, he wanted to allow for an option to continue practicing beyond that age, if he wished. The partnership agreement spells out contingencies to make that possible. "Dr. Snyder allowed his expertise and experience to be there for both of us, and he made it a win-win situation," said Dr. Sonne. "I would recommend The Snyder Group to others, without hesitation," he added.

Today, the partners of Sonne and Shapiro Cosmetic and Laser Dentistry enjoy a thriving practice, delivering high-tech cosmetic and family dentistry to more than 3,000 patients, in their Trenton, Michigan office.



Don't Miss Out! The Snyder Group E-Newsletter

Get free tips on building practice profitability, planning your retirement, setting business goals and more! Be sure to register for TSG's monthly e-newsletter for takeaways on the issues that drive profitability and success.



Sign up at www.snydergroup.net

The Snyder Group Team Continues to Grow!



The Snyder Group is proud to announce that Paul Shapiro, DMD has joined our group as a Transition Consultant. Dr. Shapiro will be responsible for the development of new business in the Metropolitan New York area.

Upon graduation from Fairleigh-Dickinson University School of Dentistry, Dr. Shapiro completed a one-year residency and fellowship at Yale-New Haven Hospital and the Yale School of Medicine. He then became a very successful practitioner in Parkchester, Bronx, New York, by purchasing a part-time, two-chair facility and growing it into a multi-million dollar, multi-specialty group practice. He subsequently sold this practice to his associates.

With his frontline experience, Paul will be able to share his expertise with dentists seeking to transition their practices. **Please contact him at pshapiro@snydergroup.net or 800-988-5674 ext. 162.**

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Buying a Practice? Pay Attention to The Details.

Imagine buying a house without a thorough home inspection, only to discover after the sale that you have inherited a host of issues that will cost more than you bargained for. One day you love your new home, the next day it's a money pit. Unfortunately, for some buyers of dental practices, this is reality. For purchasers who do not have an experienced buyer's representative to protect their business interests, the most critical business issue is often overlooked: a careful review of operating expenses. Most often, potential buyers focus on the practice's value, number of patients and quality of equipment. But a practice's operating expenses can reveal critical considerations that should be examined before the purchase is completed. Here are some red flags that may save you from a bad deal, or, at the very least, prepare you for challenges that may lie ahead.

Practice Sales & Acquisition Financing*

Purchase your own practice with
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- ◆ Customized loan amounts that provide up to 100% financing, plus additional working capital to assist with the transition.
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1. High variable expenses. These impact value, but are relatively easy to correct with inventory management, using competitively priced quality labs, and dental supply budgets tied to a fixed amount of collections.

2. High rent. Whether you are renting from the purchaser or another party, rent should be comparable to other professional practices in the area. Negotiate a new lease.

3. Staff salaries. Inheriting a longstanding team often means inheriting highly paid individuals. For high revenue producing hygienists who have excellent production, this is no problem. For administrative staff, however, salaries plus other hidden costs (fringe benefits, vacations, and special perks) can hurt the bottom line. Consider the real cost of these extras.

4. Retirement plan. The former owner's retirement plan is automatically terminated, but you will need an alternative to keep employees happy. A 401K or other type of qualified plan may be advantageous.

5. Special deals. In smaller practices, unique agreements with employees relating to childcare, bonuses, travel expenses etc., may exist. Due diligence should identify these hidden extras that you will have to address as a new owner.

6. Staff incentive plans. If an incentive plan exists, does it make economic sense and does it motivate employees? If the full personnel package isn't something you are willing to replicate, you may be better off passing on this practice, unless you can offer a reasonable substitute.

7. Consider New Expenses. While reviewing the overall financial picture, don't forget to consider the debt service you will incur through the purchase, as well as marketing costs to promote your new practice. Since the former owner did not have these expenses, your advisor should prepare a cash flow Proforma to illustrate projected income and expenses, to reveal a more accurate picture of your potential.

To ensure that a practice measures up to its promise, all purchasers, especially those with limited experience, should strongly consider retaining a qualified consulting firm to represent their interests. In addition to financial issues, a buyer's representative can examine operational concerns, including improving systems for case presentation, reactivation of patients, or collections. An experienced consultant can review a practice's entire financial picture and can determine its true potential for the buyer's future. **For more information on TSG's Buyer's Representation Services, please call 1-800-988-5674.**

News & Notes

Did you know?

In addition to providing tax rebates to individuals the Economic Stimulus Act of 2008 provides incentives to practices. These incentives include a special 50% depreciation allowance for 2008 purchases and an increase in the small business expense and limitation for tax years beginning in 2008. Under the new law, a taxpayer is entitled to depreciate 50% of the adjusted basis of certain qualified property during the year the property is placed in service.

Hey, Big Spender...

With the newly increased limits for Section 179 expensing, a qualifying business can expense up to \$250,000 of Section 179 property purchased by the taxpayer in tax year beginning 2008. Previously, the expense limit would have been only \$128,000. If you are considering making a large expenditure this year, take advantage of this new higher limit!

TSG Webinar Series with CE Credits

Take your practice to the next level and earn CE credits, too! Join Dr. Tom Snyder, with co-host, Dental Genius, for a series of webinars in September and October. Earn one CE credit for each presentation, plus a downloadable audio recording for your personal review. Registration for the entire 4-part series is just \$99 per individual. Single webinars are \$39 per presentation. Getting your CE credits and great information has never been more convenient! **Register online at www.snydergroup.net.**

Tuesday, September 9, 2008 - 1pm to 2pm EDT

Are You Ready for an Associate? **1 CE credit**

Tuesday, September 23, 2008 - 1pm to 2pm EDT

Top Factors of Hiring an Associate **1 CE credit**

Tuesday, October 7, 2008 - 1pm to 2pm EDT

What's My Practice Worth? **1 CE credit**

Tuesday, October 21, 2008 - 1pm to 2pm EDT

Creating Successful Partnerships **1 CE credit**

Practices For Sale!

Camden County, NJ	4 ops., FFS, digital, Rev \$778k, r/e avail.
Dutchess County, NY	3 ops., FFS, Rev \$587k, r/e avail
Rensselaer County, NY	3 ops., FFS, Hi Tech, Rev \$893k, r/e avail.
Eagle County, CO	3 ops., FFS, Rev \$975k, State of the Art

More listings are available on our website, www.snydergroup.net or contact Donna Costa at **800-988-5674**.

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