

# TRANSITIONS

Fall Issue 2009

News & Information from

THE  
SNYDER  
GROUP  
LLC

The Transition & Financial Experts for the Dental Profession.



## Extending Your Career with a Deferred Sale or Partnership

Has your retirement plan taken a hit due to the Great Recession?

Today, adding two to five years to one's dental career is not an uncommon scenario for many doctors who lost 40 percent or more in their retirement plans and personal portfolios. To extend your working years and strengthen your exit strategy, one alternative is to recruit a doctor who will work first as your associate and, within a few years, purchase your practice. If you have a time frame for retirement of three years or more, you may even consider a short-term partnership and buy-out. Either way, you can recruit your successor now and be assured that your exit strategy is complete.

With many dentists facing a "delayed retirement," being pro-active and open to innovative options can help you secure a brighter future. Whether you are structuring a deferred sale or developing a partnership with a short-life cycle, a few fundamental issues need to be addressed:

- **"Locking in" the Practice's Value:** Associates do not like paying for something they helped grow. If you have untapped potential in your patient base, your associate will be able to thrive and revenues can increase 15 to 25 percent per year in the first year. (So, if you establish a baseline value and let your associate work as hard as possible, you will not be penalized for what you may think you may lose in practice value, if you set a baseline value). If your associate economics are designed properly, you should generate a 30 to 35 percent profit margin per year.

- **Contract Agreement Preparation:** Agreements outlining the transition should be prepared within six months of the initiation of the associate/employment phase. The associate's Employment Agreement however, should be prepared *prior* to employment. Once that's done, you'll need to prepare a Purchase Option Agreement that documents the future transaction. In a deferred sale, you'll also need an Asset Purchase Agreement and possibly an Employment Agreement if you plan to remain after the sale. For those considering a partnership, a Shareholder's Agreement or Operating Agreement will be needed, based on your business structure.

- **Consideration Payment:** If you adopt a "deferred transition" strategy, you have effectively taken your practice off the market, so it is not unreasonable to request a down payment as consideration for this action. This is especially true in the case

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# Welcome

With 2009 coming to a close, we look back on a year in which dentists at all stages of their careers have been affected by the economic downturn. Experienced practitioners are deciding to defer retirement to make up for lost retirement funds. Others are considering new strategies to ease out of their practices, while recouping some money now. And newer dentists looking to purchase a strong practice are faced with opportunities that need to be weighed from a benefit vs. risk perspective. More dentists are also more interested in maximizing tax savings, especially after a year like this one.


This issue of Transitions provides useful insights for all. Dr. Tom Snyder's article on deferred partnerships and deferred sales offers tips to avoid problems in these types of transactions. For younger dentists considering practice purchase, Charles Costa's article on Buyer's Representation should be helpful. And, to get a jump on year end tax planning, Bruce Bryen, CPA is providing some solid ideas that really add up.

As we enter the 4th Quarter of a challenging year for most dentists, we sense that practice trends are improving and 2010 can be a good year for everyone.



Bruce Bryen, CPA • Charles A. Costa • Thomas L. Snyder, DMD, MBA

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Take advantage of these tips by December 31st and make tax time less taxing.

## Tax Time: Two of the Smartest Tax Tips You've Never Heard.

by Bruce Bryen, CPA

**Many tax-savvy business owners know all about the usual deductions. But here are two smart strategies to take advantage of deductions which are greatly underutilized. Use these tips by December 31st and you can save thousands.**

### 1. The Largest Deduction: The Employer-Sponsored Qualified Retirement Plan

The single most effective deduction for self-employed individuals is the *Employer-Sponsored Qualified Retirement Plan*, which can produce as much as \$150,000 in year-end deductions. It is a sophisticated concept to initiate large savings, so it is important to work with professionals who understand how to design this type of plan to maximize large deductions for dental professionals. With innovative planning and the right advisor, self-employed individuals still have time to create big tax savings in 2009.

Under certain conditions, an *Employer-Sponsored Qualified Retirement Plan* can be adopted before the end of the year, the deduction can be taken in the current year, and the payment can be made on the date your tax return is due, including extensions into the succeeding year.

**Here's how it works:** Suppose your practice is showing \$150,000 of net taxable income. If your practice adopts the qualified plan before December 31, 2009, you'll be able to accrue a tax deduction of approximately \$150,000 in the current year. Like most dentists, you probably don't have \$150,000 lying around. The good news is that you don't need it to take the deduction. If your tax return filing date is extended until September 15, 2010, your payment to the retirement plan is not due until that date. This saves you about \$75,000 in federal and state taxes. Best of all, the deduction and payment methods are similar for cash and accrual basis taxpayers.

### 2. Maximize Year-End Deductions with Your Practice Credit Line

Because most dentists use the cash basis method of accounting, amounts owed for lab fees, dental supplies and other expenses are usually deducted when paid. Accounts payable in December are often not paid until the end of January or early February because much of the year's profit has been disbursed from the practice by year-end. This could be a mistake.

Instead of paying December bills *after* the end of the year, consider using your credit line in December to pay bills *before* year-end so that deductions can be taken. Resist the urge to think in terms of interest saved by not borrowing. The truth is that deducting the expense may be much more advantageous to you and your practice. Remember, these bills would be paid anyway in January or early February. Enjoy the deduction sooner rather than later.

**Here's how it works:** A dentist has \$20,000 in lab fees and dental supplies that could be paid before December. He borrowed the funds on his credit line. At 7.5% interest for one month, the charge would be \$125. For a \$20,000 deduction that would have been paid in a month anyway, he enjoys tax savings of almost \$10,000 when federal, state, Medicare, and social security taxes are considered. Why not take advantage of this huge savings now?

**TSG partner, Bruce Bryen, CPA, has been advising dentists on financial and business matters for over 30 years. To learn more about these strategies for your practice, please contact Bruce at [bbryen@snydergroup.net](mailto:bbryen@snydergroup.net), or call (800) 988-5674 ext 112.**

## Practice Valuation Study Group Update

In October, Chalie Costa and Tom Snyder attended the annual meeting of the Practice Valuation Study Group in Denver, Colorado. The CFO of Bank of America gave an excellent presentation on the state of the economy and dental lenders in attendance reported on the following trends that may impact future financing for practice sales and buy-ins:

1. The number of loan defaults for dentists have doubled in the last 12 months.
2. More transactions are requiring seller holdback, which means

that transactions are being funded for less than 100 percent, with the seller holding a note for part of the sale price for a period of time. If certain goals are met within a time frame, most lenders will recast the original practice acquisition loan and cash out the note being held by the seller.

3. Several specialty dental lenders have left the dental market since the beginning of the Great Recession, as bankruptcies for dental practice start-ups and acquisitions (particularly start-ups) have increased dramatically over the last year.

# Buyer's Representation: Do You Need It?

Purchasing a dental practice can be a complex and nerve-wracking event for a first-time buyer. But hiring a Buyer's Representative can provide guidance through the entire practice acquisition process and can help ensure a fair, equitable and prudent transaction.

Who may benefit from Buyer's Representation?

- Associates who are ready to purchase their employers' practices.
- Any dentist who has found a practice to purchase and is preparing to submit an offer.
- Any dentist working with a broker and who may be purchasing one of the broker's listed practices.

TSG has extensive expertise representing buyers throughout the nation. For more information, please contact Donna Costa at 1-800-988-5674.



Buyer's Representation addresses the sometimes thorny issues involved with practice purchase. Above all, Buyer's Representatives protect the buyer's interests at every turn. A Buyer's Representative will ask these questions, and more:

- Is the sale price established at "fair market value"?
- If you are an associate, have you been given a "sweat equity discount"?
- Will the tax allocation be fair & equitable?
- Do you need to form a separate entity to acquire the practice?
- Have all the clinical issues been addressed (i.e. work in progress, remakes, leases and warranties, etc.)?
- How will the Collection of the Seller's Accounts Receivable function?

## Extending Your Career with a Deferred Sale or Partnership

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of a deferred sale: *Requiring a percentage of the future purchase price as a deposit is not unrealistic.* This deposit is non-refundable and is only returned to the associate if the practice assets cannot be delivered free and clear. **Red Flag:** If someone is unwilling to make a financial commitment today for something they intend to own in two to three years, be concerned. By structuring win-win agreements, a long-term deferred practice buy-in/buy-out can be quite successful for both parties.

## Free Practice Valuation Guide

The Snyder Group has recently published a 20-page Practice Valuation Guide which covers key factors affecting practice value. To get your copy, please call Donna Costa at: 1-800-988-5674, ext. 151 or visit [www.snydergroup.net](http://www.snydergroup.net)



## Practice Sales & Acquisition Financing\*

Purchase your own practice with financing up to \$10,000,000.\*

- ◆ Customized loan amounts that provide up to 100% financing, plus additional working capital to assist with the transition.
- ◆ 12-month interest-only options that let you make lower payments.
- ◆ Longer terms than anyone else—up to 15 years.
- ◆ Fixed-rate terms to meet your specific needs.
- ◆ Early payoff options that give you more flexibility and control.
- ◆ Up to 12-month rate lock, to protect against potential rate changes.

Call Mike Apalucci at 1.800.920.1447 for more information.

Please mention Priority Code ADD0509B. Or visit us online at [www.bankofamerica.com/practicesolutions](http://www.bankofamerica.com/practicesolutions).



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## News & Notes



### TSG Welcomes Mary Fisher-Day as Southern Region Transition Consultant

Ms. Mary Fisher-Day has joined The Snyder Group as a Transition Consultant and Regional Representative in the states of North Carolina, South Carolina and Tennessee. Formerly a leading consultant for one of the country's major practice transition companies, Mary has over 25 years of experience in the dental field and specializes in serving clients who have practice transition needs. Mary resides in Charlotte, NC and looks forward to assisting our clients in this tri-state area. She can be reached at 1-800-988-5674, x164 or at [mfisherday@snydergroup.net](mailto:mfisherday@snydergroup.net).

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## Looking Ahead

Bruce Bryen, CPA and Dr. Tom Snyder are recording several podcasts on financial and transition topics. Podcasts will be available soon on our website [www.snydergroup.net](http://www.snydergroup.net). If you're on our email list, we will send you a link as they appear.

## Join Our E-mail List

To receive occasional updates on practice trends, tax-related news affecting dentists, and seasonal tips for your practice, join TSG's email list. To sign up, simply send us an email at: [info@snydergroup.net](mailto:info@snydergroup.net) with a subject line ADD ME. We'll take care of the rest!

## Upcoming Seminars

**October 25, 2009**

**New Jersey Dental Association Headquarters  
New Brunswick, NJ**

Dr. Tom Snyder will be presenting, "Primer and Practice Transitions: Associates-Partnership-Practice Sale".

**May 6 through May 9, 2010**

**Texas Dental Association Annual Session  
San Antonio, TX**

Dr. Tom Snyder will be presenting three seminars on various topics of practice transitions.

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