When Should I Sell My Practice?

Mark McNulty
BA, CIM, CFP

I have heard from many senior dentists that it has never been as difficult to be a practice owner as it is today. From practice management to additional competition, owning a practice has its share of headaches. And now, Mr. Trudeau will be taking more of your income through taxes. So it is no surprise that many of your colleagues are considering selling their practices.

The good news is that your dental practice is likely worth a great deal of money. Many of the dentists we work with at McNulty Group are considering selling. Most are not ready to retire and still enjoy dentistry, but they are still considering selling. After all, you don't need to own a dental practice to practice dentistry.

So what do you need to know in order to answer the question, "When should I sell my practice?" The other authors in *The Professional Advisory* can best address the question from a valuation, income tax and legal perspective. My focus is on the lifestyle aspects of this big decision. When is the right time for you to sell your practice?

Before you begin to investigate whether or not you are in a position to consider selling for lifestyle purposes, you need to solve for the following:

1. If I sell, will I be able to fund my lifestyle costs without the income from the practice?
2. What is my practice worth? Here, you will need a practice valuation.
3. Am I eligible for the lifetime capital gains exemption (an answer you can obtain from your accountant)? If not, what do I need to do to make the shares of my professional corporation eligible?
4. How much income tax will I pay on the practice sale? Even if you can claim the capital gains exemption, there may still be taxes owing on the sale.
5. How will I invest the proceeds of my practice in order to fund my lifestyle?

For the purposes of this article I will focus on items one and five.

If I sell, will I be able to fund my lifestyle costs without the income from the practice?

The only way to answer this question is to run scenarios specific to you. That being said, for discussion purposes my team put together the chart below. The difficulty of speaking in general terms about how much one can afford to spend in retirement is how to account for the income taxes owing on RRSPs and money inside of a corporation. Most of the dentists we work with have in excess of $2 million saved in tax-deferred accounts. The fact that they still need to pay income taxes on this money when they withdraw has a big impact on the projections.

The table below is really a matrix to show how much one can afford to spend in retirement based on varying amounts

	RETIREMENT SAVINGS NEED		
	$150,000 Annual Spending	$175,000 Annual Spending	$200,000 Annual Spending
75% Tax-Paid / 25% Tax-Deferred	$3.4 Million	$4.0 Million	$4.6 Million
50% Tax-Paid / 50% Tax-Deferred	$3.6 Million	$4.3 Million	$5.0 Million
25% Tax-Paid / 75% Tax-Deferred	$3.9 Million	$4.6 Million	$5.4 Million

of tax-deferred and tax paid savings.

If you had $3.6 million (including the sale of your practice) and half of it was in tax-deferred savings, you could afford to spend $150,000 per year, after-tax and indexed for inflation. (Note: It is strongly recommended that you work with a professional to run your own set of projections. These figures are for discussion purposes only.)

How will I invest the proceeds of my practice in order to fund my lifestyle?

In order for your nest egg to outpace inflation, you'll need exposure to the stock market. Other types of investments such as bonds, GICs, and annuities are simply paying too little to keep pace with inflation.

Managing money for retired dentists over the past twenty years has taught me two things.

1. Investing at this stage is not about getting the best return, it's about getting the most consistent return.
2. The greatest risk you face isn't that the stock market will decline. Rather, it's that the stock market will decline and you'll need to sell to fund your retirement.

One way to mitigate the negatives of being in the stock market is a solution we came up with at McNulty Group called the Four-Year Rolling Reserve. We looked at the rolling annual returns of various stock markets since 1950. We found that while there were many corrections and crashes in this period, only a small percentage of time did the various stock markets remain in a negative position for more than four years.

What does this mean? If you ensure that sufficient money for four years of spending is set aside in low risk liquid assets, you can lessen the risk you'll be forced to sell at an inopportune time.

In conclusion, if you have enough money to retire, perhaps it is time to consider selling your practice. While owning a dental practice is a great investment, it requires a great deal of your time and energy. Given that valuations are near all-time highs it might be worth investigating.

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Feedback can be sent to info@mcnultygroup.ca

Mark is President of McNulty Group, a firm responsible for $350 million of Ontario dentists' retirement savings. In addition to multiple television and radio appearances, Mark is the author of The Transition Coach 2.0 – A Canadian Dentists's Guide to a Perfect Retirement, and his new book The $6Million Dentist. In 2017 Mark was chosen as The Canadian Financial Advisor of the Year at the Wealth Professional Awards. For more information please visit www.mcnultygroup.ca