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Should You Sell Your Practice?

Now is a good time to be the owner of a dental practice. You have an asset that many people want. There is so much demand that prices have risen to a point that many dentists are likely considering selling. If you're one of those, selling your business will require you to be or to hire a good quarterback for the entire process. Since you will need to draw on the expertise of many different advisors, it's important to co-ordinate the advisors to formulate one strategy.

To empower you to be a good quarterback, it is vital to know what questions to ask. We will outline those questions and then apply them to a real-life case study that is similar to ones we have seen repeatedly with our clients.

1. **How much do I need to retire?** Experience tells us that what you spend now is what you will spend in retirement. In other words, your goal should be to calculate how much money you need to finance your current lifestyle for the rest of your life. While there are many tools to help you run this calculation, none are perfect. We recommend you run multiple scenarios using varying software programs to come to an average.
2. **What kind of legacy do I want to leave for my staff and patients?** This is a highly individual question that can have a big impact on who you sell to.
3. **What will my practice sell for?** The first step is to obtain a qualified practice valuation. This is not a time to focus on how much it will cost. We have seen a dentist with a $6-million practice make decisions without a practice valuation, simply to save a few thousand dollars. Even if you have received an unsolicited offer, we strongly recommend you discuss it with a qualified practice broker.
4. **How can I minimize income tax on the sale?** The most compelling financial reason to sell your practice is that by multiplying the capital gains exemption you have the opportunity to add a great deal of value to your net worth *after-tax*. Keep in mind, after-tax money is worth close to twice that of money on which you still owe taxes.
5. **How will I get money out of all my taxable accounts (corporations, RRSPs etc.)?** In retirement, proper tax planning turns the focus away from income tax deferral. If you continue to defer income tax, you will wind up with a punitive tax bill down the road. Sound tax planning after the practice sale will be to focus on what we call tax averaging, which turns tax deferrals into actual savings. Too much of the financial industry is focused on tax deferral with no real plan on how to get the money into your hands with minimal income tax.
6. **How should I sell my practice?** You can sell outright, sell over a period of time, sell to an individual or sell to a corporation. Your choice will depend on the legacy you want for your practice and if you want to associate after selling.
7. **Should I associate after selling?** Associating in your practice can be a great way to transition into retirement, but you should decide how long you want to associate for. Certain practice sale arrangements are structured to keep the dentist on as an associate for several years. When deciding to associate for several years, you will want to consider the risk that

the fit may not be right. If the buyer of the practice turns out not to be a great fit, then you want the flexibility to leave.

8. **How will I finance my monthly lifestyle costs once my practice is sold?** This is a different question than "how much do I need to retire," since it refers to the nuts and bolts of your retirement income plan. For instance, the month after you sell your practice, how will you receive money? How will you pay taxes? How will you adjust for inflation?
9. **What if the stock market crashes after I sell my practice?** In order to outpace inflation, retirement money (including trillions in pension funds) needs to be invested in stocks. The stock market is a good place to invest over a long period of time, but it is not a question of *if* the stock market will crash, it is a question of *when.* How do you create a strategy to protect your nest egg?
10. **What if my kids need help?** Do you need to plan for contingencies in addition to your retirement?

Case study

Dr. John and Mary Doe contacted us last year to evaluate if they can afford to retire and, if so, discuss how to sell the practice. The average dentist we work with retires at age 62 with $3.6 million in savings (including the practice sale) and spends $12,500 per month after-tax, indexed for inflation. John and Mary had similar finances, but at the younger age of 55, with two children still in school.

Our first calculation was to confirm that the current RESP savings would suffice for their children's education. It would. But based on our experience, we suggested it was prudent to set aside an additional $30,000 for each of their children for future support (wedding, house, emergency).

After removing the $60,000, John and Mary had $1.5 million in non-registered investments, $1.2 million in RRSPs and $200,000 in corporate savings for retirement. They also had a practice valuation of $1.2 million.

John had been in discussions with a younger dentist from his study club who was interested in buying the practice. He also had an unsolicited offer from a corporate dentist. While the offers were similar, he decided to pursue the dentist from his study club, as he felt it would be a better fit for the culture of his staff and patients. He was also not interested in being locked into an associateship for as long as the corporate offer required.

We ran some retirement-income calculations and verified that their current asset base (after the practice sale) would be sufficient to finance their lifestyle ($12,500 per month, after-tax) for the rest of their lives.

We went ahead with the practice sale. We were only able to get one capital gain exemption as Mary was not a shareholder of the professional corporation. But that still meant most of the practice sale was tax free. John associated for six months in the practice on a reduced schedule to make the transition smooth for the new owner. He remains in touch with the young dentist and enjoys mentoring around practice management issues.

The month after John and Mary sold the practice, we deposited $12,500 into their bank account for spending. The income tax they are required to pay is sent to CRA each quarter, so John and Mary's only task is to decide where to spend their monthly deposit. The nest egg is protected against long-term inflation by investing a portion of their savings in stocks. The cash needed for spending and taxes is protected against stock market dips by investing several year's worth of future spending and taxes in liquid, guaranteed investments. This provides the time necessary for stocks to grow.

Mary and John enjoyed their first winter down south this year and are very happy with their decisions. If you are in a similar situation, we recommend you use the recommended questions as a starting point to get you there.

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