DENTAL PRACTICE FINANCE 301
FINANCIAL STRATEGIES FOR NEWER DENTISTS

JUNE 21, 2019

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Email: mail@cpa4dds.com for a complete set of speaker’s notes on this portion of the presentation. Make your subject line: Young Dentist Speaker’s Notes Please!
Understanding Overhead & Profitability

- Why Do We Care About Overhead & Profitability?
- Cash Flow is the Foundation for Everything...

The Cash Flow of the Practice is the most foundational piece of your practice—even clinical dentistry is impossible if there is insufficient cash flow “No margin – No Mission.”

Cash flow is foundational for:

1. Establishes the value of the practice (also pays back the bank when you purchase and allows you to put food on your table)
2. Establishes your lifestyle
3. Primary (or only) source for long-term savings to achieve retirement and other goals
4. Allows you to project income taxes
5. Funds the day-to-day operations of the practice
6. Allows you to hire and retain great staff
7. Allows you to invest in your practice: Equipment, Technology, Pleasant Surroundings, etc.
8. Failure to embrace the business aspects of your practice can doom you to a substandard clinical mission

> The goal is not to make your practice “all about money”; rather, the goal is to embrace the financial aspects, plan accordingly, establish elegant business systems and train staff to operate them so that you and your team can focus on outstanding dentistry and outstanding patient experience!
What is (direct) Overhead?

Those expenses that are necessary to operate the practice on a day-to-day basis:
- Staff Costs
  - Wages, taxes and benefits
- Facility Costs
  - Rent and utilities
- Other Operating Costs
  - Variable: (Supplies, Lab, Biz Taxes, Office, Bank Fees, Repairs)
  - Fixed: (Professional, Marketing, Telephone, Dues, Insurance, Uniforms, etc.)
Understanding Overhead and Profitability

What is Not (direct) Overhead?

- Those expenses that are arbitrary; represent doctor compensation or benefits or are related to financing or non-cash tax deductions
  - Doctor salary or draw and taxes
  - Doctor perks and benefits
  - Costs of Financing
  - Depreciation and amortization

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  - Doctor salary or draw and taxes
  - Doctor perks and benefits
  - Costs of Financing
  - Depreciation and amortization
Understanding Overhead and Profitability

**Apples to Apples**

- The definition of overhead (or operating profit) is important to be able to analyze a practice
  - Yours or one you might purchase

<table>
<thead>
<tr>
<th></th>
<th>Practice 1</th>
<th>Practice 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient Receipts</td>
<td>600,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Staff Costs</td>
<td>168,000</td>
<td>168,000</td>
</tr>
<tr>
<td>Fixed/Semi-Fixed</td>
<td>75,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Variable Direct Costs</td>
<td>118,000</td>
<td>118,000</td>
</tr>
<tr>
<td>Total Overhead</td>
<td>361,000</td>
<td>361,000</td>
</tr>
<tr>
<td>Operating Cash-Flow</td>
<td>239,000</td>
<td>239,000</td>
</tr>
<tr>
<td>Dr. Salary</td>
<td>(185,000)</td>
<td>-</td>
</tr>
<tr>
<td>Dr. Benefits</td>
<td>(20,000)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Automobile</td>
<td>(12,000)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Travel</td>
<td>(15,000)</td>
<td>(500)</td>
</tr>
<tr>
<td>Loan Interest</td>
<td>-</td>
<td>(32,500)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(10,000)</td>
<td>(100,000)</td>
</tr>
<tr>
<td>Net Income</td>
<td>(3,000)</td>
<td>100,000</td>
</tr>
</tbody>
</table>

When reviewing financial statements and tax returns, there are differences between practices that need to be filtered out and/or “normalized”.

One significant difference is the type of tax entity. An incorporated practice will include the doctors salary and payroll taxes, whereas an unincorporated practice will not (sole proprietors and partners in partnerships simply “draw” the profit from the practice – which is not reflected as a tax deduction).

Another difference between practices is debt. Notice that practice two has loan interest and practice 1 does not. When you purchase a practice, the existing debt will be paid off and therefore the selling doctor’s debt is filtered out as it does not affect you the buyer.

Another sometimes significant item on the tax return or financial statement is depreciation. This is a “non-cash” income tax deduction that must be filtered out.

One of the more challenging items can be to accurately ferret out the “perks” that a doctor is providing for him or herself. Some may be obvious: Automobile, travel, entertainment. Some may be commingled with staff benefits such as medical and other insurances or in staff pay (spouse or other family member compensation).
Understanding Overhead and Profitability

- **Apples to Apples**
  - When reviewing financial statements and tax returns, there are differences between practices that need to be filtered out and/or “normalized”.
  - One significant difference is the type of tax entity. An incorporated practice will include the doctors salary and payroll taxes, whereas an unincorporated practice will not (sole proprietors and partners in partnerships simply “draw” the profit from the practice – which is not reflected as a tax deduction).
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Understanding Overhead and Profitability

- **Overhead Formula**
  
  \[
  \text{Direct Operating Overhead} \div \text{Net Collections} = \text{Overhead Percentage}
  \]

- **Example:**
  
  \[
  \frac{361,000}{600,000} = 60.16\%
  \]

As a rule of thumb, 60% overhead is considered “normal” for a general practice with 1 or more full time hygienists.

Refer back to the example on the prior page to see how overhead fits into the financial statement or cash flow analysis.
Understanding Overhead and Profitability

Production and Collections:

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Hourly Production</th>
<th>Hourly Production</th>
<th>Daily</th>
<th>Daily</th>
<th>Annual</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>$275</td>
<td>$500</td>
<td>$2,200</td>
<td>$4,000</td>
<td>$422,400</td>
<td>$768,000</td>
</tr>
<tr>
<td>Hygienist</td>
<td>100</td>
<td>150</td>
<td>800</td>
<td>1,200</td>
<td>153,600</td>
<td>230,400</td>
</tr>
</tbody>
</table>

The hourly or daily production ranges are the most typical that we seen in the great Puget Sound basin. There are general dentists that produce more than $500 per hour – some produce significantly more. A few will produce less than $275 per hour.

Hygienist production is typically measured by all activity in the hygiene chair, not including the doctors’ exam. In a busy office, hygiene hourly should at least equal the adult prophy fee plus 50% of four BW (assuming taken every six months). Based on that rubric, $100 per hour would be quite low. There are some hygienists that produce $200 per hour or more.
Practice Examples

### Practice 1

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Hourly Prod</th>
<th>Daily Prod</th>
<th>Monthly Prod</th>
<th>Annual Prod</th>
<th>Cost</th>
<th># Employed</th>
<th>Actual Prod</th>
<th>Actual Cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>$250</td>
<td>$2,000</td>
<td>$32,000</td>
<td>$384,000</td>
<td>$-</td>
<td>1</td>
<td>$384,000</td>
<td>$384,000</td>
<td></td>
</tr>
<tr>
<td>Hygienist</td>
<td>125</td>
<td>1,000</td>
<td>16,000</td>
<td>192,000</td>
<td>79,258</td>
<td>-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Assistant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,864</td>
<td>1</td>
<td>36,864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33,178</td>
<td>1</td>
<td>33,178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,864</td>
<td>2</td>
<td>73,728</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td>$384,000</td>
<td>$70,042</td>
<td>18.24%</td>
<td></td>
<td>313,958</td>
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</tr>
</tbody>
</table>

### Practice 2

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Hourly Prod</th>
<th>Daily Prod</th>
<th>Monthly Prod</th>
<th>Annual Prod</th>
<th>Cost</th>
<th># Employed</th>
<th>Actual Prod</th>
<th>Actual Cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>$350</td>
<td>$2,800</td>
<td>$44,800</td>
<td>$537,600</td>
<td>$-</td>
<td>1</td>
<td>$537,600</td>
<td>$537,600</td>
<td></td>
</tr>
<tr>
<td>Hygienist</td>
<td>125</td>
<td>1,000</td>
<td>16,000</td>
<td>192,000</td>
<td>79,258</td>
<td>1</td>
<td>192,000</td>
<td>79,258</td>
<td></td>
</tr>
<tr>
<td>Assistant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,864</td>
<td>2</td>
<td>73,728</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33,178</td>
<td>2</td>
<td>66,355</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44,000</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td>$729,600</td>
<td>$219,341</td>
<td>30.06%</td>
<td></td>
<td>$510,259</td>
<td></td>
</tr>
</tbody>
</table>

Practice 1 represents a small practice not employing a hygienist. If the doctor is reasonably productive overhead percentage will be low (notice staff costs at 18%) but profitability will be limited.

Practice 2 represents a medium-ish practice with one full time hygienist and a moderately productive dentist. Overhead will be higher, but profitability will likely be somewhat higher than Practice 1.
## Practice Examples

### Practice 3

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Hourly Prod</th>
<th>Daily Prod</th>
<th>Monthly Prod</th>
<th>Annual Prod</th>
<th>Cost</th>
<th># Employed</th>
<th>Actual Prod</th>
<th>Actual Cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>$350</td>
<td>$2,800</td>
<td>$44,800</td>
<td>$537,600</td>
<td>$</td>
<td>1</td>
<td>$537,600</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Hygienist</td>
<td>125</td>
<td>1,000</td>
<td>16,000</td>
<td>192,000</td>
<td>79,258</td>
<td>2</td>
<td>384,000</td>
<td>158,515</td>
<td></td>
</tr>
<tr>
<td>Assistant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,864</td>
<td>2</td>
<td>73,728</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33,178</td>
<td>1</td>
<td>33,178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44,000</td>
<td>1</td>
<td>44,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$921,600</td>
<td>$309,421</td>
<td>33.57%</td>
</tr>
</tbody>
</table>

### Practice 4

<table>
<thead>
<tr>
<th>Staff Member</th>
<th>Hourly Prod</th>
<th>Daily Prod</th>
<th>Monthly Prod</th>
<th>Annual Prod</th>
<th>Cost</th>
<th># Employed</th>
<th>Actual Prod</th>
<th>Actual Cost</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctor</td>
<td>$500</td>
<td>$4,000</td>
<td>$64,000</td>
<td>$768,000</td>
<td>$</td>
<td>1</td>
<td>$768,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hygienist</td>
<td>150</td>
<td>1,200</td>
<td>19,200</td>
<td>230,400</td>
<td>79,258</td>
<td>2</td>
<td>460,800</td>
<td>158,515</td>
<td></td>
</tr>
<tr>
<td>Assistant</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36,864</td>
<td>3</td>
<td>110,592</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Front Desk</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>33,178</td>
<td>1</td>
<td>33,178</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Manager</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>44,000</td>
<td>1</td>
<td>44,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$1,228,800</td>
<td>$346,285</td>
<td>28.18%</td>
</tr>
</tbody>
</table>

Practice 3 is similar to Practice 2 but employs two full time hygienists. Overhead again is higher but profitability should be significantly higher than Practices 1 and 2.

Practice 4 is similar to Practice 3 but both doctor and hygiene are more productive. Even with adding an additional assistant (to assist us with more patient flow) you will notice that staff cost as a percentage is lower than Practice 3. Practice 4 is quite profitable and represents a very solid practice – perhaps what you will want your practice to look like some day.
## Practice Examples

**PRACTICE 1:**

<table>
<thead>
<tr>
<th></th>
<th>Production Doctor</th>
<th>Production Hygiene</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Production</td>
<td>384,000</td>
<td>32,000</td>
</tr>
<tr>
<td>Collections at 98%</td>
<td>376,320</td>
<td>100.00%</td>
</tr>
<tr>
<td>Staff Costs</td>
<td>(70,042)</td>
<td>18.61%</td>
</tr>
<tr>
<td>Fixed Direct Costs</td>
<td>(25,000)</td>
<td>-6.64%</td>
</tr>
<tr>
<td>Variable Direct Costs</td>
<td>(67,738)</td>
<td>18.00%</td>
</tr>
<tr>
<td>Facility Costs</td>
<td>(35,000)</td>
<td>-9.30%</td>
</tr>
<tr>
<td>Total Overhead</td>
<td>(197,780)</td>
<td>-52.56%</td>
</tr>
</tbody>
</table>

**Operating Cash-Flow**  $178,540  47.44%

1 RDH 2 Assist OM up front

**PRACTICE 2:**

<table>
<thead>
<tr>
<th></th>
<th>Production Doctor</th>
<th>Production Hygiene</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Production</td>
<td>729,600</td>
<td>60,800</td>
</tr>
<tr>
<td>Collections at 98%</td>
<td>715,008</td>
<td>100.00%</td>
</tr>
<tr>
<td>Staff Costs</td>
<td>(219,341)</td>
<td>-30.68%</td>
</tr>
<tr>
<td>Fixed Direct Costs</td>
<td>(25,000)</td>
<td>-3.50%</td>
</tr>
<tr>
<td>Variable Direct Costs</td>
<td>(128,701)</td>
<td>18.00%</td>
</tr>
<tr>
<td>Facility Costs</td>
<td>(35,000)</td>
<td>-4.90%</td>
</tr>
<tr>
<td>Total Overhead</td>
<td>(408,042)</td>
<td>-57.07%</td>
</tr>
</tbody>
</table>

**Operating Cash-Flow**  $306,966  42.56%

Practice 1 has “low” overhead as a percentage but is limited in its profitability. Is Practice 1 less risky to purchase because it is smaller?

Practice 2 has reasonable overhead at less than 60% - profit is much better. Is Practice 2 less risky to purchase than Practices 3 or 4?
### Understanding Overhead and Profitability

- **Practice Examples**

<table>
<thead>
<tr>
<th>Practice 3: 2 RDH 2 Assist 2 up front</th>
<th>Practice 4: 2 RDH 3 Assist 2 up front</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production Doctor</td>
<td>Production Doctor</td>
</tr>
<tr>
<td>$537,600</td>
<td>$768,000</td>
</tr>
<tr>
<td>Production Hygiene</td>
<td>Production Hygiene</td>
</tr>
<tr>
<td>384,000</td>
<td>460,800</td>
</tr>
<tr>
<td><strong>Total Production</strong></td>
<td><strong>Total Production</strong></td>
</tr>
<tr>
<td>921,600</td>
<td>1,228,800</td>
</tr>
<tr>
<td>Collections at 98%</td>
<td>Collections at 98%</td>
</tr>
<tr>
<td>903,168</td>
<td>1,204,224</td>
</tr>
<tr>
<td><strong>Staff Costs</strong></td>
<td><strong>Staff Costs</strong></td>
</tr>
<tr>
<td>(309,421)</td>
<td>(346,285)</td>
</tr>
<tr>
<td>Fixed Direct Costs</td>
<td>Fixed Direct Costs</td>
</tr>
<tr>
<td>(30,000)</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Variable Direct Costs</td>
<td>Variable Direct Costs</td>
</tr>
<tr>
<td>(162,570)</td>
<td>(216,760)</td>
</tr>
<tr>
<td>Facility Costs</td>
<td>Facility Costs</td>
</tr>
<tr>
<td>(40,000)</td>
<td>(40,000)</td>
</tr>
<tr>
<td><strong>Total Overhead</strong></td>
<td><strong>Total Overhead</strong></td>
</tr>
<tr>
<td>(541,991)</td>
<td>(633,045)</td>
</tr>
<tr>
<td><strong>Operating Cash-Flow</strong></td>
<td><strong>Operating Cash-Flow</strong></td>
</tr>
<tr>
<td>$361,177</td>
<td>$571,179</td>
</tr>
</tbody>
</table>

Practice 3 is more profitable than Practice 2 – but not tremendously. Overhead as a percentage is higher than Practice 2.

Practice 4 is significantly more profitable than any of the other practices and due to higher production across the board, Practice 4 has quite low overhead as a percentage.
Understanding Overhead and Profitability

Practice Examples Summary

<table>
<thead>
<tr>
<th></th>
<th>Practice 1</th>
<th>Practice 2</th>
<th>Practice 3</th>
<th>Practice 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Cash-Flow</td>
<td>$178,540</td>
<td>$306,966</td>
<td>$361,177</td>
<td>$571,179</td>
</tr>
<tr>
<td>Debt Service</td>
<td>(70,218)</td>
<td>(116,912)</td>
<td>(138,692)</td>
<td>(138,692)</td>
</tr>
<tr>
<td>Pre-Tax Income</td>
<td>$108,322</td>
<td>$190,054</td>
<td>$222,485</td>
<td>$432,487</td>
</tr>
</tbody>
</table>

This is what Practice 3 would look like if grown to be Practice 4!

Which practice will be least expensive to purchase?

Which practice will be the most risky to purchase?
Valuation (Brief Overview)

- Trust everyone, but cut the cards...
- Screen the Opportunity Before you pursue it

**Trust everyone, but cut the cards...**

A good “seller’s broker is very helpful to the process – but remember who they represent.

It is our opinion that dual representation is an oxymoron and to be avoided at (most) all costs *(discussion point)*

**Screen the Opportunity Before you pursue it**

Right location? Close to where you (or your spouse) want to live?

Right demographics for your desired style of dentistry?

Adequate room for growth? Expansion potential? (Do you know what it costs to move and build-out a practice?)

Right Volume?

Don’t buy the practice of your dreams – buy below and build to it (that is where the real financial rewards are)
Analysis and Due Diligence
- Overall valuation – is it reasonable?
- Wage and Benefit Analysis
- Fees Schedules
  - Understanding any managed care programs is essential
- Production By Code
- Chart Audit
  - Demographics
  - Clinical audit – how does seller’s approach compare to yours?
    - Lots of dentistry to do or all done?
- Analysis also prepares you to understand the strengths and weaknesses of your new practice – it prepares you.

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Analysis also prepares you to understand the strengths and weaknesses of your new practice – it prepares you.
Valuation (Brief Overview)

- **The Process**
  - Negotiating Purchase Price & Creating Legal Documents
    - Negotiating the Purchase and Sale Documents
    - Negotiating the Tax Allocation
      - Strategic tax allocation can save you thousands
    - Obtaining Competitive Financing
      - It is your loan – you are entitled to a competitive, negotiated “best” terms and to understand all of the terms
      - Determine working capital (Cash Flow) and other capital needs
    - Negotiating the Lease
  - You are now a sophisticated Business Person
  - You lose most of the protections afforded (mere) consumers
Valuation (Brief Overview)

 applauded

 The Process – Hit the Ground Running

 Setting up your practice
  - Choosing the best legal/tax entity
  - Accounting and Payroll Processes
  - Practice Management Systems
    - Recall Scheduling
    - Restorative Scheduling
    - Financial Policies and Tracking
    - New Patient Process
    - HIPAA
    - OSHA/DOSH
  - Staff Transition and HR Processes (you are now a sophisticated employer)!
    - Wage and Benefits
    - HR Policies, Procedures and Related
    - Staff Communications (Huddle, Meetings, etc.)

Setting up your practice
Choosing the best legal/tax entity
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Setting up your practice
Profit Builders:
  - Fee Schedule
  - Coding
  - Soft Tissue Management Program
  - Radiographs
  - Recall Optimization
  - Pedo Program

Marketing Program
  - External to enhance your early success
  - Internal to retain existing and new patients and generate internal referrals
  - Leverage Internet & Social Media

Financial Systems and Monitors
  - Carry forward of Cash Flow Plan
  - Tax Management
  - Proactive Tax Planning
  - Integrate with Personal Financial Planning
Valuation (Brief Overview)

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Year of Purchase or Scratch Start

- **Strategic Negotiation of Purchase Price Can Save Thousands**
  - In some cases clever allocation can achieve “win-win” allocation where all the parties (except the IRS) come out ahead
  - Your CPA should be familiar with the principals and Case Law surrounding Cost Segregation and Class 57.0 Property

- **Utilize your elections to optimize your deductions in Year 1 or Year 2**
  - Sometimes saving deductions will pay off if future years will be in a higher bracket
  - Tax optimization planning is crucial
Tax Planning (Choice of Entity)

- **Two Separate and Distinct Issues:**
  - State Law (Legal Issues)
  - Federal Law (Tax Issues)

- **Basic Choices For Solo Ownership**
  - **Sole Proprietorship (default)**
    - No legal protection
    - Simple for tax purposes (part of your personal return)
  - **Professional Limited Liability Company (PLLC)**
    - Provides business liability protection (imperfect barrier)
    - Ignored for Federal Tax Purposes (treated as sole prop.)
    - Can easily convert to S Corporation Status later
  - **Professional Corporation (PS or PC for State Purposes)**
    - Provides business liability protection (imperfect barrier)
    - More Complex for Taxes – Planning and Separate Tax Return Required
    - More expensive to maintain

**Federal Taxation – Corporation (Choice)**
- **C Corporation (generally avoid)**
  - Complex: Pays its own tax
  - Subject to many complexities and disadvantages in almost all cases

- **S Corporation**
  - Can make great sense and save significant taxes at higher net taxable income
  - Is typically a poor choice initially (with exception):
    - Tax basis issues – loans made to corporation do not count
    - Additional annual cost and complexity versus PLLC
    - **Potential Benefit:** Purposely suspending start-up losses

**Other do’s and don’ts (General)**

- Do not purchase the shares of someone else’s corporation – there are negative tax AND legal issues

- Do not “buy-in” to an existing corporation (there are more effective and flexible ways to achieve “partnership”)
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Tax Planning: Holding on to More of What you Make

- Additional Special Deductions In Year of Purchase or Scratch Start
  - **ASSETS**
    - Professional Library
    - Lab Equipment
    - Dental Hand Instruments
    - Office / Computer Equipment related to practice
    - Furniture, Fixtures, etc. related to practice
    - Automobile (If actual expense method is determined advantageous)

  - **EXPENDITURES**
    - Office Supplies
    - Parking
    - Legal and Accounting Fees
    - Malpractice Insurance
    - Business Meals
    - Auto Mileage
    - Postage
    - Courier Services
    - Copying and Reproduction
    - Travel and Hotel
    - Continuing Education / Seminars
    - Other

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Tax Planning: Holding on to More of What you Make

Tax Management
- Proactive forecast of your taxes is key to avoiding a bad surprise
- Part of your overall cash flow planning
- Establish Automated Funding
  - Weekly to money market

Proactive Tax Planning
- Tax management forms the base from which to work
- Assertive review and action can work to reduce taxes in a variety of ways:
  - Retirement Plans (Pay yourself and write it off!)
    - There are several types of retirement plans available to optimize your income tax deduction and potentially limit related staff cost
  - Key Issue: Running a study is best method (update annually)
    - SEP’s
      - Can fund up to $52,000 (2014) but staff cost an issue
    - SIMPLE-IRA
      - May fund up to $24,000 ($36,000 w/spouse) and limits staff cost to max. 3% of eligible wages
    - 401(k) (w/ Profit Sharing)
      - Can fund up to $52,000 total – staff costs vary but some plan designs allow proportionately lower funding for staff (better cost/benefit)

Automobiles
- Various ways to optimize this deduction
- Documentation is key

Travel, Meals and Entertainment
- Learn the rules to optimize and document
- Lot of other strategies to exploit to your advantage
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**Associateship Tips**

**Non-Compete Agreement**
- If possible avoid if required, would this lock you out of area in which you want to practice?
- If required and in your desired area request delay feature
- Ask for Non-Solicitation vs. Non-Compete
- Non-compete not effective for 180 days
- Review by dental attorney and CPA

**Compensation Aspects**
- Prefer per diem if volume is low or questionable
- Prefer percentage if volume is high
- Many different formulas for percentage
- 28% to 35% - may be adjusted for lab
- Question commitment to patient flow
  - Is there a written plan?
  - Is staff on board?
  - Was there a prior associate? What was the production track record

**Tax Aspects**
- As employee (W-2) you may have expenses that are non-deductible
  - Solution: Add verbiage to contract to be reimbursed for clearly tax deductible items as reduction to gross pay
  - Saves you income tax and FICA tax
  - Saves employer FICA tax
  - Items would include: Dues, subscriptions, licenses, CE, etc.
  - Get clarity on what items the employer will pay for you
  - Contractor status can be beneficial to you if you have significant expense to deduct
  - You pay employer and employee FICA
  - Request higher pay percentage
  - Subject to IRS scrutiny – most of the risk on the employer side
  - Funding your own retirement plan is possible (but subject to significant downside risk if IRS successfully challenges Contractor status).
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Benchmarks:

It has been said, that what you can measure, you can monitor and what you monitor tends to improve.

Taking benchmark information and customizing for your practice allows you to see how you are doing and where focus may be required. This makes analysis simple.

As noted early on, this cash flow report does much more than tell us how we are doing. From this base, we can compute:

- Estimated income taxes
- The value of the practice (incorporated with recent marketplace data)
- Your personal cash flow
  - Which in turn, can be dovetailed into your long-term financial plan

Benchmarking:

Comparing your numbers to a survey of similar sized local practices is an effective tool to determine where you may be outperforming or underperforming. Making plans to improve the underperformance and capitalize on the outperformance.
Managing Your Practice Effectively

OVERHEAD ANALYSIS: COMPARISON TO 2014 SURVEY

Part of managing your practice effectively is making certain that your overhead is appropriate. The following compares your practice overhead percentages from your actual year-to-date operations to our 2014 survey of practices (based on the 2014 calendar year results)

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Survey</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Costs %</td>
<td>31.54%</td>
<td>32.7%</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Clinical Supplies</td>
<td>3.99%</td>
<td>5.9%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Lab Fees</td>
<td>3.88%</td>
<td>5.6%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Professional Services</td>
<td>1.66%</td>
<td>1.5%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Office Expenses</td>
<td>2.08%</td>
<td>1.8%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Advertising &amp; Promotion</td>
<td>2.97%</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Direct Operating All-Other</td>
<td>4.10%</td>
<td>5.8%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Direct Operating %</td>
<td>18.7%</td>
<td>22.1%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Facility Costs%</td>
<td>4.33%</td>
<td>6.5%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Direct Overhead %</td>
<td>54.5%</td>
<td>61.3%</td>
<td>-6.7%</td>
</tr>
<tr>
<td>Profit Margin (Before Associate &amp; G&amp;A)</td>
<td>45.5%</td>
<td>38.7%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Total Cash Receipts Annualized</td>
<td>$1,124,077</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Loss) Gained Profit vs. Norm</td>
<td>$75,437</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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---

**Statement of Revenues and Expenses - Income Tax Basis**
For the Twelve Months Ended December 31, 2014
and the Twelve Months Ended December 31, 2013
and the 2014 Budget

<table>
<thead>
<tr>
<th></th>
<th>2014 Amount</th>
<th>2014 Budget</th>
<th>2013 Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Patient Receipts</td>
<td>$796,437</td>
<td></td>
<td>$759,676</td>
</tr>
<tr>
<td>Refunds</td>
<td>(293)</td>
<td></td>
<td>(1,365)</td>
</tr>
<tr>
<td>Net Patient Receipts</td>
<td>$796,144</td>
<td>100.0%</td>
<td>$758,311</td>
</tr>
<tr>
<td>Total Operating Overhead</td>
<td>$463,303</td>
<td>58.2%</td>
<td>$451,461</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>$332,841</td>
<td>41.8%</td>
<td>$364,471</td>
</tr>
<tr>
<td>General and Administrative</td>
<td>87,586</td>
<td>11.0%</td>
<td>100,027</td>
</tr>
<tr>
<td>Net Income</td>
<td>$245,253</td>
<td>30.8%</td>
<td></td>
</tr>
</tbody>
</table>
Teamwork is key to your success!

There are several good reasons to begin assembling a group of professionals for assistance with your future practice needs. The first is that you may need a certain amount of help as you search for Associate positions. The “informal” network of dental service professionals may hold more leads than all those that are published or posted.

Your team may consist of many different advisors and vendors. You may not use all of them in the short run, but you should consider establishing relationships early on. Is it important to choose team professionals that have dental specific focus and knowledge:

- Dental Placement Agency
- CPA (accountant – dental)
- Attorney (dental)
- Attorney (estate)
- Banker (dental)
- Supplier, Equipment Manager and IT Manager
- Financial Advisor (dental is best)
- Practice Management Consultant
- Lease Advocate (dental)
- Practice Broker or Transition Consultant
- Dental Demographer
- OSHA (DOSH)/HIPAA Resource
- Human Resources/Personnel
- Dental Practice Designers
- Dental Practice Construction Contractor
- Laboratories
- Marketing Consultants
- YOUR STAFF
- YOUR SPOUSE
- Etc.
Achieving Success

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  - Attorney (dental)
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  - Dental Placement Agency
  - Insurance Broker – Life/Disability
  - Insurance Broker – Malpractice, Property, Casualty
Achieving Success

- Financial Advisor (dental is best)
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- Dental Practice Construction Contractor
- Laboratories
- Marketing Consultants
- Mentor Dentist(s) / Study Club(s)
- YOUR STAFF
- YOUR SPOUSE
- Etc.
### Which Retirement Plan Is Best?

**SIMPLE IRA**

- SIMPLE IRAs allow pre-tax deferrals of $13,000 ($16,000 if 50 or older) – plus a match = to 3% of your earnings
- Staff contributions of 2% for all eligible employees or a 3% matching contribution is required
- A spouse working minimal hours may be eligible to participate
- No separate tax returns required
- No administrative costs
Which Retirement Plan Is Best?

- Profit Sharing & 401(k) Plans
  - 401(k) plans allow pre-tax deferrals of $19,000 ($25,000 if 50 or older)
  - Profit sharing plans allow additional pre-tax contributions of $37,000 for total profit sharing and 401(k) presentations of contributions of $56,000 ($62,000 if 50 or older)
  - Required staff contributions will vary with the age and income of your staff
  - An additional tax return and administrative costs will apply
Roth IRA Contribution Strategies

- If your tax status is married filing jointly, you cannot make a full Roth IRA contribution if your modified adjusted gross income is more than $186,000 if married and filing jointly (or $118,000 if single) but...
- ...you can make a contribution to a non-deductible IRA and immediately convert it to a Roth IRA (as long as you have no other taxable IRA assets). “Indirect or “Backdoor” Roth”
Insurance Coverage

- Ensure that you have adequate life insurance.
- Ensure that you have adequate disability insurance.
- Ensure that you have personal umbrella liability insurance.
- If you own or are purchasing a practice there are several additional policies required and/or highly recommended
NEW TAX LAW

THE TAX CUTS & JOBS ACT

Impact on Dentists – 2019 and Beyond
Introduction to the Tax Cuts & Jobs Act

- Vast Majority Takes Effect in 2018 & Expires after 2025
- Some Items are Permanent
- Let’s Look first at What Congress Has Taken Away...
## Meals & Entertainment

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018 Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment (except staff see below)</td>
<td>50%</td>
<td>0%</td>
</tr>
<tr>
<td>Meals (Business)</td>
<td>50%</td>
<td>50% (*)</td>
</tr>
<tr>
<td>Employer Provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meals on Premise (for conv. of ER)</td>
<td>100%</td>
<td>50%</td>
</tr>
<tr>
<td>Meals: Travel Away From Home</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Travel (No change)</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Staff Outings, Parties, Etc.</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

We recommend that you separate those accounts in your chart of accounts going forward.

(*) It appears that Congress made an error at the time of eliminating Entertainment Expenses and accidentally eliminated 50% deductible meals which has since been corrected.
## Personal & Dependents Exemptions

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$4,050</td>
<td></td>
</tr>
<tr>
<td>2018 Forward</td>
<td>None</td>
<td></td>
</tr>
</tbody>
</table>
## Itemized Deductions

### State & Local Tax:

<table>
<thead>
<tr>
<th>2017</th>
<th>2018 Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Real Estate</td>
<td>• Real Estate</td>
</tr>
<tr>
<td>• Personal Property</td>
<td>• Personal Property</td>
</tr>
<tr>
<td>• Either State Income or Sales Tax</td>
<td>• Either State Income or Sales Tax</td>
</tr>
<tr>
<td>• ALL Deductible</td>
<td>• Limited to $10,000 (Single or joint)</td>
</tr>
</tbody>
</table>

### Mortgage Interest:

- Interest up to loan of $1.1M (includes $100,000 of new acquisition debt)
- Interest up to loan of $750K
- Principal & one other residence

Acquisition Debt Obtained on or Before December 15, 2017 is grandfathered, including qualified refinancing.
# Itemized Deductions

**Medical Expense:**

<table>
<thead>
<tr>
<th>Prior</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Out of pocket in excess of 10% AGI</td>
<td>• Out of pocket in excess of 7.5% AGI in 2017 &amp; 2018</td>
</tr>
<tr>
<td></td>
<td>• Back to 10% AGI in 2019</td>
</tr>
</tbody>
</table>

**Miscellaneous:**

<table>
<thead>
<tr>
<th>2017</th>
<th>2018 Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax prep fees</td>
<td>• NONE</td>
</tr>
<tr>
<td>• Investment/advisor fees</td>
<td></td>
</tr>
<tr>
<td>• Unreimbursed employee expenses</td>
<td></td>
</tr>
<tr>
<td>• Certain legal expenses</td>
<td></td>
</tr>
<tr>
<td>• Job search expenses</td>
<td></td>
</tr>
</tbody>
</table>

Phase out of 3% of AGI repealed for 2018-2025
Additional Highlights

- No moving expense deductions (retained for active military permanent station change).

- Alimony no longer deductible or included as income of the recipient after 2018. (prior to 2019 grandfathered)

- ACA individual healthcare mandate repealed after 2018.
Additional Highlights

Like-Kind Exchanges:

2017

All Qualified like-kind property

2018 Forward

Only applies to qualified real property

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Roth Recharacterizations

- “Repeal of special rule permitting recharacterization of Roth IRA contributions as traditional IRA contributions”.
  - Contributions to traditional IRA can still be converted to Roth. (Backdoor Roth Contribution Continues to Live)
  - Contributions to Roth can still be converted to traditional. Just more risk.

NEW LAW: Once you convert traditional to Roth, you cannot then recharacterize back to traditional.
  - This is a big set-back for early retirement conversions (no more 20/20 hindsight)
## Net Operating Loss Deduction

<table>
<thead>
<tr>
<th>2017</th>
<th>2018 Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Carry back 2 years &amp;</td>
<td>• Carried forward</td>
</tr>
<tr>
<td>Forward 20 years</td>
<td>indefinitely (except farmers)</td>
</tr>
<tr>
<td></td>
<td>• NOL deductions will be limited to 80% taxable income</td>
</tr>
</tbody>
</table>

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• The DPAD deduction has been repealed after 2017
• Applies to CAD/CAM, Manufactured Retainers, Appliances, Etc.
• Now, Let’s See What Congress Has Provided?
Business Level Taxes

**Code Section 179 (Expensing Election)**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deduction</td>
<td>$510,000</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Cost of Property</td>
<td>$2,030,000</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>Phaseout</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Will be indexed for inflation
## Bonus Depreciation

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>50% New Property Only</td>
</tr>
<tr>
<td>2018 - 2022</td>
<td>100% New or Used Property</td>
</tr>
</tbody>
</table>

Assets purchased and placed in service after September 27, 2017 are eligible for the 100% deduction.

The 100% expensing will be phased down as followed:

- 80% for property placed in service in 2023
- 60% for 2024
- 40% for 2025
- 20% for 2026
Bonus Depreciation v. Sec 179

- Section 179 cannot create or add to a loss for the tax year.
- Section 179 depreciation can be on an asset-by-asset basis.
- Bonus depreciation allows you to create a loss for the year. Bonus depreciation will be automatic unless you opt out. This must be done by class of assets, example - 5 years, 7 years, 15 years, etc. (bonus no longer requires "new" property)

<table>
<thead>
<tr>
<th></th>
<th>179</th>
<th>Bonus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxable Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before Depreciation</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Depreciation on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$100,000 of assets</td>
<td>$(150,000) (limited)</td>
<td>$(100,000)</td>
</tr>
<tr>
<td>Net Profit (loss)</td>
<td>$0</td>
<td>($50,000)</td>
</tr>
</tbody>
</table>
The new law increases annual depreciation of passenger autos less than 6,000 lbs. gross vehicle weight.

<table>
<thead>
<tr>
<th>Year</th>
<th>Old Law</th>
<th>New Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>$3,160</td>
<td>$10,000</td>
</tr>
<tr>
<td>Year 2</td>
<td>$5,100</td>
<td>$16,000</td>
</tr>
<tr>
<td>Year 3</td>
<td>$3,050</td>
<td>$9,600</td>
</tr>
<tr>
<td>Year 4</td>
<td>$1,875</td>
<td>$5,760</td>
</tr>
<tr>
<td>&amp; beyond</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Documentation continues to be the key.

Note: “Heavy Vehicles” are not impacted by limitations above; however, large deductions are only available if documented business usage is 50% or greater.
20% Qualified Business Income Deduction

- Qualified Business Income (QBI) includes sole proprietorships, partnerships, S-corporations, and Most rentals

- Does not include (S) shareholder wages, guaranteed payments to partners, or investment income (capital gains, dividends, interest)
  - This “non-inclusion” language needs to be interpreted by IRS. Two completely opposite conclusion can be made

- Deduction calculated per each separate business
20% Qualified Business Income Deduction

- If taxable income is $315,000 or less ($157,500 if single):
  - Deduction is the lesser of
    - 20% of QBI
    - 20% of taxable income (not including capital gains)
  - Available for specified service businesses (but limited)

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20% Qualified Business Income Deduction

- If taxable income is over $415,000 ($207,500 if single):
  - **Deduction** amount is same as before, but limited to the greater of:
    - 50% of allocable W-2 wages paid by business, or
    - 25% of allocable W-2 wages plus 2.5% unadjusted basis of depreciable tangible property

- Not available for specified service businesses
If taxable income is $315,000-$415,000 ($157,500 - $207,500 if single):

- 50% of allocable W-2 wages paid by business, or
- 25% of allocable W-2 wages plus 2.5% unadjusted basis of depreciable tangible property

Deduction is then phased out ratably between the limits shown above

Available for specified service businesses with limitations – phase-out between $315,000 & $415,000 or $157,500 and $207,500 single)
Betty & Joe have taxable income of $300,000 after all deductions

Betty’s practice, (a sole proprietorship/PLLC) has $375,000 of net taxable (Qualified Business) income.

Their deduction is 20% of the lesser of the two above or $60,000 (20% x $300,000).

What if Betty were an S Corporation and Paid herself $175,000? No difference or 20% of $200,000?

We believe that the authorities (IRS) are indicating $200,000 – but not convinced that is what congress intended.
Other considerations:

- If your business has a loss, that loss carries to next year and “hurts” your 20% deduction calculation.
- Deduction only for businesses in the U.S.
- Deduction does not reduce self-employment income.
- More complex decision to go S Status at the lower end of the phase-out range ($315k-$415k or $157.5k-$207.5k) (at least until IRS provides guidance)
- May Apply to Other Activities in Which You Engage
### Individual Tax Rates (2017)

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Single Filers</th>
<th>Married Filing Jointly</th>
<th>Married Filing Separately</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 to $9,325</td>
<td>$0 to $18,650</td>
<td>$0 to $9,325</td>
<td>$0 to $13,350</td>
</tr>
<tr>
<td>15%</td>
<td>$9,326 to $37,950</td>
<td>$18,651 to $75,900</td>
<td>$9,326 to $37,950</td>
<td>$13,351 to $50,800</td>
</tr>
<tr>
<td>25%</td>
<td>$37,951 to $91,900</td>
<td>$75,901 to $153,100</td>
<td>$37,951 to $76,550</td>
<td>$50,801 to $131,200</td>
</tr>
<tr>
<td>28%</td>
<td>$91,901 to $191,650</td>
<td>$153,101 to $233,350</td>
<td>$76,551 to $116,675</td>
<td>$131,201 to $212,500</td>
</tr>
<tr>
<td>33%</td>
<td>$190,651 to $416,700</td>
<td>$233,351 to $416,700</td>
<td>$116,676 to $208,350</td>
<td>$212,501 to $416,700</td>
</tr>
<tr>
<td>35%</td>
<td>$416,701 to $418,400</td>
<td>$416,701 to $470,700</td>
<td>$208,351 to $235,350</td>
<td>$416,701 to $444,550</td>
</tr>
<tr>
<td>39.6%</td>
<td>Over $418,400</td>
<td>Over $470,700</td>
<td>Over $235,350</td>
<td>Over $444,550</td>
</tr>
</tbody>
</table>
## Individual Tax Rates (2018)

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Single Filers</th>
<th>Married Filing Jointly</th>
<th>Married Filing Separately</th>
<th>Head of Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>Up to $9,525</td>
<td>Up to $19,050</td>
<td>Up to $9,525</td>
<td>Up to $13,600</td>
</tr>
<tr>
<td>12%</td>
<td>$9,526 to $38,700</td>
<td>$19,051 to $77,400</td>
<td>$9,526 to $38,700</td>
<td>$13,601 to $51,800</td>
</tr>
<tr>
<td>22%</td>
<td>$38,701 to $82,500</td>
<td>$77,401 to $165,000</td>
<td>$38,701 to $82,500</td>
<td>$51,801 to $82,500</td>
</tr>
<tr>
<td>24%</td>
<td>$82,501 to $157,500</td>
<td>$165,001 to $315,000</td>
<td>$82,501 to $157,500</td>
<td>$82,501 to $157,500</td>
</tr>
<tr>
<td>32%</td>
<td>$157,001 to $200,000</td>
<td>$315,001 to $400,000</td>
<td>$157,001 to $200,000</td>
<td>$157,501 to $200,000</td>
</tr>
<tr>
<td>35%</td>
<td>$200,001 to $500,000</td>
<td>$400,001 to $600,000</td>
<td>$200,001 to $500,000</td>
<td>$200,001 to $500,000</td>
</tr>
<tr>
<td>37%</td>
<td>$500,000 +</td>
<td>$600,000 +</td>
<td>$500,000 +</td>
<td>$500,000 +</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>Joint</td>
<td>MFS</td>
<td>HOH</td>
<td>Single</td>
</tr>
<tr>
<td>-------------------</td>
<td>------------</td>
<td>------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>0% - Less Than</td>
<td>$ 77,200</td>
<td>$ 38,600</td>
<td>$ 51,700</td>
<td>$ 38,600</td>
</tr>
<tr>
<td>15% - At Least</td>
<td>$ 77,200</td>
<td>$ 38,600</td>
<td>$ 51,700</td>
<td>$ 38,600</td>
</tr>
<tr>
<td>Less Than</td>
<td>$479,000</td>
<td>$239,500</td>
<td>$452,400</td>
<td>$425,800</td>
</tr>
<tr>
<td>20% - More Than</td>
<td>$478,999</td>
<td>$239,499</td>
<td>$452,399</td>
<td>$425,799</td>
</tr>
</tbody>
</table>

3.8% Net Investment Income Tax Continues to Apply Above $250,000 / $200,000 AGI
<table>
<thead>
<tr>
<th>If Taxable Income Is:</th>
<th>Then Income Tax Equals:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not over $2,550</td>
<td>10% of the taxable income</td>
</tr>
<tr>
<td>Over $2,550 but not over $9,150</td>
<td>$255 plus 24% of the excess over $2,550</td>
</tr>
<tr>
<td>Over $9,150 but not over $12,500</td>
<td>$1,839 plus 35% of the excess over $9,150</td>
</tr>
<tr>
<td>Over $12,500</td>
<td>$3,011.50 plus 37% of the excess over $12,500</td>
</tr>
</tbody>
</table>
### Kiddie Tax

- Applies to children under age 19 or 24 if full time student.
- Unearned Income: ($1,050 tax free $1,050 @ 10%) – Excess:

<table>
<thead>
<tr>
<th>Year</th>
<th>Taxed at parent's rate</th>
<th>Taxed at rates for Trusts &amp; Estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018 Forward</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Earned income up to $12,000 (up from $6,350)
  - Qualifies for Standard Deduction against Earned Income
  - Documentation continues to be the key

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## Alternative Minimum Tax (AMT)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exemption: Single $</th>
<th>Exemption: Joint $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>55,400</td>
<td>86,200</td>
</tr>
<tr>
<td>2018</td>
<td>70,300</td>
<td>109,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase out: Single $</th>
<th>Phase out: Joint $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>123,100</td>
<td>164,100</td>
</tr>
<tr>
<td>2018</td>
<td>500,000</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>

Winners: Almost everyone in a given year – especially those formerly in the 28% to 35% tax brackets.
### Standard Deduction

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$6,500</td>
<td>$12,000</td>
</tr>
<tr>
<td>Joint</td>
<td>$13,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>Joint – Over 65</td>
<td>$26,600</td>
<td></td>
</tr>
</tbody>
</table>

Winners: Everyone who was previously taking the standard deduction or was close to doing so. Kids with earned income.
## Child Tax Credit

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>$1,000</td>
<td>$2,000 per child under 17</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$500 other dependents</td>
</tr>
<tr>
<td>Phase out:</td>
<td>Single</td>
<td>$75,000</td>
</tr>
<tr>
<td></td>
<td>Joint</td>
<td>$110,000</td>
</tr>
</tbody>
</table>

Winners: Parents who already qualified. Parents with significantly higher incomes (makes up in part for loss of personal and dependent exemptions).
FINANCIAL PLANNING STRATEGIES
FOR NEWER DENTISTS
JUNE 21, 2019

Sam Martin, MBA, CFP®, CPA
Financial Planning Strategies for Newer Dentists

1. Identify and prioritize your financial goals.
2. Calculate your net worth and monthly cash flow.
3. Develop a plan to reach your financial goals.
4. Maximize your tax-qualified retirement plans and your Roth IRAs.
5. Ensure that you have an investment strategy aligned with your financial goals.
6. Obtain adequate insurance coverage.
7. Ensure that you have an estate plan.
STRATEGY #1

Identify and prioritize your financial goals
Money Can’t Buy Happiness

HAPPINESS

RELATIONSHIPS & EXPERIENCES

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An Independent Member of THE BAM ALLIANCE
What Are Your Financial Goals?

- Purchasing a Practice?
- Purchasing a Home or a Larger Home?
- Purchasing an Office Building?
- Spending More Time with Family?
- Saving for Children’s Education?
- Financial Freedom?
- Purchasing Something That is in Alignment with Your Life’s Vision?
Are You In Alignment with Your Spouse or Significant Other?

- Meaningful Conversations
- Pro-Active Course Corrections
- Establish Direction
- Develop Goals & Priorities

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Strategy #1 - Action Items

- With your spouse or significant other, identify and prioritize your financial goals.
- Put them into writing!
STRATEGY #2

Calculate Your Net Worth and Monthly Cash Flow
What Is Your Net Worth?

- Assets – Liabilities = Net Worth
What Are Your Assets?

- Bank Accounts
- Investment Accounts
- Health Savings Accounts
- Retirement Plan Accounts
- Home
- Office Building
- Practice Value
- Other “Use” Assets
What Are Your Liabilities?

- Student Loans
- Home Mortgage
- Practice Debt
- Equipment Loans
- Office Building Mortgage
- Credit Cards
- Auto and Other Loans
Strategy #2 Action Items

- Ensure that your interest rates are as low as possible with a fixed interest rate for as long as possible.
- Consult one or more education loan consolidators to see if improvement is possible
- Use “Snowball” method to pay down debts
- Use a budget to make proactive financial decisions.
- Calculate your net worth each year and compare it to your net worth from the previous year.
STRATEGY #3

Develop A Plan To Reach Your Financial Goals

slide in the panel to the right
The Benefits of Investing Early

At age 25, Dr. Early Saver begins investing $5,500 into an Individual Retirement Account (IRA) each year for 10 years and then stops. At age 35, Dr. Late Saver begins investing $5,500 into an IRA for 30 years. They each retire at age 65. Assuming a growth rate of 8%, here are their balances at the end of each decade:

<table>
<thead>
<tr>
<th>Age</th>
<th>Dr. Early Saver</th>
<th>Dr. Late Saver</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>$79,676</td>
<td>$0</td>
</tr>
<tr>
<td>45</td>
<td>$172,015</td>
<td>$79,676</td>
</tr>
<tr>
<td>55</td>
<td>$371,336</td>
<td>$251,691</td>
</tr>
<tr>
<td>65</td>
<td>$801,752</td>
<td>$623,058</td>
</tr>
</tbody>
</table>

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Strategy #3 Action Items

- For long-term goals, begin investing early.
- For short-term goals, accumulate as much cash as possible.
- Avoid credit card debt and other consumer debt.
STRATEGY #4

Maximize Your Tax Qualified Retirement Plans
And Your Roth IRAs the right
Which Retirement Plan Is Best?

- **SIMPLE IRA**
  - SIMPLE IRAs allow pre-tax deferrals of $13,000 ($16,000 if 50 or older) – plus a match = to 3% of your earnings
  - Staff contributions of 2% for all eligible employees or a 3% matching contribution is required
  - A spouse working minimal hours may be eligible to participate
  - No separate tax returns required
  - No administrative costs

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Which Retirement Plan Is Best?

- Profit Sharing & 401(k) Plans
  - 401(k) plans allow pre-tax deferrals of $19,000 ($25,000 if 50 or older)
  - Profit sharing plans allow additional pre-tax contributions of $37,000 for total profit sharing and 401(k) presentations of contributions of $56,000 ($62,000 if 50 or older)
  - Required staff contributions will vary with the age and income of your staff
  - An additional tax return and administrative costs will apply
If your tax status is married filing jointly, you cannot make a full Roth IRA contribution if your modified adjusted gross income is more than $186,000 if married and filing jointly (or $118,000 if single) but...

...you can make a contribution to a non-deductible IRA and immediately convert it to a Roth IRA (as long as you have no other taxable IRA assets). “Indirect or “Backdoor” Roth”
Strategy #4 Action Items

- If you are working, consider maximizing a retirement plan.

- If you are married and your spouse doesn’t have access to a retirement plan, consider adding him or her to the retirement plan assuming that they are working or can work for the practice.

- Consider using a Roth IRA contribution strategy.

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STRATEGY #5

Ensure That You Have An Investment Strategy Aligned With Your Financial Goals
Which Investment Approach Do You Use?

- Market Timing
  - Wall Street

- Security Selection
  - Wall Street

- Evidence Based Asset Allocation
  - Those educated on the peer reviewed research surrounding long-term investment success
What Is Your Asset Allocation?

- Do you own short, intermediate or long-term bonds or bond funds?
- Do you have meaningful exposure to International stocks?
- Do you have meaningful exposure to value (discounted) stocks?
- Do you have meaningful exposure to small company stocks?
- Are your funds “low cost” and “tax efficient”
Strategy #6 Action Items

☐ Ensure that your investment strategy is in alignment with your financial goals.
  ■ This relates back to having a written plan...
STRATEGY #6

Obtain adequate insurance coverage.
Insurance Coverage

- Ensure that you have adequate life insurance.
- Ensure that you have adequate disability insurance.
- Ensure that you have personal umbrella liability insurance.
- If you own a practice there are several additional policies required or recommended.
Strategy #6 Action Items

- Obtain inexpensive term life insurance to ensure that you have adequate life insurance.

- Obtain adequate disability insurance with an own occupation definition of disability and a cost of living adjustment.

- Obtain personal umbrella liability insurance to extend your home, auto and other coverage.
STRAATEGY #7

Ensure that you have an estate plan.
Estate Planning Documents

- Ensure that you have a will.

- Ensure that you have a durable powers of attorney (financial & healthcare)

- Ensure that you have a living will or health care directives.
Are Your Beneficiary Designations Up To Date?

- Life Insurance
- Retirement Plans
- IRAs
Strategy #7 Action Items

- Ensure that you have a will, durable power of attorney, and living will or health care directives.

- Ensure that your beneficiary designations are up-to-date.
Conclusion:

- Being thoughtful about your goals – both financial and quality of life is essential for long-term success and happiness.

- Committing goals and concerns to writing, implementing, monitoring and updating plans separates the truly successful from the rest.
DENTAL PRACTICE FINANCE 301
PROACTIVE STEPS TO A SUCCESSFUL PRACTICE AND FINANCIAL LIFE

JUNE 21, 2019

BY: Sam Martin, MBA(tax), CFP®, CPA