

Joining a practice

Paul Kendall looks at the choices for associates.

Over the years I have seen some practices fail because the associate bought in has not fully thought through what he or she wants to achieve. In this two part article, I set out the most important considerations for an associate who has been asked to join a practice, either as a partner or an expense sharing principal. This promotion can often be a time for celebration, but the associate should ensure that this opportunity is really the one for which he has been waiting. Will he get his feet under the table and get to keep 100 per cent of his income, or could this end up being a disastrous investment in a failing practice?

The associate will need to take specialist advice and consider the following issues:

The associate needs to ask whether the practice has the potential to maintain its income and/or has opportunities to grow.

The right practice

Often an associate will be made an offer to become a principal at the practice where he has worked for a number of years. Assuming that the associate has the wish to become a principal, he will need to decide whether to accept this offer or look at opportunities elsewhere.



Paul Kendall
is a Chartered
Accountant and a
NASDA member.



● 'Will he get his feet under the table and get to keep 100 per cent of his income, or could this end up being a disastrous investment in a failing practice?'

As a result of his time at the practice he will have become aware of the practice environment and working practices, and also have a detailed working knowledge of the state of his patients' teeth and treatments they have received to date. If he is happy with the financial package being offered to him, a partnership/principalship at his existing practice is the preferable route to take. To join or purchase a practice without this knowledge could be risky, with the possibility of staff issues/redundancies and dental remedial work taking up time in the first few years in practice.

The alternatives, should the offer of a partnership/principalship at the existing practice not be appropriate

or available, would be to find another associateship with a view to a later partnership/principalship, purchase a practice outright or to set up a squat practice (but these last two options may prove expensive).

Future

Before the associate commits to buy into the practice he needs to look at the outlook for that practice and the effect any changes in legislation, may have upon his future income. He needs to ask himself whether the practice has the potential to maintain its income and/or has opportunities to grow, in that it has the facilities available and is in an area where a profitable practice could be established. The most profitable ➔

practices tend to be predominately private practices with multiple surgeries where economies of scale can be made. The least profitable practices are NHS single surgery practices in areas of deprivation, as these practices do not offer the room to expand services or the patient base to develop a private practice.

The associate needs to look at the age and income generation of the existing partners to ascertain whether multiple retirements will be likely in a short space of time, as he may have to find the funds to pay out retiring principals practice shares before appropriate replacements can be found. The partnership agreement should be reviewed to identify the liabilities the associate may need to fund in such circumstances. It is better for the agreement to give continuing partners the option to buy out the outgoing partner's capital rather than including provisions to force them to buy it.

If a practice reduces the number of surgeries it operates upon the retirement of a principal, the level of overheads increases for the continuing partners. If those continuing partners are also required by the partnership agreement to pay the outgoing partners goodwill they will suffer a substantial financial loss.

Price

Often the retiring principal of the practice has obtained a valuation for the share of the practice being offered. The associate should ensure a specialist valuer of dental surgeries has prepared the valuation, and that the state of the practice equipment and the mix of work that the practice provides have been taken into account. It would be foolhardy to purchase a practice without a specialist valuation as this could lead to an overpayment. Currently goodwill values are ranging from 80 per cent to 150 per cent of turnover for profitable practices, but specialist advisers should be able to review

the valuations against their current database and comment thereon.

Often associates are surprised at the amount that is being asked for the share of the practice by the vendor and perceive that they are being overcharged. A good exercise in this situation is to look at the cost of setting up a squat as an alternative. Once the cost of buying or renting a property, kitting it out with equipment, and living on reduced income whilst a list builds up is taken into account, the price of the share of the practice can appear quite reasonable.

Sales proceeds

Usually the sales proceeds upon the purchase of a practice will be split between property, goodwill, stock,

If a practice reduces the number of surgeries it operates upon the retirement of a principal, the level of overheads increases for the continuing partners.

fixtures, fittings and equipment. The vendor (the retiring dentist) would prefer most of the sales proceeds to be allocated to the property and goodwill as the capital gains tax payable on those amounts will usually be less than the income tax payable on the sale of the stocks, fixtures, fittings and equipment. However the associate will normally gain greater allowances to set against his income tax if the sales proceeds are structured the other way round; but if the associate is considering buying the practice share through a limited company there are tax allowances available that will allow the goodwill expense to be set against the company corporation tax liability.

As with any business transaction, the valuation provides a figure that can be negotiated up or down, depending upon the willingness of the vendor to sell and the purchaser to buy, and the split of the sales

proceeds can often be a negotiating point when reaching agreement on the final sales price.

Practice agreement

It is very important that the practice has an up to date agreement that covers all aspects likely to cause disputes in the future. The main areas to consider are the arrangements upon a principal leaving a practice, due to death or retirement, and the problems associated with a principal being absent from the practice for a lengthy period of time. Issues tend to arise in those practices where there is no agreement, or the agreement is out of date, and often this results in a loss to the younger/continuing partners. All the principals need to provide for financial assistance in the event of sickness or death so that the continuing partners are not burdened with additional costs in that event.

The British Dental Association provides pro-forma agreements that cover most of the issues that a dental practice ought to adopt in its agreement, such as how to deal with a deceased principal's widow/widower, or how to expel a partner who fails to abide by the clauses in the partnership agreement. Even though the BDA provides this assistance the practice could still benefit by using a specialist legal firm to draft its partnership agreement, as they will be able to provide the most up to date provisions.

In the second part of the article I will look at issues such as finance, tax, record-keeping and whether to incorporate. ■

Paul Kendall can be contacted on 01768 864466. To contact the National Association of Specialist Dental Accountants, call 00870 6010 230 or go to www.nasda.org.uk