

CPAs and the Business of Dentistry

By the time you read this article, you are on the verge of graduating dental school. Most students in their final year of dental school spend virtually no time preparing to become entrepreneurs – that is, learning to run dental practices. While some U.S. dental schools have excellent curricula for teaching these skills, most schools do not. Even among those schools that address the topic, most still do not have the time to equip students with the full range of business skills needed to run a successful dental practice. This is where a competent CPA comes into play. A dental

CPA has the ability to deliver the necessary services that will fill this void from dental school and equip you to set up your new business.



Allen M. Schiff

The CPA has a vast range of knowledge that will be beneficial for you in the formation of your business structure and practices. A CPA who specializes in providing consulting services to the dental industry can advise you on the major decisions you will be confronted with as you begin your career. These include:

- *Starting a practice from scratch*
- *Becoming an associate*
- *Purchasing an existing practice*
- *Entity selection: corporation, LLC or sole proprietorship*
- *Review of legal documents*

- *Hiring a professional team*
- *Employees vs. independent contractors*
- *Valuation of a practice*
- *Establishing internal accounting controls*
- *Selecting a CPA/accountant*

Starting a practice from scratch

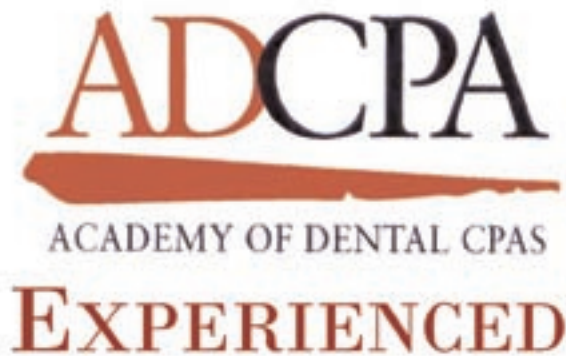
Financially, if you acquire a practice at the right price, you can start to feel the financial rewards a lot quicker than if you start a practice from scratch. If you are considering starting a practice from



scratch, you might consider working part-time as an associate at a nearby practice until you can build your new practice into a full-time structure.

One major factor to consider is management of the practice. If you decide to start your own practice, the management decisions and philosophies are created as you go along, whereas, if you purchase a practice, many decisions and philosophies have been established, whether you agree with them or not.

See "CPAs" on page 16



Our Mission Statement

The Academy of Dental CPAs' (ADCPA) is a national association of accounting firms that specialize in delivering creative solutions that meet the unique needs of the dental profession.

The mission of the ADCPA, is to enhance its members' expertise through the sharing of knowledge and resources to provide progressive consulting, accounting and tax services to dental professionals.

As the leader or future leader of your practice, you owe it to yourself, your family and your staff to effectively and proactively address the business, financial and tax aspects of your practice. In fact, the more you embrace the business challenges of your practice, the more you will be able to focus your time and attention on clinical excellence and customer service (not to mention maximizing the financial rewards of private practice dentistry). Here are some things to consider:

- Can you imagine having a true financial expert on your side to assist you with those special transactions such as buying a practice or associateship agreements or assistance with business plan preparation?
- How about a tax planner and preparer that had tons of experience and expertise working with and taking advantage of the tax law and its unique application to dentistry?
- Could you manage your practice and finances better with timely and accurate reports and a trusted advisor to interpret the data and assist you with making intelligent financial and practice management decisions?
- Wouldn't it be wonderful to have a go-to financial person that could work with you, your bookkeeper and your administrative team to assist with accounting, tax and practice management issues?
- How about having a dental financial expert that can assist you to not just reduce taxes but to assist with long-term finances - choosing the right retirement plan - helping you understand and effectively manage staff and overhead?

Too Good To Be True? Nope!

For the experienced Dental CPA you need to manage your dental practice successfully, call **877. 823.2727**.

The ADCPA is comprised of 24 Firms, representing in excess of 6,000 Dental Practices located in major cities in the US! To locate the closest ADCPA member to you, please visit our web site www.ADCPA.org.

“CPAs” continued from page 14

Becoming an Associate

Initially, you may want to associate with an experienced practitioner to gain some experience and learn the business from an established dentist. Be sure to check the references of any practitioner you would like to associate with prior to signing any legal documents.

Here are some financial issues to keep in mind: While practicing as an associate, you will not be responsible for paying the vendors, compensating employees or working out financial arrangements with the practice's patients. You are there to do one thing — practice dentistry. However, please be sure to do your due diligence in researching the practice's ability to compensate you for the services you will be rendering.

Purchasing an existing practice

The major financial advantage of purchasing an existing practice is the immediate cash flow in place from the minute you purchase the practice. One disadvantage from a financial standpoint, however, may be patient financial arrangements. Many older practices do not have procedures in place to finance services. With new graduates from dental schools trained with the latest technology in delivering more comprehensive procedures, they may produce larger billings by procedure. As a result, in order to make this dentistry affordable to the existing patient, change is likely to be required in financing. Many third-party finance companies such as Care Credit are available, but from what I see in the marketplace, the older and mature dental practices either do not offer these financial services to their patients, nor do they want to learn about them.

One of the largest assets purchased in an existing practice — yet the least understood — is the professional staff. While many dentists take this for granted, I often remind my clients that as long as the professional staff is staying after the practice is purchased, the value of the practice should be secure and unencumbered. In addition to holding its value, the transition of the practice to the purchaser and patient retention is smoother if staff remains in place.

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Valuation of a practice

If you are looking to purchase a practice, one of the biggest financial questions you will encounter is: Does the practice's value make economic sense? This is a very difficult question, for you are purchasing an intangible asset, in addition to acquiring the dental equipment, furniture and fixtures. You are also acquiring the “good-will” of the former practice — its policies and procedures, professional team and patients. It is very difficult to place a value on all of these items, and for this very reason, you should consider engag-

ing professionals who have the necessary credentials to assist you in establishing an accurate valuation of the practice.

Entity selection: corporation, LLC or sole proprietorship?

Be very careful here. This is a major decision, and you may be stuck with it for the rest of your practicing career. There are many circumstances that go into this decision, most of which are tax related, however, there are some legal considerations surrounding legal liability as well. Use your professionals appropriately, and consult thoroughly with both your CPA and attorney in making this decision. Consider having the attorney and CPA present for a joint discussion to evaluate and decide. It may be the best money you could spend on professional services.

Review of legal documents

Although it may seem counter-intuitive, a competent dental CPA has reviewed these documents multiple times and should be engaged to review yours, too. He or she can be very instrumental in identifying issues both financially and legally that will save you time and money in the future.

If you are purchasing a practice, some

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RESOURCE GUIDE

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items are often overlooked. How is the purchase price going to be allocated from a tax point of view? If there are sales taxes involved, who pays them? If announcements will be sent out, is the cost of processing these borne by the seller, the buyer, or both?

If you are looking to associate, then the documents will have many legal clauses contained within that are not easily understood. Be certain you understand each item. Some financial considerations are: How is your compensation derived? When do you get paid? What services do you get paid for?

Hiring a professional team

Your professional team, in addition to a CPA specializing in dental practice management, will likely include an attorney, a banker, an equipment specialist, a commercial real estate consultant, a design consultant, an insurance advisor and a dental broker. Your CPA can help you determine the responsibilities of each, how they bill for their services and, finally, when to engage them. When entering into a formal relationship with any professional, be certain to outline their responsibilities, terms and compensation in an engagement letter. By doing so, will avoid any misunderstandings between you and your professional representatives.

Employee vs. independent contractor

This question is not easily answered due to the circumstances and tax considerations in each case. For instance, if you are treated as an employee, your taxes will be withheld from your pay and you will receive a regular paycheck. If the appropriate amount of tax is withheld, there will be no need for you to pay quarterly estimates. On the other hand, if you are treated as an independent contractor, you will be responsible for paying your own taxes quarterly.

Establishing internal accounting controls

It is important to establish the appropriate internal accounting controls within your dental practice to protect your hard work

and investment by preventing employee theft and embezzlement. According to statistics, one-in-six dental practices is currently experiencing or will experience some form of embezzlement or fraud.

Selecting a CPA/accountant

Choosing a CPA is as personal an issue as choosing a dentist. On paper all dentists seem alike: they do extractions, fillings, root canals, etc. Yet in reality, they can be very different, as are CPAs. I recommend that you look for a CPA/accountant who specializes in working with dentists—or at least works with 50 or more dentists. This way, you can be assured they are equipped to be a business advisor with specialized knowledge of the business of dentistry.

To begin your search, start asking other dentists whom they use. Hopefully, you will start hearing the same names popping up. Ask the dentists if the CPA is timely and proactive in making suggestions. Ask how aggressive they are, and determine if that suits your comfort level. Another starting point is the directory of the Academy of Dental CPAs located at (www.adcpa.org).

Dentistry is not just about the clinical side of patient care. The business side of dentistry requires a vitally important set of knowledge and skills that often receives short shrift in dental curricula. At the beginning of your career, you face an array of choices and decisions, each with its own set of advantages and disadvantages, rewards and pitfalls. The business advice and coaching of a CPA/accountant who specializes in consulting with dentists can be no less than invaluable. ■

Allen Schiff is a Partner with Smart and Associates and is their Practice Leader for Dental Practice Management Services. Allen has over 30 years of expertise in the areas of medical and dental practice management. He is also a founding member of the Academy of Dental CPAs (ADCPA). This group of CPA firms across the nation specializes in practice management services to the dental industry. Allen can be reached at (410)296-6300, or visit www.smartassociates.com for more information.

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