finance

Choose with care

Dougie Paton gives a guide to buying or selling a practice.

Whether you are an associate looking to buy your first practice or a partner looking to retire there are a number of fundamental aspects to consider.

Buying

The approach will differ depending on whether the practice has been structured as a limited company or a partnership/sole trader. In the case of the former you will be buying shares (unless this is open to negotiation) and in the latter you are purchasing the trade and assets.

If you have a practice in your sights the first step should be to speak to your accountant. Unless you have liquid funds available it is likely you will have to borrow money to finance the purchase. Your accountant should be able to help you approach funders with an outline proposal. The banks will generally require a number of documents such as financial projections, a business plan, statements of your assets and liabilities and a CV. Again, your accountant will be able to help you prepare these documents. As banks are lending on an intangible asset, goodwill, they need to be satisfied the lending is, from their perspective, secure. Fortunately, even in the current climate, dentists tend to be seen as a reasonably good credit risk. However, banks are unlikely to lend 100 per cent of the required funds so will expect you to share the risk by contributing some of your own capital.

Next you should appoint a specialist valuer to obtain an accurate valuation of the goodwill. For most dental practices the bulk of the value lies in the goodwill with the other assets representing a small proportion of the sale price. According to the most recent National Association of Specialist Dental Accountants survey in 2009, on average goodwill in sale and purchase transactions was at a level of 94 per cent of practice turnover. The split of turnover between NHS derived and private fees can have a significant bearing on the value.

If a property is included in the purchase, naturally it also should be valued by an independent surveyor.

In the background, as all of the above is taking place, you may well be discussing the sale and purchase with the vendor, particularly if you are already working at the practice as an associate. Once an agreement in principle is reached with the vendor, your solicitor should draw up heads of agreement, again utilising the advice of your accountant. At this stage, if you are buying the shares of a limited company practice in particular, your accountant should carry out a due diligence exercise to 'kick the tyres' of the practice. This is important because in purchasing shares you are also purchasing the history of the company 'warts and all', which is not the case when purchasing the business and assets. For example, there may be historical liabilities which you should be aware of as you would be legally responsible for these if not extinguished prior to the sale. If you are buying the business and assets only, you may wish to carry out more limited diligence.

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Also, in the case of a limited company the legal sale and purchase agreement will most likely be far more extensive and may contain additional warranties on which your accountant and solicitor can advise.

In any purchase you will want to ensure maximum retention of the current patient list. For this reason, it may make sense to consider having an outgoing partner or proprietor continue with the practice for a period of time to oversee a smooth transition and help with patient retention. You should also be aware of your obligations to take on existing staff under their current employment conditions under the TUPE legislation; hence legal advice is critical also. In some practices, a practitioner's spouse may fulfill the role of practice manager so you need to think about how they would be replaced.

The tax position should not be ignored when buying a practice either. Given that a major part of the purchase price will be goodwill, under present tax legislation, a company purchasing goodwill can obtain a tax write off of the cost of goodwill, whereas a sole practitioner or partnership cannot. Also, with the present Government's intention to introduce a top rate of tax for individuals of 50 per cent, operating as a limited company could have significant tax advantages in the future. Once again, your accountant will be able to advise on what is best for you.

There's a lot to think about. Fortunately your professional➲

●Take advice to help make the transition (whether buying or selling) as smooth as possible.

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advisers are there to help. Given the complexities of dental practice there are advantages in using an accountant who is a member of NASDA. For example they will be able to guide you through the complexities of dental practice financial projections, and advise on available grant funding, amongst other things. NASDA also has a lawyers' group who specialise in the dental field.

Selling

The main objective of selling your practice is clearly to maximise the price obtained. It pays to plan ahead, ideally one or two years (perhaps more) before you intend to sell. The aim should be to build up practice turnover and profitability during this period so you are selling a business that has a clear pattern of growth. You should work with your accountant to make sure the accounts are presented correctly so you can maximise the sales value. Make sure the whole practice is knocked into shape so the buyer cannot find any 'skeletons in the cupboard' which could be used to bring down the price. Also ensure all your accounting records are up to date and you may wish to have the practice independently valued yourself by a specialist so you have a benchmark figure to work from.

Professional advisers who are familiar with dental practice will be key in guiding you through any proposed transaction and advising you on how you can maximise the value of your practice.

As noted above it may make sense to ask the purchaser to stay on for a period of time to smooth the transition and act as a link to existing patients. That said, an associate buying their existing practice already has this advantage in that they will already be familiar to most of the patients.

Make sure you understand the tax costs of disposing of your practice. Whether you sell the shares in your company or the business and assets there is likely to be a capital gain on which tax will have to be paid. In many cases, the gain will qualify for Entrepreneurs Relief, which has the effect of reducing the effective rate of tax from 18 per cent to just 10 per cent, but it is important to structure the transaction in a way that ensures the relief is available. Once again, you should seek your accountant's advice as to how best to do this.

Conclusion

Whether buying or selling a practice it pays to plan and prepare in advance with your specialist professional advisers. For purchasers it means knowing exactly what you are buying with no hidden surprises. For vendors the objective is to present the practice in the best light possible to maximise the selling price.

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