

Quarterly Supplement To

# Business, Legal, And Tax Planning for the Dental Practice

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The purpose of the Quarterly Supplement is to continually update the material contained in **Business, Legal, And Tax Planning for the Dental Practice**, Second Edition, as "free-standing" articles relative to current business, legal, tax and pending legislative matters that affect your practice. These Quarterly Supplements also reflect my ongoing experiences as an attorney representing dental and dental specialty practices. At times, articles will be written by friends who consist of tax attorneys, accountants, actuaries and dentists. The articles contained in the Quarterly Supplements are consistent with the chapters contained in my book, which you may download at [www.wickenslaw.com](http://www.wickenslaw.com) at no charge.



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## SPRING, 2008 In This Supplement

**Should I Establish My Practice?**

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## **SHOULD I ESTABLISH MY PRACTICE?**

When I started in the dental equipment and supply business in 1973, and throughout the later 70's and early 80's, it was much less costly and a better option to establish a practice than it was in the mid-80's until recently. Currently, there is a trend for entrepreneurial new dentists entering the profession to open a practice. Last year, I lectured at four dental schools and, in each class, there were three or four dentists who were planning to open on their own after graduation.

There exists a second group of young dentists opening their own practice. This is the young dentist who has been in one to three failed associateships. This dentist has clinical and some management experience, cannot find a practice to purchase in a specific geographic area, is frustrated by working for someone else and has develop sufficient confidence to take this calculated risk. Let's look at what I consider to be the benefits and risk factors, as well as what I hope are helpful tips.

### **Benefits.**

Once you establish your practice, it's yours forever and will be whatever you want it to be. You are not buying a selling dentist's problems, including potential mismanagement, lack of systems, substandard staffing and/or reduced fee plans. You are the boss and you can work at whatever level you choose. Professionals do like independence and you probably did not go to dental school to work for someone else, did you?

### **Risks.**

The biggest risk is that you can build it and the patients won't come. Then you go broke or, growth can be very slow. As you can see from the attached Figures, you need roughly 30 patients per month to "make it".

### **Tips.**

You can borrow the money and probably too much of it. The problem is that it must be repaid. To the extent that you take out a loan with a longer than shorter repayment term, make sure that there is no prepayment penalty. Let your licensed CPA be the "gatekeeper" of choosing and continually managing the repayment of the loan.

Plan well in advance and prepare a strategic business plan for not only the first year, but for the term of the loan, e.g., 10 years. This business plan will include revenue and expense projections, as well as equipment and build-out costs and their repayment. Update your strategic plan every year. See Chapter 12 of Business, Legal, And Tax Planning for The Dental Practice, 2nd Edition, on our Firm's website for the chapter on this topic. Note that the business plan starts with the mission statement, which is the topic of another discussion.

Make a choice to stay out of reduced fee plans or, if you do choose to participate in reduced fee plans, evaluate each plan carefully.

Always search for retiring dentists nearby where you can merge your practices. Your dental equipment and supply salesmen can be very helpful in locating such a dentist.

Consider starting out with roughly 600 square feet; 30' x 20' feet, with two treatment rooms. Move when cash flow permits.

Consider opening where you grew up and know people or in a rural area. Go where the other dentists are not; not where there are a large number of other dentists or specialists.

Understand that you will have a second job for roughly two years. Make sure that your employer understands that you are opening on your own and that your restrictive covenant will not interfere with your practice. They are enforceable, with few exceptions.

Get the help to develop and maintain practice systems through management consulting. This should be part of your operating budget.

Attached are Figures from my lecture materials, "The ABCs and XYZs For The Dentist". These Figures track the soon to be completed, hopefully one year from now, Chapter 20 of the 3rd Edition of Business, Legal, And Tax Planning for the Dental Practice.

The first is Figure 20-8, which shows the many individuals who will be involved in establishing, or relocating, the dental or specialty practice.

Figure 20-9 delineates the process of establishing the dental or dental specialty practice. Note that some of the steps will take place simultaneously.

Figure-20-10 delineates the cost categories of establishing, or relocating, a dental or dental specialty practice. Note that your accountant should consider "cost segregation" to allow for rapid depreciation of leasehold improvements faster than 39.5 years, assuming certain requirements are met.

Figure 20-11 is probably the most difficult projection because you are calculating the number of new patients and demand for patient services. Note that this example provides for a 15% reduction of patients per year from the prior year in Item 4.

Finally, Figure 20-12 provides for the first year budget based upon the conclusions contained in Figures 20-10 and 20-11.

Figure 20-8

**COORDINATION OF EFFORTS FOR RELOCATION  
OR ESTABLISHMENT OF PRACTICE FACILITY**



**Figure 20-9**

**ESTABLISHING OR RELOCATING THE DENTAL PRACTICE**

- I. Prepare Personal Budget and Financial Statement Which Will Delineate Income Requirements — Monthly/Yearly**
  
- II. Establishing the Practice Costs**
  - A. Dental Equipment, Office Equipment, Furniture and Technology
  - B. Dental Supplies, Instruments and Office Supplies
  - C. Leasehold Improvements/Remodeling Charges
    - 1. Plumbing
    - 2. Electrical
    - 3. Carpentry
    - 4. Decorating
    - 5. Painting, Wall Covering, Floor Covering, Ceilings
    - 6. Cabinetry — Non-Dental Equipment
    - \* Cost Segregation Study
  - D. Lease Versus Building Ownership — New Versus Existing Building — Single Tenant Versus Multiple Tenants — Lease Terms and Provisions
  - E. Total Costs
  
- III. Complete Demographic Analysis**
  - A. Income Study
  - B. Industry Study
  - C. Number of Dentists to Population
  - D. Access to Specialties
  - E. Short, Medium and Long Range Demographic Determination

**IV. Revenue Projection — Patients and Patient Charges**

- A. Realistically Assess the Number of New Patients Per Month/Year to Your Practice
- B. Determine How Many New Patients Per Month/Year That Are Necessary To Cover Your Costs
- C. Assess Monthly/Yearly Fees Per Patient — New Patient Exam Fees
- D. Determine Procedures Performed Versus Referred
- E. Assess How the Practice Will Be Paid — Fee For Service, Insurance, Reduced Fees
- F. Assess Collection Percentage and When the Practice Will Be Paid

**V. Determine Lending Requirements / Availability**

- A. Dental Lending Versus Commercial Bank
- B. Interest
- C. Loan Structure
- D. Term of Loan
- E. Governmental Loans — SBA, etc.
- F. Determine Working Capital Requirements (e.g., the First Four Months — Line of Credit)

**VI. Determine Entity Selection for Practice and Real Estate, If Applicable**

- A. Sole Proprietorship
- B. C-Corporation
- C. S-Corporation
- D. Limited Liability Company
- E. Partnership

**VII. Prepare Strategic Plan — Prepare 5-Year Budget — First 2 Years By Month; Then 10, 15, 20 Years. This Shows Necessity for Mission and Vision Statements**

**VIII. Determine Additional Income Requirements**

Figure 20-9

- IX. Project Analysis and Completion Dates — Sign Lease / Form Entity / Obtain Financing. What Else Do I Need To Do? Hire Staff?**
- X. Opening — Systems In Place!**

**Figure 20-10**

**COST EXAMPLE**

<b><u>Cost Categories</u></b>	<b><u>Costs</u></b>	
1. Dental Equipment, Office Equipment, Furniture and Technology .....	\$	100,000
2. Dental Supplies, Instruments and Office Supplies .....	\$	20,000
3. Leasehold Improvements / Remodeling Charges — 1,200 Square Feet @ \$100 Per Square Foot .....	\$	120,000
4. Working Capital Needs for First Four Months .....	\$	<u>60,000</u>
5. Total: .....	\$	300,000
6. 9% Approximate Monthly Loan Payment @ 7 Years .....	\$	4,827/month \$57,921/year
9% Approximate Monthly Loan Payment @ 10 Years .....	\$	3,800/month \$45,603/year

**Figure 20-11**

**REVENUE PROJECTION**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
1. New Patients/Month .....	10	20	25	30	35
2. Annualized.....	<u>x 12</u>	<u>x 12</u>	<u>x 12</u>	<u>x 12</u>	<u>x 12</u>
3. Yearly Patients.....	120	240	300	360	420
4. Less Reduction of Patients at 15% Per Year.....		<u>102</u>	<u>291</u>	<u>502</u>	<u>733</u>
5. Total Patients .....	120	342	591	862	1,153
6. Average Patient Value .....	<u>x \$ 500</u>	<u>x \$ 525</u>	<u>x \$ 550</u>	<u>x \$ 580</u>	<u>x \$ 610</u>
7. Yearly Production.....	\$ 60,000	\$179,550	\$325,050	\$499,960	\$703,330
8. Estimated Collection Percentage Each Year .....	<u>x 97%</u>	<u>x 97%</u>	<u>x 97%</u>	<u>x 97%</u>	<u>x 97%</u>
9. Estimated Collections	\$ 58,200	\$174,164	\$315,299	\$484,961	\$682,230

Assumptions:

1. I will need another job.
2. Fees increase at approximately 5%/year.
3. I need sufficient new patients to complete this project.

**Figure 20-12**

**FIRST YEAR BUDGET**

	<b>Month (Budget Each Month Separately)</b>	<b>Year</b>
1. Revenue.....	\$4,850	\$58,200
2. First Year Expenses:		
a. Rent And Occupancy Costs .....	\$2,000	\$24,000
b. Supplies (Dental And Office) .....	1,940	23,280
c. Salaries and Responsibly Related Employee Expenses.....	3,000	36,000
d. Laboratory Expense .....	1,940	23,280
e. Marketing.....	500	6,000
f. Insurances .....	300	3,600
g. Telephone / MIS .....	200	2,400
h. Other Miscellaneous Expense Categories.....	<u>500</u>	<u>6,000</u>
i. Subtotal: .....	\$10,380	\$124,560
j. Owner Profit.....		<\$ 66,360>
k. Retirement Plan Contributions.....		< ? >
l. Subtotal: .....		<\$ 66,360>
m. Loan Payment .....		< <u>\$ 57,921</u> >
3. Net Income / Loss .....		<\$ 124,281>