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## Are low producers draining your cash flow?

When choosing an associate for your dental practice, you need to know the answer to the following question: *What level of production will your associate generate after the initial break-in period?*

No matter how much the new dentist is loved by patients and staff and no matter how accommodating the associate is at looking after your emergencies, if the associate is a low producer, he or she is using up valuable space and staff resources.

In a professional hockey team, low scorers are traded quickly; however, I am amazed at the longevity of associates in many dental practices. The financial impact of an associate on your practice is measured on the “contribution to overhead” line. In short, after deducting the associate

Billings	\$10,000/mo	\$15,000/mo	\$20,000/mo	\$25,000/mo
<b>Expenses</b>				
Supplies (8%)	(800)	(1,200)	(1,600)	(2,000)
Staff (\$400/day x 12)	(4,800)	(4,800)	(4,800)	(4,800)
Associate Fee (40%)	(4,000)	(6,000)	(8,000)	(10,000)
Total Expenses	(9,600)	(12,000)	(14,400)	(16,800)
<b>Contribution to Overhead</b>	<b>\$ 400</b>	<b>\$ 3,000</b>	<b>\$ 5,600</b>	<b>\$ 8,200</b>

fees and direct expenses such as salaries and dental supplies, how much is the dentist contributing to the overhead?

Consider the above illustration with associate productions ranging from \$10,000 to \$25,000 per month. It’s amazing that an associate who doubles production from \$10,000 to \$20,000 contributes 14 times more

than the \$10,000-per-month associate. Maybe the time has come to hand the proverbial “gold watch” to your associate, so you can make room for a top producer. Low producers are not only a drain on your finances, they are also unsuitable candidates for transitioning into your practice because a practice buy-in will be beyond their financial reach.

### What we do best

- ▶ Help you plan and successfully execute your practice transition.
- ▶ Structure associateships and practice purchases.
- ▶ Prepare practice valuations and marketing prospectuses.
- ▶ Organize successful group practice arrangements.
- ▶ Provide you with leading-edge tax, financial and estate planning advice.



Manfred Purtzki  
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Associate

# Why you need to revamp your buy/sell agreement

Other than death and disability, the most common feature in a Buy/Sell Agreement is the Right of First Refusal. It means that if you want to leave a group practice, you must solicit an offer-to-purchase from another dentist. The other members of the group practice then have the first opportunity to purchase your interest if they do not wish the new dentist to join the practice.

If your exit strategy relies on this right of first refusal, then your retirement may be in jeopardy. With a looming shortage of dentists on the horizon it may take a great deal of time and, perhaps, become impossible to find a dentist who will be acceptable to the other cost-sharing partners. In fact, there are many dentists in this province who have been trying for years to find a successor.

When you plan your retirement from dentistry, you need to set a timetable; therefore, I suggest that you consider introducing a Retirement Clause into your Buy/Sell Agreement. Basically, this provision would state that if you cannot find a purchaser for your practice, the other practitioners in your group will be required to purchase your practice at a substantial discount. This discount may be as much as 50%, but you can retire when you want to and, at least, there is certainty that you can get some cash out of your practice.

## Power tips for saving more and spending less

*“Many people take no care of their money till they come nearly to the end of it, and others do just the same with their time.”*

– Johann Wolfgang von Goethe

If the cost of maintaining your lifestyle is increasing faster than your ability to finance it, drastic action is needed. Here are two strategies that have worked well with our clients.

- **The out-of-sight-out-of-mind plan.**

Write the first cheque from your practice account to your investment account, each month. Start with 5% of your monthly collections. If you feel that you can handle the payments, increase them. The idea is never to skip a payment. If you are short one month because of holidays, continue to make the payment from your line of credit.

- **The fixed-paycheque plan.**

Prepare a monthly budget of your personal and living expenses and, like any employee, put yourself on the payroll and take out of your practice no more than the budgeted amount. No cheating! As cash hopefully builds up in your practice account, arrange with your banker to automatically transfer the surplus into your investment account. If there is too much month left at the end of your paycheque, you need to tighten your belt.

Fortunately, macaroni and cheese now comes in a variety of exciting flavours!

## The cost of firing an employee

The fear that a severance package for a terminated employee might put them in the poor house has many dentists tolerating under-performing employees, rather than setting them free to be successful somewhere else. Here is a refresher on the minimum compensation you are required to pay when you terminate an employee.

The *Employment Standards Act* stipulates the required termination pay. You are not required to pay severance if you give advance notice of termination equal to the number of weeks to which the employee is entitled. So, if an employee is entitled to five weeks pay, you could give written notice five weeks prior to the termination date. No compensation is required if the employee quits, retires or is dismissed for just cause.

Making payments under the *Employment Standards Act* may not get you off the hook completely, however; an employee may still make a claim under the *Human Rights Code* or, worse, sue you for wrongful dismissal.

Length of employment	No. of weeks of pay
> 3 months	Nil
3 mos - 1 year	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9 or More	8

## Income For Life: Wealth Builder

If your goal is to step up your retirement savings without working any harder, you should consider enrolling in our **Income For Life: Wealth Builder** program. This program resulted out of our frustrations as advisors to professionals where, despite significant cash savings generated through pro-active tax and financial planning, many clients were not reaching their goals quickly enough. Because we were not involved in the implementation and monitoring of the financial plans, the savings generated were often absorbed into the household budget to pay for current lifestyle expenditures, rather than for the stated goal of wealth accumulation.

The five steps of our wealth builder program are as follows.

### ✓ Goal Setting

We meet with you to discuss your long-term lifestyle and financial objectives.

### ✓ Diagnosis

We thoroughly examine all aspects of your current financial life: your practice income and expense profile, your investment portfolio, your per-

sonal expenses, the taxes you pay, your financial commitments, practice and personal debts, your life and disability insurance coverage, etc.

### ✓ Prescription

We then provide you with our recommendations and the resulting benefits.

### ✓ Implementation

We next prepare a detailed plan to make sure that our recommendations are implemented. As the quarterback of your financial plan, we work with the other professionals on your team to ensure that implementation will be completed on time and within budget.

### ✓ Monitoring

We review the actual progress periodically and suggest remedial action, if required, to make sure you stay on course.

If, in the past, you have not been successful at generating a financial independence nest egg, you definitely should consider signing up for our wealth builder program. Call us today to enrol in our **Income for Life: Wealth Builder** program.

## The One-Minute Portfolio Manager

Had you spread your investment dollars evenly among the 14 groups of the TSE by investing in the largest companies based on market capitalization, you would have beaten the performance of 427 out of 499 Canadian mutual funds. You would have picked CN Rail with a gain of 73% and Biovail with an increase of 52%. On the other hand, Nortel would have been part of that portfolio with a drop of 75%. Overall, for 2001, the One-Minute Portfolio would have returned you 2.9%. The return may not look that great to you; however, the TSE dropped by 14%.

The TSE Allocation Method has consistently produced superior returns over the TSE Index.

## Q&A *ask the Experts*

### Writing off medical/dental expenses

**Q:** Is it possible to write off the cost of my kids' orthodontic treatments in my dental corporation?

**A:** Many dentists don't know that their practices can pay for medical and dental expenses, including orthodontic treatments for themselves and their families. The deduction is considered a premium under a Private Health Services Plan (PHSP), and your company can set up a PHSP with a third party, an insurance company, or through the "do-it-yourself" method. With a third party you can enter into a "cost-plus" arrangement, as follows:

1. the orthodontist bills the third party \$5,000;
2. the third party bills your practice \$5,500, which includes an administration fee of, say, 10% (the fees can vary); and
3. you reimburse the third party.

Rather than paying the additional fees, your dental corporation can also set up its own PHSP by simply passing a resolution of the Directors to establish such a plan. Written agreements with the employees – including yourself – must be in place, outlining the terms of their participation in the plan. Employees submit eligible medical expenses to the employer for reimbursement.

The expenses must fall in the category of "legitimate medical expenses" that include dental implants, laser eye surgery, eye glasses, fertility treatments, prescription drugs, nursing home care, just to name a few. MSP premiums do not qualify.

The super benefit of using the PHSP is the fact that the expense is not considered a taxable employment benefit. Unfortunately, the "homemade" version is not available for unincorporated dentists.

Call us, and we will send you – free of charge – an information kit to set up your own PHSP.

# Tax tips

## 1. Conventions

You are only allowed to deduct two conventions in a fiscal year. If you are planning to attend a third convention to participate in a seminar, the CCRA will not allow you to write off the cost of the seminar fees or the related travel, accommodations or meal expenses.

## 2. Transferring capital losses to your spouse

Your spouse can shelter capital gains taxes by utilizing the losers in your portfolio. Here's how it works. Say you sold your ABC shares for \$1,000 that originally cost you \$10,000, triggering a loss of \$9,000. Immediately after the sale, your spouse will acquire the same shares on the open market for \$1,000. Thirty days – this is important! – after your share sale, your spouse will sell the new shares for \$1,000. The tax rules say that you can't claim your \$9,000 loss, and that it will be added to the cost base of the new shares owned by your spouse. This means that when your spouse sells the shares for \$1,000, they will include a \$10,000 cost base, trigger-

ing a \$9,000 loss. Your spouse then can use the \$9,000 loss and apply it against the capital gains in the year, in any of the previous three years, or anytime in the future.

## 3. Tax-free gifts for employees

The tax department is raising the tax-free limit of non-cash gifts from \$100 to \$500 per year. Cash or near-cash gifts, such as gift certificates, are still fully taxable. Also, if you make a gift of \$550 to an employee, the full amount becomes taxable – not just the \$50 excess.

# Ingredients for practice success

1. Be passionate about what you want to achieve.
2. Have written visions and goals and share them with your team.
3. Hire only the best people.
4. Face the brutal facts. Don't procrastinate when making decisions to remove obstacles from your journey to practice success.
5. Continue building your skills and knowledge.
6. Turn patients into raving fans.
7. Celebrate success!

## Practice Opportunity

### Nanaimo, B.C.

Associate wanted for approx. 2-year transition. Present owner produces about \$4,000/day in a beautiful, new, mercury-free environment.

Nanaimo, located on scenic Vancouver Island, offers a family-oriented community, reasonably priced properties with incredible ocean views, and the best climate in Canada. Vancouver Island features year-round outdoor recreational activities including golf, boating, fishing, hiking, kayaking and skiing.

Interested? Submit your resume to

**Fax: (250) 755-1823**

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CHARTERED ACCOUNTANTS/PRACTICE CONSULTANTS

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