



Manfred Purtzki, CA

Negotiation tips for your practice transition

Whether it is an outright sale or an associate buy-in, how well you perform in the negotiations will determine the outcome of your practice transition.

Most dentists hate the negotiation process. They are uncomfortable with it and prefer to hire people to do it for them.

While a realtor would prefer your absence when showing your home to a prospect, you should not go into hiding when it comes time to negotiate the sale of your practice.

A dentist will be reluctant to invest in your practice unless he has established a relationship of mutual trust with you. People only buy from people they trust. A prospective purchaser of the dental practice does not acquire the patient charts, the equipment or leaseholds. He purchases the income stream. Your practice cash flow is generated from the

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Writing off your mortgage

You need \$1,000,000 of cash flow to pay off a \$300,000 mortgage

One of the most important financial planning steps you should take is finding ways to ease the burden of mortgage payments. There are proven strategies to make the interest on your mortgage tax deductible, and to repay the mortgage principal with the lowest after-tax rate. In light of the tax department's latest Interpretation Bulletin (IT-533), here are some creative ways to maximize your interest write-off.

The sale and buy back

Dr. A has 10,000 shares invested in B Corp. with a value of \$100,000. Dr. A also owns a vacation condominium with a \$100,000 mortgage. He sells the 10,000 shares of B Corp. and uses the proceeds from the sale to pay off the condo loan. Subsequently, he borrows \$100,000 to repurchase the 10,000 shares of B Corp. The interest is now tax deductible because the borrowed money was used to directly acquire the shares of B Corp.

Cash damming

This is a great technique, especially for unincorporated dentists, to convert a personal loan into a practice loan. Dr. J establishes two bank accounts. Her professional income is deposited into Account A, and funds are withdrawn to repay her personal loan. The practice expenses, including office overhead and staff salaries, are paid from Account B, which is funded by a practice line of credit. Since the borrowed money was used to pay for practice expenses, the interest deductibility test is met.

Sale to company

Dr. B owns real estate which cost \$300,000 and has a market value of \$500,000. She requires \$300,000 of borrowed money to purchase a new home. Dr. B sells the real estate to her dental corporation at an elected value of \$300,000. Her company borrows \$300,000 to pay for the real estate. She uses the proceeds to purchase the home. The interest ex-

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Purtzki & Associates

CHARTERED ACCOUNTANTS

5th Floor Park Place
666 Burrard Street
Vancouver, BC V6C 3P6

Phone: (604) 669-7558
Fax: (604) 669-7445
Email: purtzki@purtzki.com

Suite 2
92 Roberts Street
Nanaimo, BC V9R 2S5

Phone: (250) 754-1951
Fax: (250) 754-1577
Toll free: 1-888-668-0629

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long-term relationships you have with your patients and your dental team. You are asking the purchasing dentist to step into your shoes. So, of course, he needs to find out everything about you, the owner.

Here are some tips to help you in your negotiations.

- **List your objectives.** Put the key issues you want to address in the negotiations into three categories: the **must have** objectives, such as: "I must have at least \$350,000 for my practice". Then there is the **like to have** category, such as: "I like to have a two-year associate-ship after the sale". The **throw-aways** are in the third category, which are issues you don't care much about but are maybe important to the purchaser and, therefore, can be used as bargaining chips for gaining concessions on the other issues.
- **Conduct the negotiations in a cooperative and caring manner.** The purpose here is to establish and maintain that trust relationship, which is so crucial for a successful completion.

- **Always take notes.** It shows you care and are serious about what the other party has to say. To confirm your understanding, read back your notes to him. Having the negotiations documented will also help you get to the next step of preparing the letter of intent.
- **Use the "good guy – bad guy" routine.** You say something like: "Dr. Purchaser, in response to your offer of \$300,000, I don't know the market value of my practice, so I rely on my practice consultant who tells me that I should not be selling for less than \$350,000." By shifting a thorny issue to another person who is not in the room, you maintain the role of the good guy and maintain the relationship with the purchaser.
- **Slow down your responses.** Negotiating a dental practice is not like a quiz show on TV where split-second answers count. Time is a powerful ally in negotiations. Never feel pressured to come up with a quick response to the purchaser's position. Even if you are a quick study and can come up with

an immediate response, look at your watch and wait at least five minutes before responding to any offer on a major issue. The ensuing silence will often put the purchaser off guard, possibly softening his position. It also provides you with the opportunity to give a more carefully thought out, measured response.

- **Stay in the negotiations and maintain your composure when you hit a roadblock.** Don't turn over negotiations to a lawyer or accountant. Negotiating the sale is not a zero-sum game of winning and losing, conjuring up the image of Gary Cooper's shoot out in High Noon.

As a facilitator in practice transitions, I often coach dentists to overcome these obstacles. So embrace the negotiation process. Look forward to it. Keep in mind that the bonding that takes place between you and the other dentist during negotiations is like Krazy Glue keeping the deal together and ensuring a successful outcome.

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Contact: Dawn
Tel: (250) 385-3361

Patient satisfaction is worthless . . .

If you want patients to love you, keep coming back, and tell everyone about you, I recommend you read the book by Jeffrey Gitomer entitled *Customer Satisfaction is Worthless, Customer Loyalty is Priceless*. Gitomer's point is that businesses are too concerned with "customer satisfaction" when they should be concerned about "customer loyalty". Satisfaction is the lowest form of loyalty. Satisfied customers will shop anywhere, while loyal customers will fight-before-they-switch and will endeavour to get other people to do business with you also. Satisfied customers are apathetic; loyal customers are your advocates.

Satisfied patients feel OK about coming to your practice. Their needs were met. The service was OK. The experience was OK. They are satisfied with their treatment, and they may or may not talk about the experience. Their overall feeling is be-

tween neutral and positive—not bad but not great.

Loyal patients on the other hand feel great about coming to you. The experience was great. The service was great, and they are ecstatic with the treatment. They will go out of their way to refer someone to you.

Here are some of Gitomer's principles for customer service success.

- ✓ **Your patient is your pay cheque**—Do you recognize that your practice is worthless and your wallet is empty without the funds provided by your patients?
- ✓ **Positive attitude**—Positive attitude is the foundation of your practice success and ensures you the greatest possibility of creating patient loyalty.
- ✓ **Word-of-mouth advertising**—This is 50 times more powerful than regular advertising. Memo-

rable customer service creates favourable word-of-mouth advertising. What's the word on the street about you? How many people have called you out of the blue for an appointment? How many people tell you the positive stories they've heard about you?

- ✓ **Your friendliness and willingness to help**—This is in direct proportion to your success.
- ✓ **Service is a feeling**—And you know what it is, whether it is good or bad. Remember how you felt the last time you were given great service? Try targeting 5 patients and create a simple plan to make them feel great.

Customer Satisfaction is Worthless, Customer Loyalty is Priceless will change your perception about customer service. It is a must-read for all your staff.

MORTGAGE *cont'd from page 1*

pense is deductible in the corporation. By electing the transfer value of the asset at the tax cost, the transaction does not trigger capital gains that normally would apply if the property was sold to a third party.

Share sale

Dr. B holds all the shares of Dental Inc. The shares have a value of \$300,000. Dr. B sells the shares to family members (spouse and children) for \$300,000 in exchange for a promissory note. There is no tax on the sale as Dr. B is able to claim his \$500,000 capital gain exemption. The family members borrow \$300,000 to repay the promissory note, which repays the house mortgage. The interest on the \$300,000 loan is deductible since the money was used to purchase shares.

Payment of dividends

The dental corporation borrows money to pay dividends to the share-

holders, who use the funds to pay off personal loans. The interest is deductible in the company as long as the dividend is paid out of the accumulated profits or retained earnings of the company. Check the "retained earnings" amount in the shareholders' equity section of the practice balance sheet. You cannot borrow money and deduct the interest if the bank loan exceeds the retained earnings. The payment of dividends to family members in the low tax bracket not only achieves the interest deduction, but it also reduces the personal tax on the dividends received.

The equity strip

This strategy works well where the dentist has injected his/her own capital, usually in the form of a shareholder loan, into the corporation. Consider the following transactions:

1. The company takes out a temporary loan of \$200,000 to repay the shareholder loan;
2. The shareholder (you) uses the proceeds to repay your mortgage;
3. You take out a new mortgage on your house and invest the funds in the company;
4. The company uses the new mortgage proceeds to repay the loan.

Nothing has really changed in your debt structure, except the house mortgage is now tax deductible on your personal tax return. And writing off the interest on your loan results in a 40% discount on the interest rate; e.g., deducting the interest on a 5%, 25-year, \$300,000 mortgage will shorten the life of the mortgage by 7 years.

Look at your financial situation and use the appropriate strategy to make your personal loans tax deductible. Give us a call if you need assistance.

Visit our booth at the Pacific Dental Conference, March 4 & 5

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RETURN REQUESTED

Suite 2
92 Roberts Street
Nanaimo, BC
V9R 2S5
Phone: (250) 754-1951
Fax: (250) 754-1577
Toll free: 1-888-668-0629
Email: purtzki@purtzki.com

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