How To Avoid Embezzlement And Keep Your Dental Practice Afloat

A survey conducted among U.S dentists asked this question: Has your dental practice ever been embezzled? 59% of dentists in the survey responded: "Yes, I have discovered theft in my practice." Only 41% replied, "I am not sure: I have never been able to prove an embezzlement took place."

To protect yourself against theft, you need to establish internal controls. The goal of internal controls is to keep track of cash. Your cash disbursement controls make sure the practice only spends money with proper authorization. Revenue controls make sure that all treatments are billed correctly, collected promptly, and deposited into your bank account. Effective controls will dissuade employees with sticky fingers from diverting practice cash into their own pockets.

Many dentists unfortunately don't pay attention to internal controls, but with hundreds of thousands of dollars flowing through the practice you must not ignore them.

Purtzki & Associates will conduct a review of your internal controls with our audit tools specially designed for dental offices. We will make recommendations and suggestions for implementation to strengthen the financial controls of your practice.

RETURN REQUESTED

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Practice Ownership: The Associate's Biggest Challenge

Young associates seem to have lots to worry about: the rising student debts which average about $135,000 for each dental graduate, the scarcity of practice purchase opportunities, the climbing cost of practices (for as much as 75% of gross billings), the lack of affordability of desirable accommodation, and the competition for associate positions, especially in urban centers.

In the Journal of the American College of Dentists, for instance, Dr. Workman, president of Heartland Dental Care, observes that, "we have entered an era where the majority of graduating dentists will never own or build their own practice due to education debt, cost of buying a dental practice and the responsibilities and risks of ownership."

It seems that owning your practice is no longer the traditional birthright of the new dental graduates.

I have arrived at the opposite conclusion to that of Dr. Workman et al. Keep the associateship period as short as possible, and purchase a dental practice as quickly as possible. You can't afford not to, especially when you are looking for relief from the financial pressure. As an associate, you can probably earn $140,000, which is based on 40% of your net production of $350,000. As an owner, for $500,000 you can purchase a nice practice generating $700,000 of revenues. After deducting the 60% overhead of $420,000, and the debt servicing of $70,000, you still a generate an income of $210,000, which is 50% more than under the associateship scenario. When you transition from an associate to a practice owner, your production is expected to increase, in my experience, by an amazing 20% to 30%, all reflecting the increased motivation and drive practice ownership produces.

Even if you have significant student debts, and no discernible assets, Canadian banks will be very keen to lend you the full amount of the purchase price. In the unlikely event, that you are not able to raise all the financing, the vendor of the practice will gladly provide you with financing a portion of the purchase price.

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Maximizing Wealth for Dentists

You're Fired! Learning the art of making staff changes

Employee termination. Probably the most hated aspect of dental practice management and a task that requires specific skills. The challenge is to ensure a smooth exit for the outgoing employee without causing upheaval and discomfort in the office. You also want to ensure that the employee exits with her ego intact, and without filing a lawsuit for severance.

Here are some strategies that will help you get through this unenviable undertaking.

Be prepared

The meeting will likely be stressful, so don't wing it. Rehearse the conversation, have the required paperwork ready and write down your thoughts beforehand.

Employee should leave immediately.

Ensure that the employee leaves the practice immediately following the meeting. A dismissed employee with nothing to lose is like a loose cannon. They have the potential to inflict great damage to staff morale and practice reputation, not to mention sabotage security, computer systems, and patient files .

Be sensitive to timing.

If possible, be sensitive to issues and important dates in the employee's life and choose a date that will minimize stress on the employee. Avoid holidays and vacations. Steer clear of Fridays firings because the employee would be unable to obtaining counselling and could spend the whole weekend worrying, build up anger and resentment. Rule of thumb is to terminate at the end of the work day when other employees have left and therefore embarrassment is minimized.

Never lose your cool

The more hostile you become, the greater the likelihood that the employee will file a lawsuit. Treat the person with dignity. Termination is a traumatic event and showing respect and compassion for the exiting employee will further cut down on her distress and resentment. There are instances where the courts have increased the award for mental suffering in cases where an employer terminated his employee in an arrogant or insensitive manner.

Choose a neutral site

Select a location that provides privacy and allows the terminated employee to exit without the humiliation of facing the other staff. I recommend conducting the termination meeting in a neutral area, like a staff room and have another staff member present as a witness. Don't hold the meeting in your office, as you run the risk of being held "hostage" in your office by an emotional employee.

Keep it short and to the point

Keep the termination interview to less than three minutes. Don't begin the meeting with the normal small talk. A termination interview means giving the employee her final pay cheque, which includes severance and holiday pay, thanking her for her service, and wishing her well for the future, while maintaining a friendly demeanour. Don't expose yourself to a wrongful dismissal suit by getting involved in a debate about the reason for the dismissal. Do give the employee a chance to vent and by using your "active listening" skills you will take some of the wind out of the sails.

Don't fire for cause

Don't fire an employee for cause unless the infraction is blatant, i.e. embezzlement. On the one hand, you save the "in lieu of notice" pay, if your case holds up in court. On the other hand, a court ordered severance obligation might be severe. Laziness or absenteeism is not a reason to fire an employee, unless the employee had sufficient warnings.

Many dentists procrastinate the inevitable termination. You need to adopt the mind-set that termination is a positive move for both the practice and the exiting employee. The practice has room for a better employee, and the departing employee has the opportunity to be successful elsewhere.

One In Five Dentists Can't Afford To Retire.

In a recent survey, "The Wealthy Dentist" polled dentists about their retirement plans. Two-thirds of dentists responded, stating that they expect to choose keep working part-time to keep them busy. Only 13% replied that they're on track financially and will retire completely once their financial goals are fully met. In other words, one in five dentists would like to retire, but aren't sure they will be financially able to afford it.

The dentists were also asked about their target retirement age. Specialists are the luckiest! They are planning to retire an average of six years before their colleagues practicing general dentistry.

What's your target retirement age?	
Average:	**63** years old
General Dentists:	**64** years old
Specialists:	**58** years old

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Smart Strategies To Move Corporate Dollars To Your Personal Account.

How do I take out funds from my corporation with the least tax cost? The question seems straightforward, but to find the right answer is not easy. Because so many factors need to be considered, and because CRA's assessment practices are changing, the planning of cash withdrawals to the dentist and family members is challenging.

You have to ask yourself these three questions:

1. How much money should be taken from the corporation?
2. To whom should the payment be allocated for tax purposes?
3. What should be the nature of the payment? i.e. salary, dividends, capital gains, shareholders loans etc.

Is the dentist better off receiving compensation from the dental corporation in the form of dividends or salaries? In B.C. it makes no difference, whether he receives funds from the corporation as a salary or a dividend.

Does CRA require the dentist to take a salary from the corporation? According to its administrative position, the dentist's salary should be reasonable and be documented in an employment agreement. In practice, the tax department does not seem care if the dentist draws a salary at all. This conclusion is supported by a court decision in favour of a specialist, who took a small salary from his corporation, which did not reflect his earnings capacity.

On the other hand, salaries to other family members, including children, must meet the strict reasonableness test. So what is a reasonable salary? Is it the amount the corporation would pay for the same services to an arm's length employee? In one tax court case, the judge found that family members are more valuable to the business than non-family members and this will justify a larger salary. The bottom line is that you can pay a bit more to your spouse and children as long as you are not too aggressive in your income splitting exercise.

Should you take an additional salary amount from the company in order to maximize your RRSP contribution?

Consider the following scenario. This B.C. dentist only needs to take a $50,000 salary out of his dental corporation, considering his personal cash needs and the opportunity to split income with family members. He wishes to increase his salary to $111,111 so that he can benefit from the full $20,000 RRSP deduction. Is he better off taking the additional salary, or should the funds be retained in the corporation? The answer is that he would be better off leaving the funds inside the corporation than removing them for purposes of maximizing his RRSP contribution.

The following figures illustrate the effect of this dentist taking an additional $61,111 salary:

Personal tax on
additional salary $21,202

Less reduction
in corporate tax .... ($10,755)

Less benefit of additional
RRSP contribution .... <u>($4,395)</u>

Additional tax cost .... <u>$6,052</u>

In this dentist's case, the extra tax cost of making the maximum RRSP contribution is $6,052. You can make your own calculation for your specific circumstances. Usually, it is financially wisest to simply make an RRSP contribution on your existing salary while you take advantage of the tax deferral benefits of retaining funds inside your dental corporation.

Here is a summary of considerations when transferring funds from the corporation:

1. Only draw funds from the corporation to pay for personal and living expenses. Retain surplus funds in the corporation to maximize tax deferral benefits.
2. Take advantage of the increase of the small business tax rate of 15.5% in 2008 on the first $400,000 of corporate income, by keeping the salary to the dentist to minimum, and maximize the dividend payout to other family members. Ideally all family members incl. the dentist should be in the same tax bracket.
3. Don't take any additional salary in order to maximize RRSP contributions.
4. Avoid payment of management fees to dentist, family members, and related corporations.
5. When making unusually large cash withdrawals from the corporation, consider implementing a strategy to have these funds taxed as capital gains rather than dividends, and save as much as 10%.