



Manfred Purtzki, CA

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PAY OFF YOUR DEBTS QUICKLY AND START LIVING.

“Always live within your income, even if you have to borrow money to do so”. - Josh Billings

Bank loans and mortgages are a fact of life for most of us and dentists are no exception. Most

young dentists start their career with no assets and student loans. It is not uncommon that dentists retire once they have paid off their debts.

Here are a few strategies for taming the debt monster, so that you have more money left over for exotic vacations, the house renovation, or to boost your retirement savings.

1. Limit the servicing of your personal debts to 30% of your income.

If your net practice income before income tax is \$200,000, your monthly payments for personal loans and the house mortgage should not exceed \$5,000. This payment allows you to

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WHY PATIENTS CHOOSE YOU.

Why are some dental practices growing 9X faster than other practices in the same community, are 50% more profitable, and yet spend less than the average on advertising and promotion?

To find the answer to this question, Lee Frederiksen, a PhD at Virginia Tech, conducted three years of research to determine the elements which create a high growth professional services firm. His findings are contained in the book: *“Spiraling Up”*.

What patients are looking for is expertise, and experience. It does not mean that the dentist with the greatest technical experience will get the lion's share of new patients, because most patients are not equipped to evaluate the technical expertise of the dentist. On the flip side, patients want to avoid poor results and failure to solve their problem.

So what do patients really want?

Based on his research results, patients are looking for answers to three fundamental questions.

1. Can you fix my problem?

The selection criteria are aimed at answering this question: Do you understand my situation?

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WHAT WE DO BEST

finance loans up to \$800,000, assuming an interest rate of 5%. Accounting for debt servicing of 30% and income taxes of 30%, you only have 40% or \$80,000 left to fund personal living expenses and retirement plan contributions. Needless to say, it is a challenge to make ends meet and save for the future on a budget of about \$6,500 per month.

2. Transfer debt to the Corporation

Whenever possible consider having the debt in the corporation rather than in your personal name. The loan principal must be paid with after-tax dollars, regardless of whether the loan is personal or corporate. Assuming a corporate tax rate of about 13.5%, your company only requires \$350,000 of before tax income to pay off a \$300,000 loan. At a personal tax rate of 44%, you need \$535,000 of your practice income to pay the debt. Ideally the only personal debt you



should have is your house mortgage. It is not advisable to have your corporation own your home, because of a significant personal tax benefit and the loss of a tax-free sale in the future. On the other hand, if you purchase a recreational property mainly for rental or occasional personal use, make sure your corporation owns the property so that you get the benefit of paying off the mortgage with more favorable after-tax dollars. If you have personal investment loans, transfer the investments and the related debt to the corporation. There is a special tax election that will exempt you from any tax of selling your investments to the company.

3. Make the debt tax deductible

Discuss with your tax advisor the various options to convert your personal debt into a tax deductible corporate loan. Below are a couple of tax deductible scenarios. Your remaining mortgage is \$200,000 on your personally owned rental property that you purchased originally for \$500,000. You also have a house mortgage of \$300,000. The corporation will purchase the rental property for \$500,000, assume the existing mortgage, and take out a new corporate loan of \$300,000. The proceeds from the sale are tax-free and you can use the \$300,000 to repay the mortgage. As a result of this transaction, you now have essentially converted a \$300,000 non-deductible mortgage into a deductible \$300,000 corporate loan.

If you do not own investments that can be transferred to the corporation but have children attending university, the following scenario may appeal to you. Suppose you have three children aged 18 or over who have little income. Your corporation borrows \$300,000 and pays a dividend to your family trust with

your children as beneficiaries. The trust pays \$300,000 to your children that will be used to repay your mortgage. The children's combined personal tax is about \$45,000. A tax saving of \$50,000 if you had to report the dividend income on your tax return. In this scenario, you not only converted the personal mortgage into a corporate debt, but you may also benefit from the interest deduction on this corporate loan.

4. Pay off debt at the lowest personal tax rate.

If you do not have the opportunity to transfer your personal debt into the corporation, consider minimizing the personal taxes on any funds you withdraw from your corporation by allocating the income to family members in the lowest tax bracket. There used to be a great income splitting opportunity by allocating income to minor children, but effective March 22, 2011, the latest federal budget proposals prohibit such manoeuvres. However, the legal rules regarding dental incorporations have been relaxed to allow more family members to become shareholders. It is therefore a great opportunity to split income with siblings, aunts and uncles, and in-laws, who are in a low income tax bracket.

The key in managing your debts is to find ways to pay off your loans with the least amount of your precious practice cash flow.



TEAM PROFILE

Leif started with the firm in 1997 as an articling student and went on to earn his CA designation in 2000. Over the past 14 years with Purtzki & Associates, Leif has honed his skills as a trusted advisor to dentists. He offers practical and creative solutions to the particular problems dentists encounter with income taxes, practice management issues, personal and practice finances, and practice transition issues. Leif has extensive experience with effective tax planning and corporate reorganizations.

*Leif Johansen, CA
Managing Partner*

His rise to the top position in our firm reflects his strong work ethic. Leif uses a no-nonsense, "what's best for the client" approach to solve today's issues for our dental clients.



Why Patients Choose You. Continued from page 1

Have you solved a similar problem before? Do you have the skills to do the job? You have to convince the patient that you can and will solve his or her problems.

2. Will you make my life easier?

The patients' next biggest concern is how difficult, painful or expensive the process will be. Issues include such things as cost and availability.

3. Do I enjoy you as a person?

Relationships matter. But they do not trump your ability to meet the first two criteria. If patients like you, they may give you preference, but they are not going to retain you, if they don't believe you can solve the problem. Nor are they likely to choose you, if your price is significantly higher or you come across as inflexible or arrogant.

Referred patients are the best, as they will easily accept the treatment recommendations. There are some patients so enthusiastic about the practice that they refer you without prompting.

When asked why people don't refer, slightly less than three quarters of the respondents in the research said that nobody had asked. Most people don't go out of their way to make a referral but when asked, they would gladly make one.

You have a patient who is totally happy with your practice. Then you find out that the patient went to another dentist for implants, a service, you also can offer with your eyes closed. So what happened?

The research shows that over 85% of the time practices already offered what the patient wanted—only the patient did not know it. When you want to expand the patient relationship by offering additional services, keep this in mind: it is not your patient's responsibility to figure out how you can help. That is your job.

Marketing the qualities of your staff, or the new dental equipment and office decor are not factors in the patient's decision to choose your practice.

IS THE OFFICE PARTY A TAXABLE BENEFIT?

Your office party or other social event such as the Christmas function will not trigger a taxable benefit to your staff, if the cost per employee does not exceed \$100. The \$100 cost includes room rental, food, drinks and entertainment expenses. The extra costs of providing overnight accommodation or the taxi ride home are not included. If the cost per employee is \$150, then the full amount must be reported on the T4 as a taxable benefit.



SAME FACES... SAME NUMBER...

On April 15th Purtzki & Associates relocated to a new office at 570 Granville Street, right in the heart of downtown Vancouver. The larger office allows us to expand and accommodate our growing client base in Vancouver and the Lower Mainland.

PRACTICE OPPORTUNITIES

ALBERTA

- Turnkey practice opportunity, financially solid, owner retiring

ALDERGROVE

- Well established, 3 ops, dentist retiring

BURNABY

- Associate for modern and highly productive family practice - SOLD

CAMPBELL RIVER

- Great cash flow, 4 ops, building ownership available - SOLD

COURTENAY

- 5 ops, great location, building available, owner motivated

COMOX

- 3 ops, for sale with real estate - SOLD

NANAIMO

- Growing family practice, 3 ops, ample parking - SOLD

NANAIMO

- 3 ops, well established family practice, owner retiring - SOLD

NORTH VANCOUVER

- 4 ops, 1,500 sq/ft, family practice, solid hygiene - SOLD

NORTH VANCOUVER

- Part-time, 2 day/week, 2 ops, building available

NORTHERN BC

- Fast growing community, only practice in town, owner retiring

RICHMOND

- Desirable location, associate buy-in, well managed growing practice

SURREY

- Busy family practice, 4 ops, low overhead

DOWNTOWN VANCOUVER

- State-of-the-art dental practice, associate buy-in, great new patient flow

VANCOUVER

- Prostho, beautiful space, strategic location, high gross, high net, doctor retiring

VANCOUVER

- Part-time associate with future buy-in opportunity

VICTORIA

- 4 ops, 1,100 sq/ft, owner retiring - SOLD

VICTORIA

- 5 ops, upscale facility, Oak Bay, real estate available

