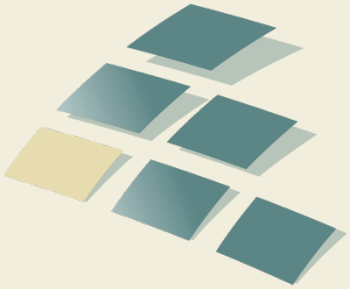


DG Advisors LLC

Proactive Tax & Profitability Solutions™

A DENTAL GROUP COMPANY

DENTAL PRACTICE FINANCE 301
FINANCIAL STRATEGIES FOR NEWER DENTISTS

November 12, 2021

BY: Sam Martin, MBA(tax), CFP®, CPA

Speaker's Notes

- Email: mail@cpa4dds.com for a complete set of speaker's notes on this portion of the presentation. Make your subject line: Young Dentist Speaker's Notes Please!

Understanding Overhead & Profitability

- Why Do We Care About Overhead & Profitability?
- Cash Flow is the Foundation for Everything…

Understanding Overhead & Profitability

What is (direct) Overhead?

- Those expenses that are necessary to operate the practice on a day-to-day basis:
  - Staff Costs
    - Wages, taxes and benefits
  - Facility Costs
    - Rent and utilities
  - Other Operating Costs
    - Variable: (Supplies, Lab, Biz Taxes, Office, Bank Fees, Repairs)
    - Fixed: (Professional, Marketing, Telephone, Dues, Insurance, Uniforms, etc.)

Understanding Overhead and Profitability

- What is Not (direct) Overhead?

  - Those expenses that are arbitrary; represent doctor compensation or benefits or are related to financing or non-cash tax deductions Doctor salary or draw and taxes
    - Doctor perks and benefits
    - Costs of Financing
    - Depreciation and amortization

Understanding Overhead and Profitability

- **Apples to Apples**
  - The definition of overhead (or operating profit) is important to be able to analyze a practice
    - Yours or one you might purchase

	Practice 1		Practice 2	
Patient Receipts	600,000	100.00%	600,000	100.00%
Staff Costs	168,000	28.00%	168,000	28.00%
Fixed/Semi-Fixed	75,000	12.50%	75,000	12.50%
Variable Direct Costs	118,000	19.67%	118,000	19.67%
Total Overhead	361,000	60.17%	361,000	60.17%
Operating Cash-Flow	**239,000**	**39.83%**	**239,000**	**39.83%**
Dr. Salary	(185,000)	-30.83%	-	0.00%
Dr. Benefits	(20,000)	-3.33%	(5,000)	-0.83%
Automobile	(12,000)	-2.00%	(1,000)	-0.17%
Travel	(15,000)	-2.50%	(500)	-0.08%
Loan Interest	-	0.00%	(32,500)	-5.42%
Depreciation	(10,000)	-1.67%	(100,000)	-16.67%
Net Income	(3,000)	-0.50%	100,000	16.67%

Understanding Overhead and Profitability

Apples to Apples

- When reviewing financial statements and tax returns, there are differences between practices that need to be filtered out and/or "normalized".
- One significant difference is the type of tax entity. An incorporated practice will include the doctors salary and payroll taxes, whereas an unincorporated practice will not (sole proprietors and partners in partnerships simply "draw" the profit from the practice – which is not reflected as a tax deduction).
- Another difference between practices is debt. Notice that practice two has loan interest and practice 1 does not. When you purchase a practice, the existing debt will be paid off and therefore the selling doctor's debt is filtered out as it does not affect you the buyer.
- Another sometimes significant item on the tax return or financial statement is depreciation. This is a "non-cash" income tax deduction that must be filtered out.
- One of the more challenging items can be to accurately ferret out the "perks" that a doctor is providing for him or herself. Some may be obvious: Automobile, travel, entertainment. Some may be commingled with staff benefits such as medical and other insurances or in staff pay (spouse or other family member compensation).

Understanding Overhead and Profitability

- **Overhead Formula**

$$\frac{\text{Direct Operating Overhead}}{\text{Net Collections}} = \text{Overhead Percentage}$$

- **Example:**

$$\frac{\$361{,}000}{\$600{,}000} = 60.16\%$$

Understanding Overhead and Profitability

- **Production and Collections:**

Staff Member	Typical Range Hourly Production		Typical Range Daily		Typical Range Annual	
Doctor	$ 275	$ 500	$ 2,200	$ 4,000	$ 422,400	$ 768,000
Hygienist	100	150	800	1,200	$ 153,600	$ 230,400

Understanding Overhead and Profitability

- **Practice Examples**

Practice 1

Staff Member	Hourly Prod	Daily Prod	Monthly	Annual Prod	Cost	# Employed	Actual Prod	Actual Cost	%
Doctor	$ 250	$ 2,000	$ 32,000	$ 384,000	$ -	1	$ 384,000		
Hygienist	125	1,000	16,000	192,000	79,258	-	$ -	-	
Assistant	-	-	-	-	36,864	1		36,864	
Front Desk	-	-	-	-	33,178	1		33,178	
Office Manager	-	-	-	-	44,000	-		-	
Grand Total							$ 384,000	$ 70,042	18.24%
								313,958	

Practice 2

Staff Member	Hourly Prod	Daily Prod	Monthly	Annual Prod	Cost	# Employed	Actual Prod	Actual Cost	%
Doctor	$ 350	$ 2,800	$ 44,800	$ 537,600	$ -	1	$ 537,600		
Hygienist	125	1,000	16,000	192,000	79,258	1	$ 192,000	79,258	
Assistant	-	-	-	-	36,864	2		73,728	
Front Desk	-	-	-	-	33,178	2		66,355	
Office Manager	-	-	-	-	44,000	-		-	
Grand Total							$ 729,600	$ 219,341	30.06%
								510,259	

Understanding Overhead and Profitability

- **Practice Examples**

Practice 3

Staff Member	Hourly Prod	Daily Prod	Monthly	Annual Prod	Cost	# Employed	Actual Prod	Actual Cost	%
Doctor	$ 350	$ 2,800	$ 44,800	$ 537,600	$ -	1	$ 537,600		
Hygienist	125	1,000	16,000	192,000	79,258	2	$ 384,000	158,515	
Assistant	-	-	-	-	36,864	2		73,728	
Front Desk	-	-	-	-	33,178	1		33,178	
Office Manager	-	-	-	-	44,000	1		44,000	
Grand Total							$ 921,600	$ 309,421	33.57%
								612,179	

Practice 4

Staff Member	Hourly Prod	Daily Prod	Monthly	Annual Prod	Cost	# Employed	Actual Prod	Actual Cost	%
Doctor	$ 500	$ 4,000	$ 64,000	$ 768,000	$ -	1	$ 768,000		
Hygienist	150	1,200	19,200	230,400	79,258	2.0	$ 460,800	158,515	
Assistant	-	-	-	-	36,864	3		110,592	
Front Desk	-	-	-	-	33,178	1		33,178	
Office Manager	-	-	-	-	44,000	1		44,000	
Grand Total							$ 1,228,800	$ 346,285	28.18%
								882,515	

Understanding Overhead and Profitability

Practice Examples

PRACTICE 1:		
Production Doctor	$ 384,000	
Production Hygiene	-	
Total Production	384,000	32,000
Collections at 98%	376,320	100.00%
Staff Costs	(70,042)	**-18.61%**
Fixed Direct Costs	(25,000)	-6.64%
Variable Direct Costs	(67,738)	18.00%
Facility Costs	(35,000)	-9.30%
Total Overhead	(197,780)	-52.56%
Operating Cash-Flow	**$ 178,540**	47.44%

1 RDH 2 Assist OM up front

PRACTICE 2:		
Production Doctor	$ 537,600	
Production Hygiene	192,000	
Total Production	729,600	60,800
Collections at 98%	715,008	100.00%
Staff Costs	(219,341)	**-30.68%**
Fixed Direct Costs	(25,000)	-3.50%
Variable Direct Costs	(128,701)	18.00%
Facility Costs	(35,000)	-4.90%
Total Overhead	(408,042)	-57.07%
Operating Cash-Flow	**$ 306,966**	42.56%

Understanding Overhead and Profitability

- **Practice Examples**

2 RDH 2 Assist 2 up front

PRACTICE 3:

Production Doctor	$ 537,600	
Production Hygiene	384,000	
Total Production	921,600	76,800
Collections at 98%	903,168	100.00%
Staff Costs	(309,421)	**-34.26%**
Fixed Direct Costs	(30,000)	-3.32%
Variable Direct Costs	(162,570)	-18.00%
Facility Costs	(40,000)	-4.43%
Total Overhead	(541,991)	-60.01%
Operating Cash-Flow	**$ 361,177**	39.99%

2 RDH 3 Assist 2 up front

PRACTICE 4:

Production Doctor	$ 768,000	
Production Hygiene	460,800	
Total Production	1,228,800	102,400
Collections at 98%	1,204,224	100.00%
Staff Costs	(346,285)	**-28.76%**
Fixed Direct Costs	(30,000)	-2.49%
Variable Direct Costs	(216,760)	-18.00%
Facility Costs	(40,000)	-3.32%
Total Overhead	(633,045)	-52.57%
Operating Cash-Flow	**$ 571,179**	47.43%

Understanding Overhead and Profitability

- **Practice Examples Summary**

	Practice 1	Practice 2	Practice 3	Practice 4
Operating Cash-Flow	$ 178,540	$ 306,966	$ 361,177	$ 571,179
Debt Service	(70,218)	(116,912)	(138,692)	(138,692)
Pre-Tax Income	$ 108,322	$ 190,054	$ 222,485	$ 432,487

This is what Practice 3 would look like if grown to be Practice 4!

Valuation (Brief Overview)

- Trust everyone, but cut the cards…
- Screen the Opportunity Before you pursue it

- Scott McDonald doctordemographics.com
- Realscore Realscore.com

Valuation (Brief Overview)

- Analysis and Due Diligence
  - Overall valuation – is it reasonable?
  - Wage and Benefit Analysis
  - Fees Schedules
    - Understanding any managed care programs is essential
  - Production By Code
  - Chart Audit
    - Demographics
    - Clinical audit – how does seller's approach compare to yours?
      - Lots of dentistry to do or all done?
  - Analysis also prepares you to understand the strengths and weaknesses of your new practice – it prepares you

Valuation (Brief Overview)

- The Process
  - Negotiating Purchase Price & Creating Legal Documents
    - Negotiating the Purchase and Sale Documents
    - Negotiating the Tax Allocation
      - Strategic tax allocation can save you thousands
    - Obtaining Competitive Financing
      - It is your loan – you are entitled to a competitive, negotiated "best" terms and to understand all of the terms
      - Determine working capital (Cash Flow) and other capital needs
    - Negotiating the Lease
  - You are now a sophisticated Business Person
  - You lose most of the protections afforded (mere) consumers

Valuation (Brief Overview)

- The Process – Hit the Ground Running
  - Setting up your practice
    - Choosing the best legal/tax entity
    - Accounting and Payroll Processes
    - Practice Management Systems
      - Recall Scheduling
      - Restorative Scheduling
      - Financial Policies and Tracking
      - New Patient Process
      - HIPAA
      - OSHA/DOSH
    - Staff Transition and HR Processes (you are now a sophisticated employer)!
      - Wage and Benefits
      - HR Policies, Procedures and Related
      - Staff Communications (Huddle, Meetings, etc.)

Valuation (Brief Overview)

- The Process – Hit the Ground Running
  - Setting up your practice
    - Profit Builders:
      - Fee Schedule
      - Coding
      - Soft Tissue Management Program
      - Radiographs
      - Recall Optimization
      - Pedo Program
    - Marketing Program
      - External to enhance your early success
      - Internal to retain existing and new patients and generate internal referrals
      - Leverage Internet & Social Media
    - Financial Systems and Monitors
    - Carry forward of Cash Flow Plan
      - Tax Management
    - Proactive Tax Planning
    - Integrate with Personal Financial Planning

Tax Planning: Holding on to More of What you Make

- Year of Purchase or Scratch Start
  - Strategic Negotiation of Purchase Price Can Save Thousands
    - In some cases clever allocation can achieve “win-win” allocation where all the parties (except the IRS) come out ahead
    - Your CPA should be familiar with the principals and Case Law surrounding Cost Segregation and Class 57.0 Property
  - Utilize your elections to optimize your deductions in Year 1 or Year 2
    - Sometimes saving deductions will pay off if future years will be in a higher bracket
    - Tax optimization planning is crucial

Tax Planning (Choice of Entity)

- Two Separate and Distinct Issues:
  - State Law (Legal Issues)
  - Federal Law (Tax Issues)
- Basic Choices For Solo Ownership
  - Sole Proprietorship (default)
    - No legal protection
    - Simple for tax purposes (part of your personal return)
  - Professional Limited Liability Company (PLLC)
    - Provides business liability protection (imperfect barrier)
    - Ignored for Federal Tax Purposes (treated as sole prop.)
    - Can easily convert to S Corporation Status later
  - Professional Corporation (PS or PC for State Purposes)
    - Provides business liability protection (imperfect barrier)
    - More Complex for Taxes – Planning and Separate Tax Return Required
      - More expensive to maintain

Tax Planning (Choice of Entity)

- **Federal Taxation – Corporation (Choice)**
  - C Corporation (generally avoid)
    - Complex: Pays its own tax
    - Subject to <u>many</u> complexities and disadvantages in <u>almost</u> all cases
  - S Corporation
    - Can make great sense and save significant taxes at higher net taxable income
    - Is typically a poor choice initially (with exception):
      - Tax basis issues – loans made to corporation do not count
      - Additional annual cost and complexity versus PLLC
      - **Potential Benefit:** Purposely suspending start-up losses
- **Other do's and don'ts (General)**
- Do not purchase the shares of someone else's corporation – there are negative tax AND legal issues
- Do not "buy-in" to an existing corporation (there are more effective and flexible ways to achieve "partnership")

Tax Planning: Holding on to More of What you Make

- Additional Special Deductions In Year of Purchase or Scratch Start
  - ASSETS
    - Professional Library
    - Lab Equipment
    - Dental Hand Instruments
    - Office / Computer Equipment related to practice
    - Furniture, Fixtures, etc. related to practice
    - Automobile (If actual expense method is determined advantageous)

EXPENDITURES

Office Supplies
Parking
Legal and Accounting Fees
Malpractice Insurance
Business Meals
Auto Mileage
Postage
Courier Services
Copying and Reproduction
Travel and Hotel
Continuing Education / Seminars
Other

Tax Planning: Holding on to More of What you Make

Tax Planning: Holding on to More of What you Make

- Tax Management
  - Proactive forecast of your taxes is key to avoiding a bad surprise
  - Part of your overall cash flow planning
  - Establish Automated Funding
    - Weekly to money market

- Proactive Tax Planning
  - Tax management forms the base from which to work
  - Assertive review and action can work to reduce taxes in a variety of ways:
  - Retirement Plans (Pay yourself and write it off!)
  - There are several types of retirement plans available to optimize your income tax deduction and potentially limit related staff cost

Tax Planning: Holding on to More of What you Make

Key Issue: Running a study is best method (update annually)

- SEP's
  - Can fund up to $58,000 (2021) but staff cost is an issue
- SIMPLE-IRA
  - May fund up to $13,500 ($27,000 w/spouse) plus 3% of your eligible wages and limits staff cost to max. 3% of eligible wages
- 401(k) (w/ Profit Sharing)
  - Can fund up to $58,000 total – staff costs vary but some plan designs allow proportionately lower funding for staff (better cost/benefit). Adding a spouse can increase your funding by another $20,000+

Tax Planning: Holding on to More of What you Make

- Automobiles
  - Various ways to optimize this deduction
  - Documentation is key
- Travel, Meals and Entertainment
  - Learn the rules to optimize and document
- Lot of other strategies to exploit to your advantage

Associateship Tips

Associateship Tips

- **Non-Compete Agreement**
  - If possible avoid
  - If required, would this lock you out of area in which you want to practice?
  - If required and in your desired area request delay feature
    - Ask for Non-Solicitation vs. Non-Compete
    - Non-compete not effective for 180 days
    - Review by dental attorney (Washington State New Law) and CPA

- **Compensation Aspects**
  - Prefer per diem if volume is low or questionable
  - Prefer percentage if volume is high
    - Many different formulas for percentage
      - 28% to 33% - may be adjusted for lab
    - Question commitment to patient flow
      - Is there a written plan?
      - Is staff on board?
      - Was there a prior associate? What was their production track record

Associateship Tips

- **Tax Aspects**
  - As employee (W-2) you may have expenses that are non-deductible
    - **Solution:** Add verbiage to contract to be reimbursed for clearly tax deductible items as reduction to gross pay
      - Saves you income tax and FICA tax
      - Saves employer FICA tax
      - Items would include: Dues, subscriptions, licenses, CE, etc.
    - Get clarity on what items the employer will pay for you
  - Contractor status can be beneficial to you if you have significant expense to deduct
    - You pay employer and employee FICA
      - Request higher compensation percentage
    - Subject to IRS scrutiny – most of the risk on the employer side
      - Funding your own retirement plan is possible (but subject to significant downside risk if IRS successfully challenges Contractor status).

Managing Your Practice Effectively

Benchmarks:

It has been said, that what you can measure, you can monitor and what you monitor tends to improve.

Taking benchmark information and customizing for your practice allows you to see how you are doing and where focus may be required. This make analysis simple.

As noted early on, this cash flow report does much more than tell us how we are doing. From this base, we can compute:

Estimated income taxes
The value of the practice (incorporated with recent marketplace data)
Your personal cash flow
Which in turn, can be dovetailed into your long-term financial plan

Managing Your Practice Effectively

OVERHEAD ANALYSIS: COMPARISON TO 2014 SURVEY

Part of managing your practice effectively is making certain that your overhead is appropriate. The following compares your practice overhead percentages from your actual year-to-date operations to our 2014 survey of practices (based on the 2014 calendar year results)

	Actual	Survey	Variance
Staff Costs %	31.54%	32.7%	-1.1%
Clinical Supplies	3.99%	5.9%	-2.0%
Lab Fees	3.88%	5.6%	-1.7%
Professional Services	1.66%	1.5%	0.1%
Office Expenses	2.08%	1.8%	0.2%
Advertising & Promotion	2.97%	1.4%	1.6%
Direct Operating All-Other	4.10%	5.8%	-1.7%
Direct Operating %	18.7%	22.1%	-3.4%
Facility Costs%	4.33%	6.5%	-2.1%
Direct Overhead %	54.5%	61.3%	-6.7%
Profit Margin (Before Associate & G&A)	45.5%	38.7%	6.7%

Total Cash Receipts Annualized	$	1,124,077
(Lost) Gained Profit vs. Norm	$	75,437

Managing Your Practice Effectively

Statement of Revenues and Expenses - Income Tax Basis
For the Twelve Months Ended December 31, 2014
and the Twelve Months Ended December 31, 2013
and the 2014 Budget

	2014 Amount		2014 Budget		2013 Amount	
Gross Patient Receipts	$796,437				$759,676	
Refunds	(293)				(1,365)	
Net Patient Receipts	$796,144	100.0%	845,932	100.0%	$758,311	100.0%
Operating Overhead						
Staff	258,085	32.4%	277,259	32.8%	250,341	33.0%
Direct Operating	166,426	20.9%	165,803	19.6%	150,650	19.9%
Facility	38,792	4.9%	38,400	4.5%	36,199	4.8%
Total Operating Overhead	$463,303	58.2%	$481,461	56.9%	$437,190	57.7%
Operating Profit	**$332,841**	**41.8%**	**$364,471**	**43.1%**	**$321,121**	**42.3%**
General and Administrative	87,588	11.0%			100,027	13.2%
Net Income	$245,253	30.8%			$221,094	29.2%

Achieving Success

Achieving Success

- Teamwork is key to your success!
- There are several good reasons to begin assembling a group of professionals for assistance with your future practice needs. The first is that you may need a certain amount of help as you search for Associate positions. The "informal" network of dental service professionals may hold more leads than all those that are published or posted.
- Your team may consist of many different advisors and vendors. You may not use all of them in the short run, but you should consider establishing relationships early on. Is it important to choose team professionals that have dental specific focus and knowledge:
  - CPA (accountant – dental)
  - Attorney (dental)
  - Attorney (estate)
  - Banker/Lender (dental)
  - Supplier, Equipment Manager and IT Manager
  - Dental Placement Agency
  - Insurance Broker – Life/Disability
  - Insurance Broker – Malpractice, Property, Casualty

Achieving Success

- Financial Advisor (dental is best)
- Practice Management Consultant
- Lease Advocate (dental)
- Practice Broker or Transition Consultant
- Dental Demographer
- OSHA/DOSH/WISHA/HIPAA Resource
- Human Resources/Personnel
- Dental Practice Designers
- Dental Practice Construction Contractor
- Laboratories
- Marketing Consultants
- Mentor Dentist(s) / Study Club(s)
- YOUR STAFF
- YOUR SPOUSE
- Etc.

Which Retirement Plan Is Best?

- SIMPLE IRA
  - SIMPLE IRAs allow pre-tax deferrals of $13,500 ($16,500 if 50 or older) – plus a match = to 3% of your earnings
  - Staff contributions of 2% for all eligible employees or a 3% matching contribution is required
  - A spouse working minimal hours may be eligible to participate
  - No separate tax returns required
  - No administrative costs

Which Retirement Plan Is Best?

- Profit Sharing & 401(k) Plans
  - 401(k) plans allow pre-tax deferrals of $19,500 ($26,000 if 50 or older)
  - Profit sharing plans allow additional pre-tax contributions of $38,500 for total profit sharing and 401(k) presentations of contributions of $58,000 ($64,500 if 50 or older)
  - Required staff contributions will vary with the age and income of your staff
  - An additional tax return and administrative costs will apply

Roth IRA Contribution Strategies

- If your tax status is married filing jointly, you cannot make a full Roth IRA contribution if your modified adjusted gross income is more than $198,000 if married and filing jointly (or $125,000 if single) but…
- …you can make a contribution to a non-deductible IRA and immediately convert it to a Roth IRA (as long as you have no other taxable IRA assets). "Indirect or "Backdoor" Roth"

Insurance Coverage

- Ensure that you have adequate life insurance.
- Ensure that you have adequate disability insurance.
- Ensure that you have personal umbrella liability insurance.
- If you own or are purchasing a practice there are several additional policies required and/or highly recommended

Current Tax Law

THE TAX CUTS & JOBS ACT

Impact on Dentists – 2019 and Beyond

Note: Proposed legislation in congress, if passed, could change a number of the items that follow.

© 2018-2021 All Rights Reserved

Introduction to the Tax Cuts & Jobs Act

- Vast Majority Expires after 2025
- Some Items are “Permanent”

Meals & Entertainment

	2021-2022
Entertainment (except staff see below)	0%
Meals (Business)	50% or 100% for Restaurant Produced
Meals on Premise (for conv. of ER)	50%
Meals: Travel Away From Home	50%
Travel (No change)	100%
Staff Outings, Parties, Etc.	100%

We recommend that you separate Meals activities in your chart of accounts going forward to capture the different categories – including 0% Entertainment if Applicable.

DG Advisors LLC

© 2018-2021 All Rights Reserved

Itemized Deductions

State & Local Tax:

2021 Forward

- Real Estate
- Personal Property
- Either State Income or Sales Tax
- Limited to $10,000 (Single or joint)

Mortgage Interest:

- Interest up to loan of $750K of new acquisition debt

- Principal & one other (qualified) residence

Acquisition Debt Obtained on or Before December 15, 2017

Is Grandfathered, Including qualified refinancing ($1,000,000 + $100,000 if used for acquisition)

DG Advisors LLC

© 2018-2021 All Rights Reserved

Itemized Deductions

Miscellaneous:

Miscellaneous Itemized Deductions are No Longer Deductible

- Tax prep fees
- Investment/advisor fees
- Unreimbursed employee expenses
- Certain legal expenses
- Job search expenses

DG Advisors LLC

© 2018-2021 All Rights Reserved

Additional Highlights

- Alimony no longer deductible or included as income of the recipient after (prior to 2019 grandfathered)
- ACA individual healthcare mandate repealed and reporting no longer required after 2020 (unless on Exchange)

© 2018-2021 All Rights Reserved

Additional Highlights

Like-Kind Exchanges:

Only applies to qualified real property

DG Advisors LLC
© 2018-2021 All Rights Reserved

Roth Recharacterizations

- Contributions to traditional IRA can still be converted to Roth. (Backdoor Roth Contribution Continues to Live)
  - Contributions to Roth can still be converted to traditional. Just more risk:
    - Once you convert traditional to Roth, you cannot then recharacterize back to traditional.

© 2018-2021 All Rights Reserved

Business Level Taxes

Code Section 179 (Expensing Election)

2021

Deduction	$1,050,000
Cost of Property (dollar for Dollar Phaseout)	$2,620,000
Indexed for inflation	

DG Advisors LLC
© 2018-2021 All Rights Reserved

Bonus Depreciation

2021 - 2022

100% New or Used Property

Assets purchased and placed in service after September 27, 2017 are eligible for the 100% deduction

The 100% expensing will be phased down as followed:

- 80% for property placed in service in 2023
- 60% for 2024
- 40% for 2025
- 20% for 2026

DG Advisors LLC

© 2018-2021 All Rights Reserved

Bonus Depreciation v. Sec 179

- Section 179 can not create or add to a loss for the tax year.
- Section 179 depreciation can be on an asset by asset basis.
- Bonus depreciation allows you to create a loss for the year. Bonus depreciation will be automatic unless you opt out. This must be done by class of assets, example - 5 years, 7 years, 15 years, etc. (bonus no longer requires "new" property)

	179	**Bonus**
Taxable Income Before Depreciation	$50,000	$50,000
Depreciation on $100,000 of assets	$(50,000)(limited)	$(100,000)
Net Profit (loss)	$0	($50,000)

DG Advisors LLC

© 2018 All Rights Reserved

Passenger Vehicles

- The new law increases annual depreciation of passenger autos less than 6,000 lbs. gross vehicle weight

	2021
Year 1	$10,200
Year 2	$18,200
Year 3	$9,800
Year 4 & beyond	$5,860

✍ Documentation continues to be the key.

Note: "Heavy Vehicles" are not impacted by limitations above; however, large deductions are only available if documented business usage is 50% or greater and maintained to avoid "recapture"

DG Advisors LLC
© 2018-2021 All Rights Reserved

20% Qualified Business Income Deduction

- Qualified Business Income (QBI) includes sole proprietorships, partnerships, S-corporations, and Most rentals
- Does not include (S) shareholder wages(1), guaranteed payments(2) to partners, or investment income (capital gains, dividends, interest)
- Deduction calculated per each separate business

(1) Generally, another good reason to claim no more salary than necessary to meet "reasonable compensation" standard for S Corps

(2) Partnerships may change "compensation" & "profits" language to avoid disallowance of Guaranteed Payments as QBI. Simple update to Operating Agreement language may resolve the issue

DG Advisors LLC

© 2018-2021 All Rights Reserved

20% Qualified Business Income Deduction

- If taxable income is $329,800 or less ($164,900 if single):
- Deduction is the lesser of
  - 20% of QBI
  - 20% of taxable income (not including capital gains)

- Available for specified service businesses (but limited)

DG Advisors LLC
© 2018-2021 All Rights Reserved

20% Qualified Business Income Deduction

- If taxable income is over $426,600 ($213,300 single):
  - **Deduction** amount is same as before, but limited to the greater of:
    - 50% of allocable W-2 wages paid by business, or
    - 25% of allocable W-2 wages plus 2.5% unadjusted basis of depreciable tangible property

- Not available for specified service businesses

DG Advisors LLC
© 2018-2021 All Rights Reserved

20% Qualified Business Income Deduction

- If taxable income is $315,000-$415,000 ($157,500 - $207,500 if single):
  - 50% of allocable W-2 wages paid by business, or
  - 25% of allocable W-2 wages plus 2.5% unadjusted basis of depreciable tangible property
  - Deduction is then phased out ratably between the limits shown above
- Available for specified service businesses with limitations – phase-out between $329,800 & $426,600 or $164,900 and $213,300 single)

DG Advisors LLC

© 2018-2021 All Rights Reserved

20% Qualified Business Income Deduction

- Betty & Joe have taxable income of $300,000 after all deductions
- Betty's practice, (a sole proprietorship/PLLC) has $375,000 of net taxable (Qualified Business) income.
- Their deduction is 20% of the lesser of the two above or $60,000 (20% x $300,000).
- What if Betty were an S Corporation and Paid herself $175,000?
  - Betty only receives 20% of $200,000 or $40,000
  - Decision to Elect "S" has a crossover point that is higher than prior law

DG Advisors LLC

© 2018-2021 All Rights Reserved

Individual Tax Rates (2018)

Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	Up to $9,525	Up to $19,050	Up to $9,525	Up to $13,600
12%	$9,526 to $38,700	$19,051 to $77,400	$9,526 to $38,700	$13,601 to $51,800
22%	$38,701 to $82,500	$77,401 to $165,000	$38,701 to $82,500	$51,801 to $82,500
24%	$82,501 to $157,500	$165,001 to $315,000	$82,501 to $157,500	$82,501 to $157,500
32%	$157, 001 to $200,000	$315,001 to $400,000	$157, 001 to $200,000	$157,501 to $200,000
35%	$200,001 to $500,000	$400,001 to $600,000	$200,001 to $500,000	$200,001 to $500,000
37%	$500,000 +	$600,000 +	$500,000 +	$500,000 +

© 2018-2021 All Rights Reserved

Individual Tax Rates (2017)

Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 to $9,325	$0 to $18,650	$0 to $9,325	$0 to $13,350
15%	$9,326 to $37,950	$18,651 to $75,900	$9,326 to $37,950	$13,351 to $50,800
25%	$37,951 to $91,900	$75,901 to $153,100	$37,951 to $76,550	$50,801 to $131,200
28%	$91,901 to $191,650	$153,101 to $233,350	$76,551 to $116,675	$131,201 to $212,500
33%	$190,651 to $416,700	$233,351 to $416,700	$116,676 to $208,350	$212,501 to $416,700
35%	$416,701 to $418,400	$416,701 to $470,700	$208,351 to $235,350	$416,701 to $444,550
39.6%	Over $418,400	Over $470,700	Over $235,350	Over $444,550

© 2018-2021 All Rights Reserved

Capital Gains & Qualified Dividends

	Taxable Income		
Tax Rate	**Joint**	**Single**	**Estates & Trusts**
0% - Less Than	$ 80,800	$ 40,400	$ 2,650
15% - At Least	$ 80,801	$ 40,401	$ 2,651
Less Than	$501,600	$445,850	$13,150
20% - More Than	$501,600	$445,850	$13,150

- 3.8% Net Investment Income Tax Continues to Apply Above $250,000 / $200,000 AGI (not generally applicable to practice sales)

DG Advisors LLC

© 2018-2021 All Rights Reserved

Estates & Trusts

If Taxable Income Is:	Then Income Tax Rate:
Not over $2,650	**10%** of the taxable income
Over $2,650 but not over $9,300	24% of the excess over $2,650
Over $9,300 but not over $12,750	35% of the excess over $9,300
Over $12,750	37% of the excess over $12,750

© 2018-2021 All Rights Reserved

Alternative Minimum Tax (AMT)

2021

Exemption: Single $73,600

Joint $114,600

Phase out: Single $523,600

Joint $1,047,200

Tax Rates: 26% (AMTI $199,900 joint) 28% (AMTI over $199,900 joint)

Winners: Almost everyone in a given year – especially those formerly in the 28% to 35% tax brackets.

When most likely to apply to dentists? Very large capital gains.

© 2018-2021 All Rights Reserved

Standard Deduction

2021

(inflation adjusted)

Single	$12,550
Joint	$25,100
Joint – Over 65	$27,800

Winners: Everyone who was previously taking the standard deduction or was close to doing so. Kids with earned income. Many retired individuals.

DG Advisors LLC

© 2018-2021 All Rights Reserved

Dental Wealth Advisors LLC

Solutions for Dentists & Their Families™

A DENTAL GROUP COMPANY | REGISTERED INVESTMENT ADVISORY

FINANCIAL PLANNING STRATEGIES FOR NEWER DENTISTS

November 12, 2021

Sam Martin, MBAtax, CFP®, CPA

Financial Planning Strategies for Newer Dentists

1. Identify and prioritize your financial goals.
2. Calculate your net worth and monthly cash flow.
3. Develop a plan to reach your financial goals.
4. Maximize your tax-qualified retirement plans and your Roth IRAs.
5. Ensure that you have an investment strategy aligned with your financial goals.
6. Obtain adequate insurance coverage.
7. Ensure that you have an estate plan.

© 2018-2021 All Rights Reserved

STRATEGY #1

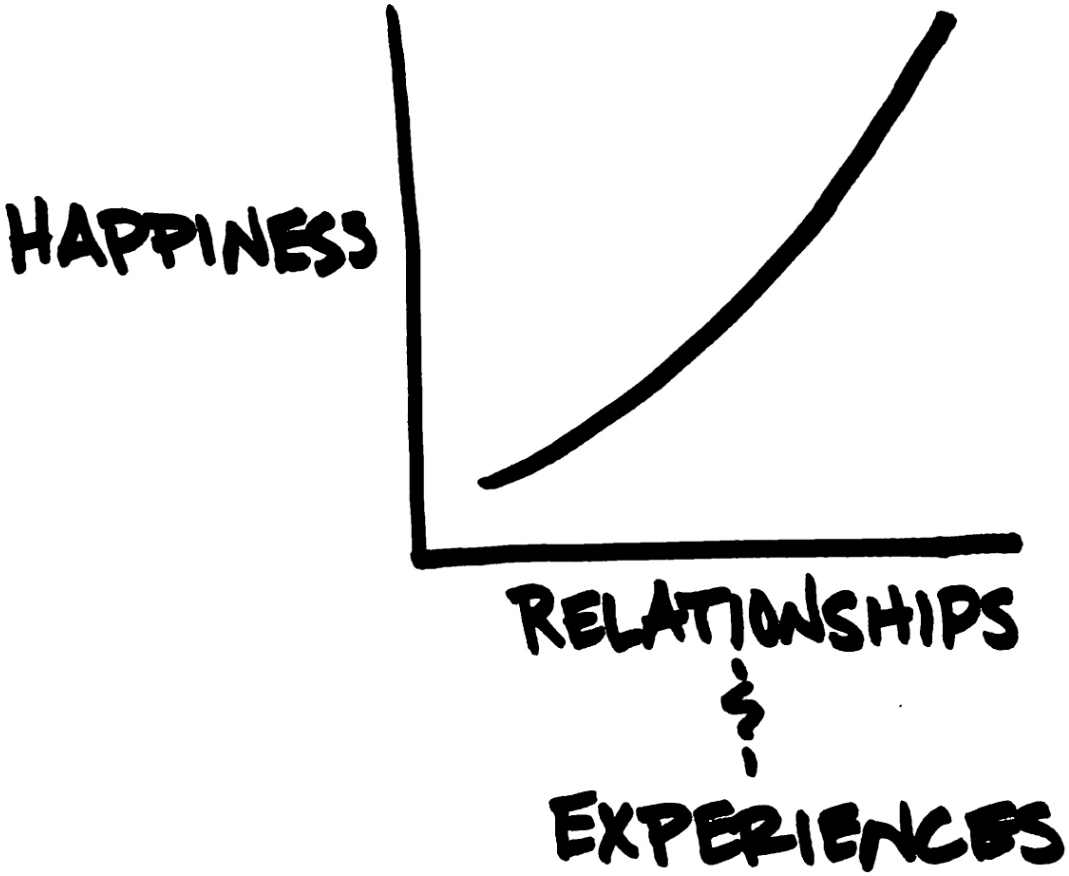
Identify and prioritize your financial goals

INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

Money Can't Buy Happiness



INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

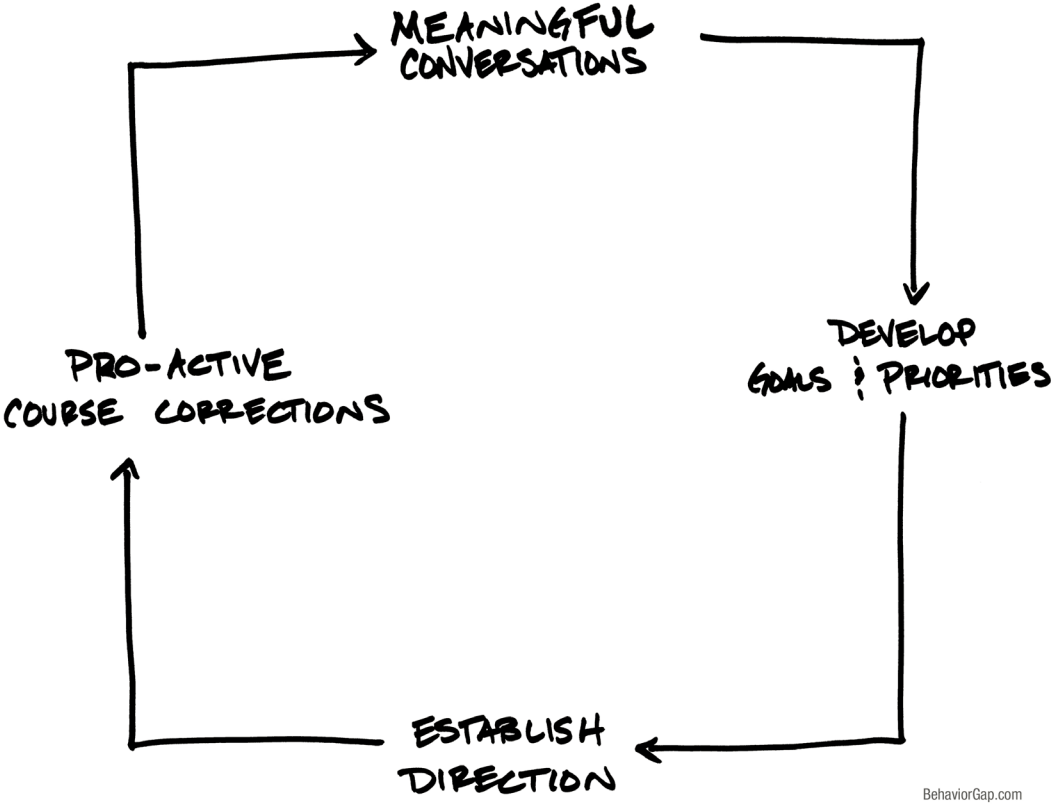
© 2018-2021 All Rights Reserved

What Are Your Financial Goals?

- Purchasing a Practice?
- Purchasing a Home or a Larger Home?
- Purchasing an Office Building?
- Spending More Time with Family?
- Saving for Children's Education?
- Debt Reduction?
- Financial Freedom?

© 2018-2021 All Rights Reserved

Are You In Alignment with Your Spouse or Significant Other?



INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

Strategy #1 - Action Items

- With your spouse or significant other, identify and prioritize your financial goals.
- Put them into writing!

© 2018-2021 All Rights Reserved

STRATEGY #2

Calculate Your Net Worth and Monthly Cash Flow

the right

© 2018-2021 All Rights Reserved

What Is Your Net Worth?

- Assets – Liabilities = Net Worth

© 2018-2021 All Rights Reserved

What Are Your Assets?

- Bank Accounts
- Investment Accounts
- Health Savings Accounts
- Retirement Plan Accounts
- Home
- Office Building
- Practice Value
- Other “Personal Use” Assets

© 2018-2021 All Rights Reserved

What Are Your Liabilities?

- Student Loans
- Home Mortgage
- Practice Debt
- Equipment Loans
- Office Building Mortgage
- Credit Cards
- Auto and Other Loans

© 2018-2021 All Rights Reserved

Strategy #2 Action Items

- Ensure that your interest rates are as low as possible with a fixed interest rate for the most appropriate number of years
- Consult one or more education loan consolidators to see if improvement is possible
- Use “Snowball” method to pay down debts
- Use a budget to make proactive financial decisions.
- Calculate your net worth each year and compare it to your net worth from the previous year.

© 2018-2021 All Rights Reserved

STRATEGY #3

Develop A Plan To Reach Your Financial Goals

slide in the panel to the right

INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

The Benefits of Investing Early

At age 25, Dr. Early Saver begins investing $5,500 into an Individual Retirement Account (IRA) each year for 10 years and then stops. At age 35, Dr. Late Saver begins investing $5,500 into an IRA for 30 years. They each retire at age 65. Assuming a growth rate of 8%, here are their balances at the end of each decade:

	Dr. Early Saver	Dr. Late Saver
Age 35	$79,676	$0
Age 45	$172,015	$79,676
Age 55	$371,336	$251,691
Age 65	$801,752	$623,058

© 2018-2021 All Rights Reserved

Strategy #3 Action Items

- For long-term goals, begin investing early.
- For short-term goals, accumulate as much cash as possible.
- Avoid credit card debt and other consumer debt.

© 2018-2021 All Rights Reserved

STRATEGY #4

Maximize Your Tax Qualified Retirement Plans And Your Roth IRAs

INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

Which Retirement Plan Is Best?

- SIMPLE IRA
  - SIMPLE IRAs allow pre-tax deferrals of $13,500 ($16,500 if 50 or older) – plus a match = to 3% of your earnings (add spouse?)
  - Staff contributions of 2% for all eligible employees or a 3% matching contribution is required
  - A spouse working minimal hours may be eligible to participate
  - No separate tax returns required
  - No administrative costs

© 2018-2021 All Rights Reserved

Which Retirement Plan Is Best?

- Profit Sharing & 401(k) Plans
  - 401(k) plans allow pre-tax deferrals of $19,500 ($26,000 if 50 or older)
  - Profit sharing plans allow additional pre-tax contributions of $38,500 (less matching) for total profit sharing and 401(k) presentations of contributions of $58,000 ($64,500 if 50 or older)
  - Required staff contributions will vary with the age and income of your staff
  - An additional tax return and administrative costs will apply

© 2018-2021 All Rights Reserved

Roth IRA Contribution Strategies

- If your tax status is married filing jointly, you cannot make a full Roth IRA contribution if your modified adjusted gross income is more than $198,000 if married and filing jointly (or $125,000 if single) but…
- …you can make a contribution to a non-deductible IRA and immediately convert it to a Roth IRA (as long as you have no other taxable IRA assets). “Indirect or “Backdoor” Roth”

© 2018-2021 All Rights Reserved

Strategy #4 Action Items

- If you are working, consider maximizing a retirement plan.
- If you are married and your spouse doesn't have access to a retirement plan, consider adding him or her to the retirement plan assuming that they are working or can work for the practice.
- Consider using a Roth IRA contribution strategy.

© 2018-2021 All Rights Reserved

STRATEGY #5

Ensure That You Have An Investment Strategy Aligned With Your Financial Goals

INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

Which Investment Approach Do You Use?

- Market Timing
  - Wall Street
- Security Selection
  - Wall Street
- Evidence Based Asset Allocation
  - Those educated on the peer reviewed research surrounding long-term investment success

© 2018-2021 All Rights Reserved

What Is Your Asset Allocation?

- Do you own short, intermediate or long-term bonds or bond funds?
- Do you have meaningful exposure to International stocks?
- Do you have meaningful exposure to value (discounted) stocks?
- Do you have meaningful exposure to small company stocks?
- Are your funds “low cost” and “tax efficient”

© 2018-2021 All Rights Reserved

Strategy #5 Action Items

- Ensure that your investment strategy is in alignment with your financial goals.
  - This relates back to having a written plan…

© 2018-2021 All Rights Reserved

STRATEGY #6

Obtain adequate insurance coverage.

© 2018-2021 All Rights Reserved

Insurance Coverage

- Ensure that you have adequate life insurance.
- Ensure that you have adequate disability insurance.
- Ensure that you have personal umbrella liability insurance.
- If you own a practice there are several additional policies required or recommended

© 2018-2021 All Rights Reserved

Strategy #6 Action Items

- Obtain inexpensive term life insurance to ensure that you have adequate life insurance.
- Obtain adequate disability insurance with an own occupation definition of disability and a cost of living adjustment.
- Obtain personal umbrella liability insurance to extend your home, auto and other coverage

© 2018-2021 All Rights Reserved

STRATEGY #7

Ensure that you have an estate plan.

© 2018-2021 All Rights Reserved

Estate Planning Documents

- Ensure that you have a will.
- Ensure that you have a durable powers of attorney (financial & healthcare)
- Ensure that you have a living will or health care directives.

© 2018-2021 All Rights Reserved

Are Your Beneficiary Designations Up To Date?

- Life Insurance
- Retirement Plans
- IRAs

INDEPENDENT MEMBER OF THE Buckingham STRATEGIC PARTNERS COMMUNITY

Dental Wealth Advisors LLC

© 2018-2021 All Rights Reserved

Strategy #7 Action Items

- Ensure that you have a will, durable power of attorney, and living will or health care directives.
- Ensure that your beneficiary designations are up-to-date.

© 2018-2021 All Rights Reserved

Conclusion:

- Being thoughtful about your goals – both financial and quality of life is essential for long-term success and happiness

- Committing goals and concerns to writing, implementing, monitoring and updating plans separates the truly successful from the rest

© 2018-2021 All Rights Reserved

DG Advisors LLC
Proactive Tax & Profitability Solutions™
A DENTAL GROUP COMPANY

DENTAL PRACTICE FINANCE 301
PROACTIVE STEPS TO A SUCCESSFUL PRACTICE AND FINANCIAL LIFE

November 12,2021

BY: Sam Martin, MBA(tax), CFP®, CPA