

Buyers purchase assets Sellers (want to) sell stock

- Asset Sales: Almost all dental practice sales should be structured as an asset sale. For buyers:
 - Asset sales provide significant tax advantages
 - Asset sales limit the transfer of liabilities from seller to buyer.
 - “Asset Sale” does not mean all the assets are sold.
- Stock Sales: In general, we do not recommend buyers purchase stock. However, if you are buying stock:
 - Make sure to have your CPA or tax attorney involved.
 - A stock sale would justify a discount on the purchase price for the buyer.



What assets are you purchasing?

- Assets typically included:
 - Fixed Assets, Equipment, Leasehold Improvements, Office Furniture
 - Patient Records
 - Certain contracts
 - Inventory and Supplies
 - Phone number, websites, signage
- Assets typically excluded:
 - Cash
 - Accounts Receivable

One of the other benefits of an asset sale is that you do not inherit the liabilities of the practice. Therefore, the balances of any accounts payable, accrued liabilities or debt obligations remain the responsibility of the seller.



Goodwill & Intangible Assets

- Goodwill & Intangible Assets: The value of a business which exceeds the value of the equipment and other fixed assets. The value of dental practices is typically 70%-85% made up of Goodwill & Intangible Assets.
 - For Example, if practice value is \$500,000 and the equipment & fixed assets are worth \$100,000, the goodwill & intangible assets are valued at \$400,000.
- Why do buyers & sellers care?

For Buyers:

- Fixed assets depreciate over a 5-7 year period.
- Goodwill & Intangible assets depreciate over a 15-year period.
- The higher the fixed assets the larger the tax deductions in the early years of the practice.

For Sellers:

- The sale of fixed assets is taxed as ordinary income, higher tax rate.
- The sale of goodwill & intangibles is taxed at the capital gains rate, lower rate.



Buyer & Seller Tax Impacts

Description	Buyer Tax Treatment	Seller Tax Treatment
Goodwill	Depreciable over 15 years	Capital Gains
Office, Dental Equipment, and Furniture	Depreciable over 5-7 years	Ordinary Income (to the extent above depreciable base)
Patient Files, Records, Contracts	Depreciable over 15 years	Capital Gains
Accounts Receivable	No tax up to allocated amount	Ordinary Income
Supplies and Instruments	Deductible immediately	Ordinary Income
Covenant Not to Compete	Depreciable over 15 years	Ordinary Income / Capital Gains
Consulting Agreement	Deductible as paid	Ordinary Income
Deferred Compensation	Deductible as paid	Ordinary Income
Leasehold Improvements	Amortizable over 40 years	Ordinary Income
Stock	Non-deductible	Capital Gains

We are not providing tax advice and please consult with a CPA or tax expert. However, both buyers need to be aware of the purchase price allocations and how that impacts tax treatments.

