A Business Plan for a dental practice acquisition – whatever next?

Recent weeks have seen the advent of a new and interesting request by the CQC – Business plans for dental practice acquisitions.

This is apparently following a change in the rules in April of this year.

Such has been the enthusiasm to provide practice acquisition finance by dental lenders, that sometimes the “Business Plan” might as well have been written on the back of a the proverbial fag packet!

In a recent case, the acquiring dentist, who was coming down the home straight in the practice acquisition “race”, was asked by a CQC inspector to provide Profit & Loss forecasts for a three to five year period after acquisition.

Perhaps a reasonable request, but hardly any prospective dental buyers will have this information – the norm for a P&L forecast is for the first year of operation, and this satisfies most dental lenders (the logic being that the first year will almost certainly be the most challenging, and if a sensitised, pessimistic, view is projected and works, subsequent years are likely to be better).

When a view was put to the CQC inspector that a bank was happy to lend several hundred thousands of pounds to the prospective buyer based on a one year P&L forecast, who had then performed...
a detailed review, she made a very interesting observation, along the lines of, the banks were happy to lend to thousands of house buyers and look what happened then!

Perversely, the more financial information required, the more fees for dental accountants, but we don’t like doing unnecessary work, and neither is it fair to move the goalposts without fair warning.

Hopefully a CQC “norm” for appropriate evidence of financial viability will be established quickly – the nightmare scenario is that individual CQC inspectors will form their own view as to what is appropriate, and that will lead to yet another postcode lottery in the world of dental practice ownership.

Warning to NHS Orthodontists – take action now or suffer CGT at 28% on sale of your practice!

An unexpected consequence of Chancellor George Osborne’s 2015 “Autumn Statement” will frequently arise for NHS Orthodontists who sell their practices.

How is this?

It is because it can be impossible for Orthodontists to remain eligible for CGT Entrepreneurs Relief (which enables CGT to be restricted to 10% of the gain on sale of goodwill).

The reason why the change particularly impacts on Orthodontists, is because NHS PDS contracts cannot be sold by using the “Partnership Route”, a tactic invariably used when goodwill relating to a GDS contract is sold.

Because the partnership Route cannot be used, historically PCTs would allow the sale of an Ortho practice by agreeing to transfer the PDS contract to the buyer.

Over recent years, many PCTs, and now NHS England LATs, have advised orthodontists that the only way they can sell their NHS practice is by incorporating, and then selling the new company shares to the buyer. They then cooperate with the incorporation.

This enabled the practice to be sold, and a rate of CGT of 10% was paid on the gain.

The impact of the Autumn Statement is that, either the full rate of CGT (28%) is paid on incorporation, or on subsequent sale of the new limited company shares if they are sold within 12 months of incorporation.

As many orthodontists will only incorporate when they have found a buyer, and after being advised by the LAT, they will usually not feel able to delay the sale of the practice until 12 months elapse. If they delay, the time limited PDS contract will get closer to the end date, and the buyer might pull out.

This is a very unsatisfactory state of affairs – most inequitable.

There is however a solution!

If orthodontists incorporate well before selling their practices, it will be possible to own the shares in their new limited companies for a period of longer than 12 months, and therefore be eligible for Entrepreneurs Relief, reducing the CGT on sale to 10%.

Of course other important aspects of incorporation need to be carefully considered, but it is likely that, in most cases, the considerable saving in CGT will outweigh other potential disadvantages.

A final thought – who is responsible for reviewing Business Plans at the CQC, have they recruited teams of accountants?

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Demand and not profitability dominates dental practice values

The latest NASDAL quarterly goodwill survey, for the quarter ending 30th April 2015, indicates that prices achieved on the sale of some dental practices are more indicative of high demand than the profits that can be achieved.

The highest values are still being commanded by NHS practices, which, in the view of the impending reform of contracts, is illogical, given the uncertainty of the reformed contract, but reflecting the massive surplus of buyers over sellers.

However, private dental practice values appear to be gaining ground. The average goodwill value secured for a private practice was 99% of gross fee income. This compares with a figure of 90% for the quarter ending January 2015 and 88% for the quarter ending October 2014.

Meanwhile, the value of NHS practices continues to outstrip mixed and private practices. The average goodwill figures are 125% of turnover for NHS practices, and 104% for mixed practices. The overall average figure for all types of practice is 113%.

It is very important to note that there were a number of transactions in the survey which varied significantly from the averages, so the survey results should be seen as providing a rough guideline only, and specific practice circumstances must always be taken into account.

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Dates for your diary

Alan is scheduled to speak at the following events over the coming months and he’d be delighted to see you.

BDIA DENTAL SHOWCASE
22nd-24th October 2015, NEC Birmingham

NORTH EAST DENTAL CONFERENCE 2015
3rd November 2015, Marriott Hotel MetroCentre

BDA SEMINAR – PREPARING FOR RETIREMENT
20th November, British Dental Association in London

ACTING FOR DENTISTS – KEY ISSUES FOR ACCOUNTANTS
Various dates in London, Newcastle, Cambridge, Bristol, Southampton, Manchester, Leeds, Birmingham & Cardiff

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Any questions?

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