

WHAT EVERY DENTIST SHOULD KNOW:

The Business Side of Dentistry




Bob Creamer, CPA

"The Dentist's CPA"

Charleston, SC

May 1, 2015



PATTERSON
DENTAL

Bob Creamer, CPA



Bob Creamer is the Director of Dental Services at AKT CPAs and Business Consultants, ranked as one of the top 100 accounting firms nationwide. He has been working with dentists for nearly four decades, helping dentists maintain efficient and profitable dental practices. Bob knows the business of dentistry and helps dentists understand and apply key tax strategies to help them keep more of what they earn to improve their quality of life.

Nationally recognized for his motivating, educational, knowledgeable, and energetic presentations, he is a frequent speaker at dental events around the country. For years, Bob has taught the "Business Side of Dentistry" at Oregon Health Sciences University Dental School. He also writes and contributes to numerous national and regional dental publications. He consults with manufacturers and distributors in the industry, and assists them with their internal training. Prior to entering the world of

public accounting, he was an Inspector for the IRS.

The AKT Dental Services Group focuses on helping dentists across the country achieve their personal and professional goals through financial and retirement planning, wealth creation, dental transition strategies, practice enhancement, fee management, cost segregation studies, maximizing tax deductions and other related accounting and consulting services. Our experienced team can help you enjoy your journey through your dental career by making your practice work for you.

If you have any questions or would like Bob to speak at your next national, state, or local dental event, email us at dental@aktcpa.com or phone 503-585-7774. Connect with Bob or any of the AKT Dental Services Group at www.aktcpa.com/AKT-Dental.



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WHAT EVERY DENTIST SHOULD KNOW:

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SCDA
Reaching for the New Life of Dentistry

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AKT.COM/ART-DENTAL

New Year! New You!

2015

AKT

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So What Is It Going To Be?

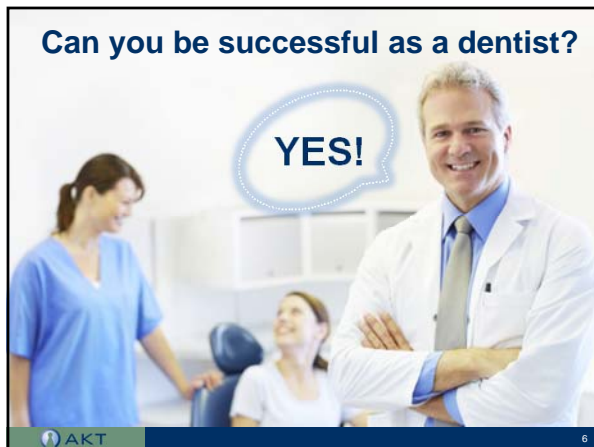
New Year - New You!

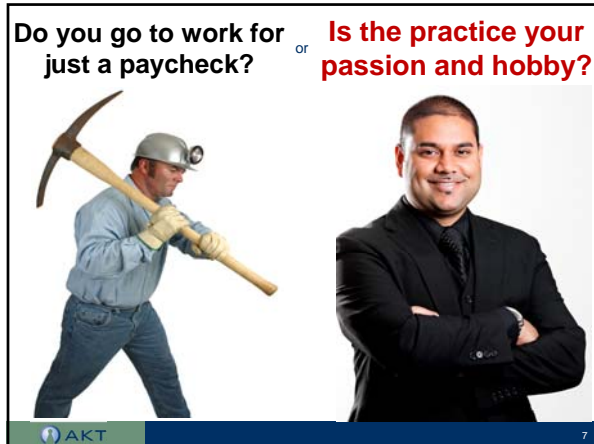
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What do we know about **DENTISTRY?**

AKT 10

Dentists Have the Best Job!

2015 #1
2014 #3
2013 #1

Nobody Has A Better Job!



100 Best Jobs in America 2015
Source: US News & World Report

AKT 11

Dentists Rank High in Gallop Poll

Latest Gallop Poll asking the public to rate professions on their **Honesty and Ethical Standards**

Dentists are #5

Worst:
Car Salesmen
Congress



AKT 12


You Are Important To:

- You
- Spouse
- Family
- Dental Team
- Patients
- Dental Dealer
- Me!



AKT 13


"The most terrifying words in the English language are:
I'm from the government and I'm here to help!" Ronald Regan



AKT 14

Dentist Salary Survey

***U.S. News said,
"The take home pay is simply phenomenal."
\$164,570
with a median of
\$146,340.***



AKT 15

Average Single General Dental Practice Survey


Income/Collections	\$942,695
Expense Type	
Dental Supplies	\$63,197
Lab Expense	\$66,104
Practice Invest/Development	\$14,974
Occupancy Expenses	\$58,059
Office/Overhead Expenses	\$119,062
Staff Compensation	<u>\$299,999</u>
Total Deductions	<u>\$621,395</u>
Net Operating Incomes	\$321,300
Depreciation/Amortization	(\$42,577)
Practice Profit	\$278,723

AKT 16

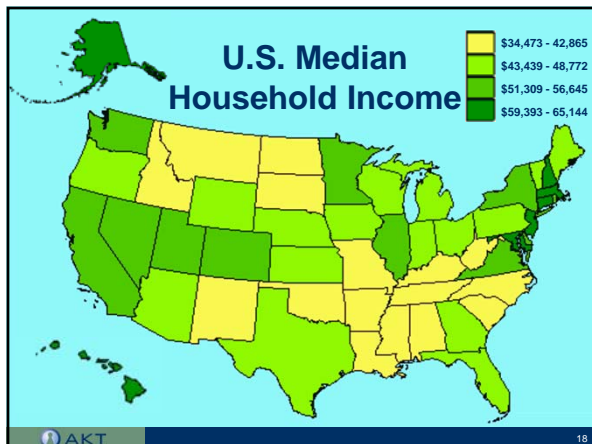
I think it is better than they report.

Our client average is
\$321,300

Our better than average is
\$430,689



AKT 17



US Median Household Income is
\$50,000

Average Single General Dentist's
\$321,300

Net Income
before Depreciation & Amortization

Note: US Median Household Income has dropped each of the last four years and currently represents the lowest purchasing power since 1990.

AKT 19

Dentists make a good income.
Then why do we keep hearing
dentists can't afford to retire?



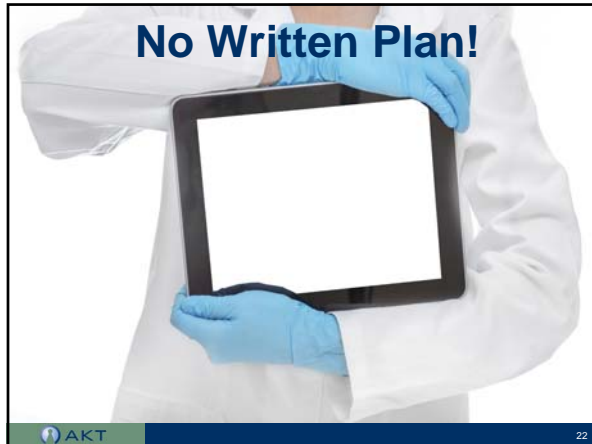
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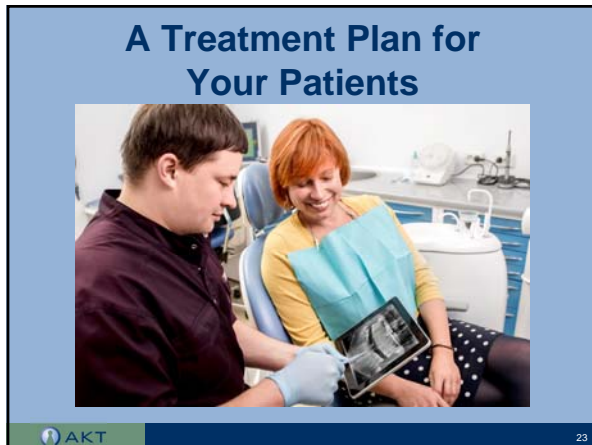
Retirement

According to the ADA, **less than 10%**
of dentists can **retire at age 60**
and maintain the same standard of living.



AKT 21













Design Your Plan

- What do I want to **BE** before I die?
- What do I want to **DO** before I die?
- What do I want to **HAVE** before I die?
- Who do I want to **HELP** before I die?
- What do I want to **ENJOY** before I die?
- What do I want to **LEAVE?** – My Legacy

Develop a Family Financial Plan

- **Talk** as a couple about your Family Financial Plan.
Money can put a terrible stress on marriages.
- Discuss and decide what each partner's role will be in the finances.



Realize that you were most likely raised with different views on money.

Ask yourself, "Do I **want** the item or do I **need** the item?"



List All Of Your Assets- Everything You Own


Should you *sell* something?
Do you *need* the items?



What is the true cost of owning the items?

AKT 31

Live Below Your Means!



"If you live like no one else NOW, later you can live like no one else."
- Dave Ramsey

AKT 32

The Key To Any Financial Planning is Monitoring



AKT 33

The Goose that Lays the Golden Eggs



The Dental Practice

AKT 34

Your practice is your financial vehicle that will carry you through life.



AKT

Building a Successful Plan

IDENTIFY your personal & professional goals

UNDERSTAND important business concepts & principles

Properly **APPLY** these concepts



- My practice
- My home
- My family
- My leisure time
- My retirement

AKT 36


























Seven Systems for Success

1. *Team Development System*
2. *New Patient Experience/ Comprehensive Examination System*
3. *Patient Retention System*




Source: "The Exceptional Dental Practice", Dr. M. William Lockard, Jr. DDS

AKT 49

Seven Systems for Success

4. *Technical Excellence System*
5. *Time Management System*
6. *New Patient Referral System*




Source: "The Exceptional Dental Practice", Dr. M. William Lockard, Jr. DDS

AKT 50

Seven Systems for Success

7. *Financial Management System*
 - Budgeting
 - A collection policy
 - Regular re-evaluation of fees
 - Setting realistic production goals for the year, month, day
 - **Determining the break-even point of the practice and its profit percentage**
 - Establishing a pension plan and savings reserve



These practices will lead to practice health.

AKT 51

All Things with a Business Purpose in a Dental Practice Dealing with Money are Deductible *100%.



So if all deductible, what are we concerned about?

* Penalties and personal expenses 0% and meals and entertainment 50%+

Who Holds the Money and For How Long?



The Time Value Of Money!

Accounting Method

CASH BASIS

- Include as income when you receive it
- Deduct expense when you pay it



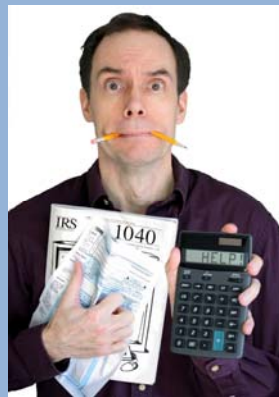
Major Dental Exceptions for Cash Basis

1. Purchase Equipment & Technology
2. Commit to Put Money in Your Retirement Plan



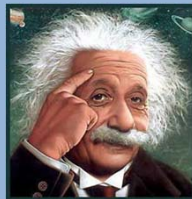
The above two exceptions can be used to **significantly:**

- Reduce the cash paid to taxing partners
- Slow down cash paid to taxing partners

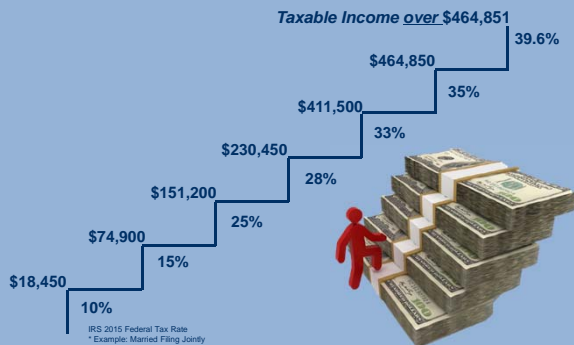


“The hardest thing in the world to understand is the income tax.”

Albert Einstein




“The Tax Stair Step”



What the Tax Laws Mean to Dentists?

1. Individual tax rates increased with a new higher rate from 35% to a new rate of **39.6%**.



AKT 58

2. **Taxes Have Gone Up!**



The top tax rate for capital gains and dividends will rise to **20%** (up from 15%).

In some instances the tax can rise even further by an additional **3.8%**.

AKT 59

Taxes Have Gone Up!




3. The personal exemption deduction of **\$4,000** is also being phased out based upon the dentist's income.

AKT 60

Taxes Have Gone Up!

4. Dentist's Itemized Deductions Will Be Limited:

- Home Mortgage Interest
- Charitable Contributions
- Property Taxes
- Sales Tax
- State Taxes




The reduction will not exceed 80% of the itemized deductions.

AKT 61

Taxes Have Gone Up!

5. The employee portion of the hospital insurance tax part of FICA is increased by **0.9%** on wages that exceed \$250,000.



AKT 62

Taxes Have Gone Up!

6. Dentists have a new Medicare Tax of **3.8%** on investment income. Investment income includes income from:

- Interest
- Dividends
- Annuities
- Royalties
- Rents and net gain from disposition of certain property



AKT 63

Know Your Tax Partners

IRS	39.6%
Social Security (12.4% of first \$118,500)	
Medicare (2.9% of all profit)	2.9%
Hospital Insurance Tax	0.9%
Medicare Surtax	3.8%
Itemized Deduction Phase-out	3.0%
Federal Total	50.2%
State Tax	0-11%
City, Local, Transit Taxes	0-2%
Taxing Partners	63.2%
DOCTOR'S SHARE	36.8%
	100.0%

AKT 64

"The Tax Stair Step"

AKT 65

How to Combat Rising Taxes?

**Invest
in
YOU!**

AKT 66

How?

Invest In Your
Practice!



Invest In Your
Retirement!



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PATIENT CONCERNS

1. Relationship with Doctor 
2. Relationship with Team 
3. Relationship with Office 

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Pertinent Legislation



Legislation is regarded as government, which are of to regulate, to proscribe, to sanction, to authorize separation of powers.

 69

Great News!

Section 179


Section 168



AKT 70

2015 Section 179


- Section 179
 - \$25,000
 - OR
 - \$500,000
- Reduction Limitation
 - \$200,000
 - OR
 - \$2,000,000



AKT 71

“Placed In Service”

- Readiness** – is it ready to perform its function?
- Availability** – is it available to perform its function?
- Capability** – is it capable of performing its function?



“Obligated to purchase”

The purchaser has executed a contract to pay in the future, created a liability, or has paid for the equipment in full.

AKT 72

Operatory – Retail \$65,000



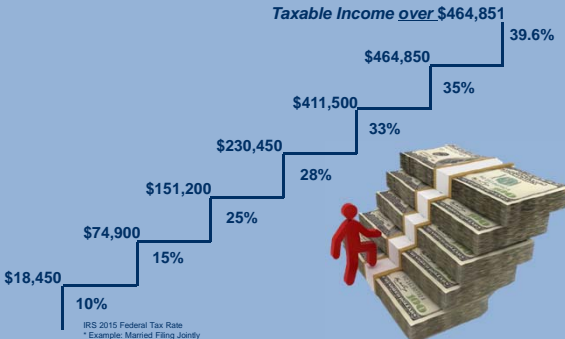
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2015 Law on Purchase of New Dental Equipment

	<u>2015 Laws</u>	
Dental Equipment Purchased	\$ 65,000	
1st Year Write-Off		
* Section 179 Expensing	25,000	
* Normal 1st Year Depreciation	8,000	
Total Deduction 1st Year	\$ 33,000	
Marginal Tax Rate	40%	
Tax Savings in 2015	\$13,200	20%
Tax Savings Over Next 4 Years	\$12,800	20%
Tax Impact of Current Laws	\$26,000	40%

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“The Tax Stair Step”



Taxable Income over \$464,851

IRS 2015 Federal Tax Rate
* Example: Married Filing Jointly

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Do You Need Another Operatory?

		<u>2015 Laws</u>
Dental Equipment Purchased	\$ 65,000	
		35%
Taxes Pay	\$ 22,750	
Dentist Pay	\$ 42,250	
New Operatory		
Produce Between	\$150,000-\$350,000	
General Dentist Profit	30%	
		\$45,000



AKT 80

**IRC Section 168
Depreciation**



Hospital Corp. of America,
et al vs. Commission, 109 TC 21 (1997)

AKT 81



Cost Segregation Study

Analysis of construction costs to separate all expenditures into structural versus non-structural categories

 82

Application


Capture costs of **special flooring, electrical, plumbing, and vacuum system** that support equipment uniquely designed for the dental industry.

These assets are depreciated over **5** years rather than **39** years.


 83

Timing is Everything – Cash is King

It is true that Cost Segregation only accelerates the deductions the practice would ultimately achieve over the life of the building.



However, would you rather have **\$10,000 today or \$256 per year for 39 years?**

 84

Tax Implications of a Project



85

New Building



Total Cost	\$766,946	100%
5 Year Property	\$275,222	35.89%
7 Year Property	\$4,855	0.63%
15 Year Property	<u>\$113,308</u>	<u>14.77%</u>
 Amount Reallocated	 \$393,385	 51.29%
39 Year Property	\$373,561	48.71%

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1st Year Effect



	<u>Cost Seg</u>	<u>w/o Cost Seg</u>
5 Year Property	\$55,044	
7 Year Property	\$694	
15 Year Property	\$5,665	
39 Year Property	<u>\$9,149</u>	<u>\$18,875</u>
Total	\$70,552	\$18,875

Additional 1st Year Depreciation Generated by Cost Segregation

\$51,677

87


A Treatment Plan for
Your Patients



Five Year Plan
2015 _____
2016 _____
2017 _____
2018 _____
2019 _____

How about a customized
Treatment Plan for the Practice?

AKT 91




**MISSING
THE
OBVIOUS?**

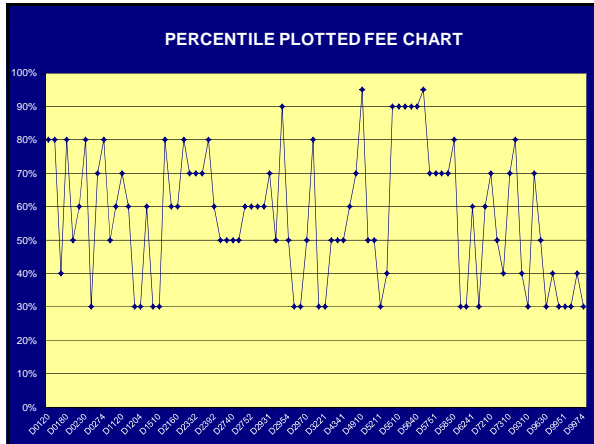
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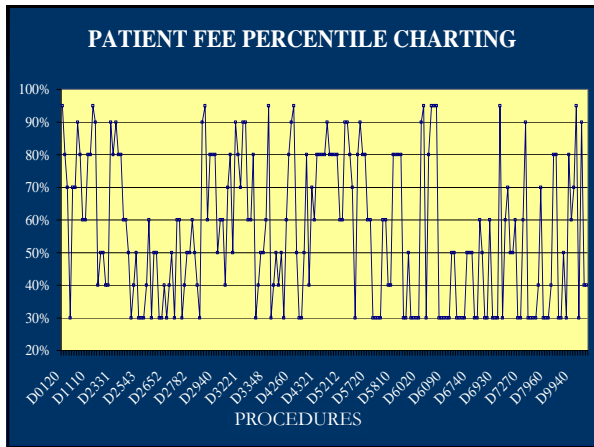
BALANCE FEES!

NO MATTER WHERE THEY ARE SET,
MOST PATIENTS ALREADY THINK THEY
ARE TOO HIGH.



MOMENTUM-DFA





MAINTAIN YOUR FEES!

After setting & balancing your fees,
adjust them at least annually.

You hurt yourself and your peers
by failing to stay current.



MOMENTUM-DFA

“THE DANGEROUS MIDDLE”

“THE NO-WIN MIDDLE”

“Quite often, I have dentists tell me that their fees aren’t the highest and they’re not the lowest. They are just right. Kind of like the bedtime story of Goldie Locks and the Three Bears. This is not just a children’s story it is a marketing no-no. Either be a low-cost leader or be among the highest priced. Wal-Mart or Neiman Marcus. Hyundai or Mercedes. As part of your brand-building strategy you must pick the side of the fence to be on. Being in the middle means nothing to consumers, and it’s hard to build a story around being the most ‘in the middle.’”



Joel Harris
Author of “Break Through Dental Marketing”

MOMENTUM-DFA

Want patients to pick you? *Set your practice apart.*



MOMENTUM-DFA

DEVELOP PATIENTS WHO RECOGNIZE QUALITY CARE AND VALUE YOUR SERVICES.



MOMENTUM-DFA

How to Combat Rising Taxes?

Invest in YOU!



AKT 104


Invest in Your Future Retirement



AKT 105

What is Your Number?

Only **44% of workers** report they have tried to calculate how much they will need to save in order to live comfortably in retirement.




\$4,575,200	\$4,347,500
\$3,755,802	\$2,876,555
\$2,514,875	

AKT 106

Survey

Worker confidence in having enough money to live comfortably throughout their retirement years

Not at all confident	23%	} 86%	
Not too confident	25%		
Somewhat confident	38%		
Very confident	14%		

* Statistics from Employee Benefit Research Institute, 2012 Retirement Confidence Survey

AKT 107

Survey

Worker confidence in doing a good job of preparing for their retirement years

Not at all confident	19%	} 81%	
Not too confident	17%		
Somewhat confident	45%		
Very confident	19%		

* Statistics from Employee Benefit Research Institute, 2012 Retirement Confidence Survey

AKT 108

Retirement Plan

- 96% of dentists have a practice sponsored plan.
- 30% have the wrong type of retirement plan.
- 50% are not gaining maximum benefit from their current plan.

AKT 109

Types of Retirement Plans

- ❖ IRA
- ❖ SEP
- ❖ Simple IRA
- ❖ 401(K)
- ❖ Defined Benefit
- ❖ Cash Balance



AKT 110

What Type of Retirement Plan Should I Have for My Practice?

What are the key decision points?

▪ Cash flow of the practice	▪ Future building projects
▪ Doctor's debt load	▪ Employee demographics
▪ Years to retirement	▪ Staff appreciation
▪ Retirement funding needs	▪ Monte Carlo results
▪ Income tax savings	

AKT 111

We tell our clients they may need to change their retirement plan several times during the life of their practice.




AKT 112

2015 Retirement Plan Contribution Limits

Retirement Plan Compensation Limit	\$265,000
Contribution Annual Addition Limits	\$53,000
401(K) Deferral Limit	\$18,000
Age 50+ Catch Up	\$6,000
Simple Plan	\$12,500
Age 50+ Catch Up	\$3,000
IRA Limit	\$5,500
Age 50+ Catch Up	\$1,000
New Plan Tax Credit	\$500

AKT 113

Example of 401(K) Profit Sharing Plan

Doctor (age 50) 401(K) Contribution	\$53,000	
Catch up Contribution	\$6,000	
	<u>\$59,000</u>	
Spouse (age 50) 401(K) Contribution	\$18,000	
Catch up Contribution	\$6,000	
	<u>\$24,000</u>	
Total Retirement Contribution	\$83,000	
At a IRS & State Tax Rate of	40%	
Tax Savings	\$33,200	

AKT 114








Are You Resilient?

The definition of **RESILIENT** is the ability to spring back quickly into shape after being bent, stretched or squashed.

Don't Panic!



AKT 121

If You Can See It, You Can Create It!



AKT 122

Isn't it Time that You Have a Written Plan?


PLANS

BE _____

DO _____

HAVE _____

LEAVE _____



AKT 123

Isn't It Time That You Invest In

You?



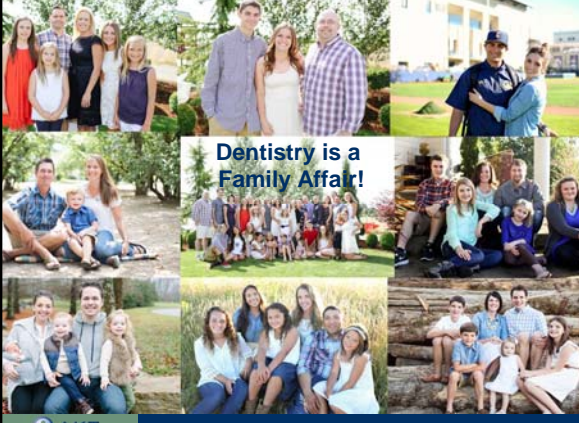
AKT 124

Dentistry is a Family Affair



AKT 125

Dentistry is a Family Affair!



AKT 126

**What Do You Want To Be
When You Grow Up?**



AKT 127

**So What Is It Going To Be?
New Year - New You!**



AKT 128


**“Use-It-Today”
Information**

***Use It !
don't lose it***

AKT 129

Thank You!
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"The Dentist's CPA"

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<http://aktcpa.com/AKT-Dental/>



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**Sources Cited &
Web Based Resources**

Book:

- Dr. Bill Lockard, DDS –
"The Exceptional Dental Practice –
Why Good Enough isn't Good Enough"
▪ <http://www.billlockarddds.com/>

Dental Economics articles on the internet:

- "The Unbooked Op" by Dr. Charles Blair
- "Increasing ROI by Saving Tax Dollars" by
Bob Creamer

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