What Every Dentist Should Know:
The Business Side of Dentistry

Bob Creamer, CPA
“The Dentist’s CPA”
Charleston, SC
May 1, 2015
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.
New Year! New You!

2015

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

Can Be Either

No Right

No Wrong

Can you be successful as a dentist?

YES!
Do you go to work for just a paycheck? or Is the practice your passion and hobby?

You Need to Work ON Your Practice, Not Just IN Your Practice!

How much potential is there in your practice? IT IS UNLIMITED!
What do we know about DENTISTRY?

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

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

Nobody Has A Better Job!
You Are Important To:
- You
- Spouse
- Family
- Dental Team
- Patients
- Dental Dealer
- Me!

“The most terrifying words in the English language are:
I’m from the government and I’m here to help!”
-Ronald Reagan

Dentist Salary Survey
U.S. News said,
“The take home pay is simply phenomenal.”
$164,570 with a median of $146,340.
Average Single General Dental Practice Survey

<table>
<thead>
<tr>
<th>Income/Collections</th>
<th>$942,695</th>
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<tbody>
<tr>
<td>Expense Type</td>
<td>Expense Amount</td>
</tr>
<tr>
<td>Dental Supplies</td>
<td>$63,197</td>
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<tr>
<td>Lab Expense</td>
<td>$66,104</td>
</tr>
<tr>
<td>Practice Invest/Development</td>
<td>$14,974</td>
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<tr>
<td>Occupancy Expenses</td>
<td>$55,059</td>
</tr>
<tr>
<td>Office/Overhead Expenses</td>
<td>$119,002</td>
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<tr>
<td>Staff Compensation</td>
<td>$299,999</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>$621,395</td>
</tr>
<tr>
<td>Net Operating Incomes</td>
<td>$321,300</td>
</tr>
<tr>
<td>Depreciation/Amortization</td>
<td>($42,577)</td>
</tr>
<tr>
<td>Practice Profit</td>
<td>$278,723</td>
</tr>
</tbody>
</table>

I think it is better than they report.

Our client average is 
$321,300
Our better than average is 
$430,689

U.S. Median Household Income

- $34,472 - 42,035
- $43,439 - 48,772
- $51,309 - 56,645
- $59,393 - 65,144
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.

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

Retirement

According to the ADA, less than 10% of dentists can retire at age 60 and maintain the same standard of living.
No Written Plan!

A Treatment Plan for Your Patients

Because You Are Care Givers!
A WISH is not a PLAN!

Drifting Through Life!

The VIEWS You Take Regarding Your Retirement Planning

Will Determine the VIEWS You Have During Retirement!
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?

Live Below Your Means!

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

The Key To Any Financial Planning is Monitoring
Your practice is your financial vehicle that will carry you through life.

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
DO SOMETHING
TAKE ACTION

BUILD A STRONG PRACTICE!

Dynamic Leader

Passionate Team
Dental Advisors
Inviting Office

Dynamic Leader
Passionate Team

One Bad Apple
CAN
Spoil the
WHOLE
Basket

Dental Advisors
Two Most Important Factors In Bringing You Success:

YOUR PERSONAL TECHNICAL EXCELLENCE

HIGH-PERFORMANCE TEAM
Together You Share a Meaningful Purpose!

The Purpose that Answers the Question - “WHAT IS OUR REASON FOR BEING?”

Practice with Shared Vision

Leader
- Office Manager
- Hygienist
- Clinical Assistant
- Laboratory Technician
- Treatment Coordinator
- Business Assistant
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

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

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.
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%.

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%.

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

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.

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
### Know Your Tax Partners

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRS</td>
<td>39.6%</td>
</tr>
<tr>
<td>Social Security (12.4% of first $118,500)</td>
<td></td>
</tr>
<tr>
<td>Medicare (2.9% of all profit)</td>
<td>2.9%</td>
</tr>
<tr>
<td>Hospital Insurance Tax</td>
<td>0.9%</td>
</tr>
<tr>
<td>Medicare Surtax</td>
<td>3.8%</td>
</tr>
<tr>
<td>Itemized Deduction Phase-out</td>
<td>3.0%</td>
</tr>
<tr>
<td><strong>Federal Total</strong></td>
<td><strong>50.2%</strong></td>
</tr>
<tr>
<td>State Tax</td>
<td>0 - 11%</td>
</tr>
<tr>
<td>City, Local, Transit Taxes</td>
<td>0 - 2%</td>
</tr>
<tr>
<td><strong>Taxing Partners</strong></td>
<td><strong>63.2%</strong></td>
</tr>
<tr>
<td><strong>DOCTOR'S SHARE</strong></td>
<td><strong>36.8%</strong></td>
</tr>
<tr>
<td></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

### "The Tax Stair Step"

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Tax Rate</th>
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</thead>
<tbody>
<tr>
<td>$18,450</td>
<td>10%</td>
</tr>
<tr>
<td>$74,900</td>
<td>15%</td>
</tr>
<tr>
<td>$151,200</td>
<td>25%</td>
</tr>
<tr>
<td>$230,450</td>
<td>28%</td>
</tr>
<tr>
<td>$411,500</td>
<td>33%</td>
</tr>
<tr>
<td>$464,850</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Taxable Income over $464,851</strong></td>
<td><strong>39.6%</strong></td>
</tr>
</tbody>
</table>

### How to Combat Rising Taxes?

**Invest in YOU!**
Section 179

Section 168

Great News!

2015 Section 179

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

“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.
2015 Law on Purchase of New Dental Equipment

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (2015 Law)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dental Equipment Purchased</td>
<td>$65,000</td>
</tr>
<tr>
<td>1st Year Write-Off</td>
<td></td>
</tr>
<tr>
<td>* Section 179 Expensing</td>
<td>$25,000</td>
</tr>
<tr>
<td>* Normal 1st Year Depreciation</td>
<td>$8,000</td>
</tr>
<tr>
<td>Total Deduction 1st Year</td>
<td>$33,000</td>
</tr>
<tr>
<td>Marginal Tax Rate</td>
<td>40%</td>
</tr>
<tr>
<td>Tax Savings in 2015</td>
<td>$13,200 20%</td>
</tr>
<tr>
<td>Tax Savings Over Next 4 Years</td>
<td>$12,800 20%</td>
</tr>
<tr>
<td>Tax Impact of Current Laws</td>
<td>$26,000 40%</td>
</tr>
</tbody>
</table>

"The Tax Stair Step"

- Taxable Income over $18,450: 10%
- $18,450: 15%
- $74,900: 25%
- $230,450: 28%
- $411,500: 33%
- $464,850: 35%
- $464,851: 39.6%

IRS 2015 Federal Tax Rates
Example: Married Filing Jointly
DOCTOR!
YOU ARE IN CONTROL!

A Window of Opportunity
2015
Riding Camels in Egypt

Do You Need Another Operatory?

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dental Equipment Purchased</td>
<td>$65,000</td>
</tr>
<tr>
<td>2015 Laws</td>
<td>$65,000</td>
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<tr>
<td>Taxes Pay</td>
<td>$22,750</td>
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<tr>
<td>Dentist Pay</td>
<td>$42,250</td>
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<tr>
<td>New Operatory</td>
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<tr>
<td>Produce Between</td>
<td>$150,000-$350,000</td>
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<tr>
<td>General Dentist Profit</td>
<td>30%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$45,000</strong></td>
</tr>
</tbody>
</table>

IRC Section 168 Depreciation

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

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

---

**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.

---

**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?
Tax Implications of a Project

New Building

<table>
<thead>
<tr>
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<th>Total Cost</th>
<th>100%</th>
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</thead>
<tbody>
<tr>
<td>5 Year Property</td>
<td>$275,222</td>
<td>35.89%</td>
</tr>
<tr>
<td>7 Year Property</td>
<td>$4,855</td>
<td>0.63%</td>
</tr>
<tr>
<td>15 Year Property</td>
<td>$113,308</td>
<td>14.77%</td>
</tr>
<tr>
<td>Amount Reallocated</td>
<td>$393,385</td>
<td>51.29%</td>
</tr>
<tr>
<td>39 Year Property</td>
<td>$373,561</td>
<td>48.71%</td>
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1st Year Effect

<table>
<thead>
<tr>
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<th>Cost Seg</th>
<th>w/o Cost Seg</th>
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</thead>
<tbody>
<tr>
<td>5 Year Property</td>
<td>$55,044</td>
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<tr>
<td>7 Year Property</td>
<td>$694</td>
<td></td>
</tr>
<tr>
<td>15 Year Property</td>
<td>$5,665</td>
<td></td>
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<tr>
<td>39 Year Property</td>
<td>$9,149</td>
<td>$18,875</td>
</tr>
<tr>
<td>Total</td>
<td>$70,552</td>
<td>$18,875</td>
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</table>

Additional 1st Year Depreciation Generated by Cost Segregation

$51,677
1st Year Effect Using Section 179

<table>
<thead>
<tr>
<th></th>
<th>Cost Seg</th>
<th>w/o Cost Seg</th>
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</thead>
<tbody>
<tr>
<td>5 Year Property</td>
<td>$60,514</td>
<td></td>
</tr>
<tr>
<td>7 Year Property</td>
<td>$4,855</td>
<td></td>
</tr>
<tr>
<td>15 Year Property</td>
<td>$113,308</td>
<td></td>
</tr>
<tr>
<td>39 Year Property</td>
<td>$9,149</td>
<td>$18,875</td>
</tr>
<tr>
<td>Total</td>
<td>$187,826</td>
<td>$18,875</td>
</tr>
</tbody>
</table>

Additional 1st Year Depreciation Generated by Cost Segregation & 179

$168,951

Benefits of Performing a Cost Segregation Study:

For "ground up dental buildings" we are seeing 24% to 45% of total build cost being reallocated from 39-year property to a much shorter life, as little as just 5 years.

Benefits of Performing a Cost Segregation Study:

For "leasehold build-outs of dental space" we are seeing 45% to 65% of total build costs being reallocated from 39-year property to a much shorter life, as little as just 5 years.
A Treatment Plan for Your Patients

How about a customized Treatment Plan for the Practice?

Five Year Plan
2015
2016
2017
2018
2019

MOMENTUM-DFA

MISSING THE OBVIOUS?

MOMENTUM-DFA

BALANCE FEES!
NO MATTER WHERE THEY ARE SET, MOST PATIENTS ALREADY THINK THEY ARE TOO HIGH.
INCREASE CASH FLOW

Adjusting fees can generate additional revenue and cash flow to meet the financial needs of the practice and allow the practice to continue to offer optimal care. This is done without additional chair time or overhead.

WE’RE TALKING REAL DOLLARS

In 2013, for doctors for whom we facilitated a Fee Analysis & Revenue Optimizer project, the average potential revenue growth was $92,000 at the 70th percentile.
MAINTAIN YOUR FEES!

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

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

“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”

Want patients to pick you? Set your practice apart.
DEVELOP PATIENTS WHO RECOGNIZE QUALITY CARE AND VALUE YOUR SERVICES.

How to Combat Rising Taxes?
Invest in YOU!

Invest in Your Future Retirement
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.

Survey

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

- Not at all confident: 23%
- Not too confident: 25%
- Somewhat confident: 38%
- Very confident: 14%

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

Survey

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

- Not at all confident: 19%
- Not too confident: 17%
- Somewhat confident: 45%
- Very confident: 19%

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

Types of Retirement Plans

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

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

What are the key decision points?

- Cash flow of the practice
- Doctor’s debt load
- Years to retirement
- Retirement funding needs
- Income tax savings
- Future building projects
- Employee demographics
- Staff appreciation
- Monte Carlo results
We tell our clients they may need to change their retirement plan several times during the life of their practice.

**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

**Example of 401(K) Profit Sharing Plan**

- Doctor (age 50) 401(K) Contribution: $53,000
- Catch up Contribution: $6,000
  
  **Total Retirement Contribution**: $59,000
- Spouse (age 50) 401(K) Contribution: $18,000
- Catch up Contribution: $6,000
  
  **Total Retirement Contribution**: $24,000

**At IRS & State Tax Rate of 40%**

**Tax Savings**: $33,200
Tumble Weed, Texas

Purchase $100,000

$40,000 ($25,000 + $15,000) @ 40% saves $16,000
Purchase $100,000

$40,000 ($25,000 + $15,000) @ 40% saves $16,000
Quarterly Estimated Tax Payments Reduced

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>APRIL 15TH</td>
<td>$4,000</td>
</tr>
<tr>
<td>JUNE 15TH</td>
<td>$4,000</td>
</tr>
<tr>
<td>SEPTEMBER 15TH</td>
<td>$4,000</td>
</tr>
<tr>
<td>JANUARY 15TH</td>
<td>$4,000</td>
</tr>
</tbody>
</table>

Tax Savings During One Year $32,000

DO SOMETHING!

"In any moment of decision, the BEST thing you can do is the RIGHT thing, the NEXT BEST thing is the WRONG thing, and the WORST thing you can do is NOTHING!"

- Theodore Roosevelt, 26th President of the United States
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!

If You Can See It, You Can Create It!

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

PLANS

BE
DO
HAVE
LEAVE
Isn’t It Time That You Invest In You?

Dentistry is a Family Affair!
What Do You Want To Be When You Grow Up?

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

“Use-It-Today” Information

Use It! don’t lose it
Thank You!
Bob Creamer, CPA
“The Dentist’s CPA”
Director of Dental Services at AKT
503.585.7774
bcreamer@aktcpa.com
http://aktcpa.com/AKT-Dental/

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