TOTAL PRACTICE SOLUTIONS GROUP

Fall 2008
Volume 1 ■ Issue 2

Hints & Tips

Veterinary practice brokers focused on the financial success and growth of fellow veterinary professionals.

Broker Hints

Selling or buying a veterinary practice can be a challenging endeavor.

This is because the valuation process of professional practices has developed into a professional discipline into its own right.

The goal of a veterinary practice appraisal, or valuation, is usually to determine the fair market value of the practice. The formal definition of fair market value, established by the American Society of Appraisers, is "the amount at which property would change hands between a willing seller and willing buyer when neither is acting under duress, and when both have reasonable knowledge of the relevant facts".

Thus, any compelling force such as death, burnout, or disability by the seller will change the playing field between buyer and seller and ultimately result in a so called "fire sale".

The most critical aspect in determining the fair market value of the veterinary practice is choosing the appropriate valuation method. The following are the more popular valuation methods used in valuating any small business.

- **Capitalized Excess Earnings Method:** This tends to be the most commonly used method of valuating a veterinary practice.
- **Discounted Economic Income Method:** While the excess earnings method looks to the past for its value, the discounted income method looks to the future.
- **Comparative Transaction Method:** A value is established by relying on information gathered from similar transactions in the market place.
- **Rules of Thumb Method:** While not a formal "method" of valuating a veterinary practice, it was a very popular method used some forty years ago. There, a percentage of gross revenue was used and was designed to represent good will of the practice.

We will discuss each of these methods and complicating factors in more detail in future issues. This will allow you to understand why you want a professional appraisal when valuating a practice and for you to be comfortable with the method the appraiser is going to utilize. The method, along with other factors, will have a dramatic effect on the value of your practice.

Article provided by:
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Tax Tips

Be Careful When Giving Expense Allowances to Employees!

When giving employees monthly allowances or per diems for items such as car expenses incurred for work, or reimbursement for continued education, travel expenses, great care should be given. If you are using allowances and per diems, you need to make sure:

- The amounts paid are for tax-deducible expenses.
- The expenses are accounted within a reasonable period of time.
- Any excess allowances or per diems are returned within a reasonable period of time.

In revenue ruling 2006-56, the IRS ruled that if you use an expense allowance or per diem reimbursement without a mechanism to determine the proper deduction, the IRS will simply classify all payments made under these plans as wages.

Also keep in mind that if you claimed these amounts as expenses and they are now classified as wages, you have failed to remit payroll taxes and now face trust fund penalties of 100% for employee withholdings not remitted on a times basis to the government. This is a very stiff penalty!

How to avoid the penalty? I recommend against the use of allowances. Giving an employee a car allowance, for example is a bad idea. The allowance produces tax problems for you.

Actual expense reimbursement is a better solution to the allowance method.

Paying a per diem for travel can be all right, but you still need to track business purposes and amounts. You have to track purpose and amounts in any event, so the minor extra paperwork to track actual expense is worth it and avoids the tricky per diem rules.

Save yourself the time and hassle: reimburse employees for actual expenses.

Article provided by:
Sean P. Lachey, CPA, Lackey & Company CPAs 216.928.0017

Coping with volatility in the stock market

Stock market volatility has increased over the last 6 months.

Such volatility is creating a challenge for us as investors and particularly for those who have not experienced such volatility. While you may feel that substantial dips in the stock market in the short term may be the beginning of worse things to come, it is important to remember that market setbacks are normal when investing in stocks as well as other assets.

A history of declines (1900 – November 2007)

Type of Decline	Average Frequency	Average Duration *	Most Recent Occurrence
Routine (-5% or more)	About 3 times a year	47 days	November 2007
Moderate (-10% or more)	About once a year	114 days	October 2002
Severe (-15% or more)	About once every 2 years	216 days	October 2002
Bear market (-20% or more)	About once every 3.5 years	332 days	October 2002

Source: Capital Research and Management Company, as measured by the unmanaged Dow Jones Industrial Average. Assume 50% recovery rate of lost value.

* Measures market high to market low.

Risk vs. Volatility: More broadly, volatility refers to the degree (typically short-term) of unpredictable change (rise or fall sharply) over time of a certain variable (security or market). Risk is the possibility of an investment losing value. The risk level of your portfolio directly affects the volatility associated with it. In order to reduce the volatility of your portfolio you can take the following steps:

1. Control your emotions – emotions are the number one factor affecting performance.
2. Establish or re-examine your investment goals, time horizon, risk tolerance and financial circumstances.
3. Spread your risks by investing in a carefully selected mix of assets.
4. Review your portfolio holdings annually.
5. Rebalance your portfolio no less than annually to help control risk.
6. Invest regularly.
7. Invest in vehicles paying dividends during a volatile market.

No one can consistently predict when markets will decline or rally… and historically, market declines have been brief. Following a consistent approach will benefit you over the long run.

Please note: rebalancing investments may cause investors to incur transaction costs and, when rebalancing a non-retirement account, taxable events will be created that may increase your tax liability. Rebalancing a portfolio cannot assure a profit or protect against a loss in any given market environment. Investors should be aware that investing based upon strategies or models does not assure a profit or guarantee against loss.

Article provided by:

Anthony P. Campagni, CFP® of Strata Financial Group, LLC., 6099 Riverside Drive, Suite 104, Dublin, OH 43017

For any questions on this article or any other financial matters, you can contact me at: (614)-798-8666 or apc@stratafinancial.com. *Securities offered through Royal Alliance Associates, Inc., Member FINRA & SIPC. This communication is intended for individuals residing in the following states: Arizona, California, Colorado, Florida, Georgia, Idaho, Illinois, Kentucky, Maryland, New York, Ohio, South Carolina, Tennessee and Washington. No offers may be made or accepted from any resident outside the specific states referenced.*

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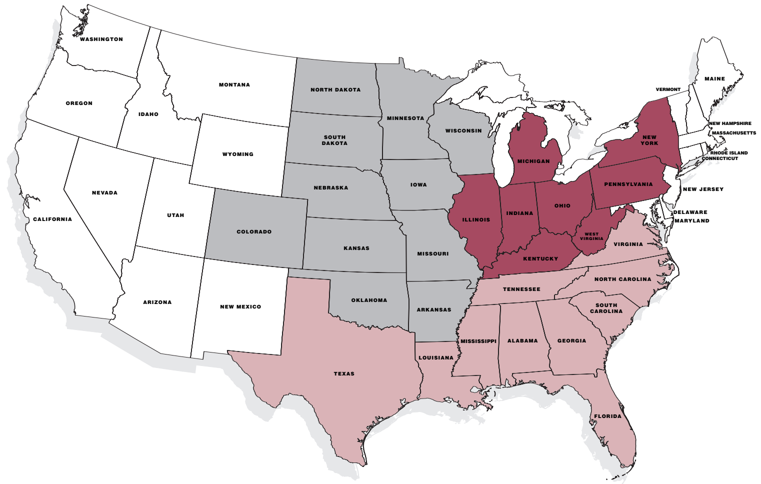

George R. Sikora, DVM
732 State Route 89 ■ Suite 2 ■ Polk, OH 44866
Office: 419.945.2408 ■ Fax: 419.945.1508 ■ Cell: 330.635.0661
Toll Free: TPS.4.TPS.SOLD
E-mail: georgesikora@totalpracticesolutionsgroup.com

Len Jones, DVM
11911 US Hwy 80 W ■ Shorter, AL 36075
Office: 334.727.2067 ■ Fax: 334.727.5105 ■ Cell: 334.703.5837
E-mail: lenjones@totalpracticesolutionsgroup.com

David D. Davenport, DVM
19603 Harrelson Dr. ■ Belton, MO 64012
Office: 816.331.9449 ■ Fax: 816.331.9445 ■ Cell: 816.804.2861
Toll Free: 1.800.457.2315
E-mail: davedavenport@totalpracticesolutionsgroup.com