TOTAL PRACTICE SOLUTIONS GROUP

Spring 2008
Volume 1 ■ Issue 1

Hints & Tips

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

Broker Hints

Veterinary Practice Values

In our last issue (Spring 2008), we discussed the difficulty of buying and selling a veterinary practice. We also briefly discussed several methods used to evaluate a veterinary practice.

We believe valuing a practice requires an in-depth analysis of the practice's historical operations. It also requires the appraiser to evaluate the likelihood of future operations continuing at a similar level of profitability. Other aspects such as location, quality of staff, quality of medicine, etc., must also be considered.

There is no single valuation method that can be applied to all practices. The most difficult asset to evaluate is goodwill, or intangible assets. We believe the best method to evaluate goodwill is the Capitalized Excess Earnings Method. This method is also called the Income Method. In this approach, excess earnings, generated by an asset, are capitalized based on a reasonable return of the investment. The capitalization factor takes into account the risks that the asset displays in generating income in the future.

This method also adds in the value of the tangible assets, which include inventory and equipment. The value of equipment is based on original cost and its expected useful life. Some equipment can be completely depreciated for tax purposes, but still have a dollar value. Our method does not include account receivables, accounts payable or cash on hand.

We would also like to point out that, while this is the most common method used, it can have flaws. Since it is formula based, it may have errors due to the many variables in different practices.

In today's market, many sellers are finding there are a limited number of buyers. With these conditions, buyers are more selective than ever before. In the final analysis, a practice must be able to have enough cash flow to compensate veterinary labor and a suitable return on investment to the owner.

Obviously, in our industry there is no set standard for evaluating a veterinary practice. Our intent is to educate buyers and sellers on the need to hire a competent evaluator. Using the wrong method or "rule of thumb" can have devastating results for both a buyer and seller.

If you need financial assistance with practice acquisition or equipment purchase, call us, we have lenders available to help with financing.

Article provided by:
Total Practice Solutions Group

Tax Tips

Are there any pitfalls in a "Husband and Spouse" Business?

Suppose you're an employed veterinarian, receiving a W-2 in 2007 for $100,000 for the year. In addition, you have a proprietorship that earns another $100,000 a year. Your spouse works with you in the proprietorship and puts in more hours than you. You have decided not to pay them. You report all the income on your Schedule C on your 1040. Are there any problems with this?

Yes, there sure are. You need to establish that your spouse is an employee and not a business partner. You can do this without incurring any double tax on payroll and so on by paying your spouse fringe benefits only. For example, you could have a section 105 medical reimbursement plan that covers your spouse and their family (including you, of course). In its Industry Specialized Programs, the IRS recognizes that one spouse can cover the other spouse with the medical plan and count the medical plan as nontaxable remuneration.

If you don't do this, the IRS could assert that you and your spouse are in a partnership, meaning that your spouse could be hit with a self-employment tax of almost $7,500 on the $50,000 half of the business income the IRS might allocate to them. You don't want this tax. You don't want to tangle with the IRS.

AVOID THE HASSLES!!! Establish paperwork and benefits that prove that your spouse is an employee.

Article provided by:
Lackey & Company CPAs 440.871.0609

Life Insurance for the Business Owner

In addition to personal life insurance, small business owners have specific needs that can be solved with the use of life insurance. There are several areas in which life insurance can be used to benefit the business owner. Three of these are:

- Key Person Life Insurance
- Funding of Buy Sell Agreement
- Life Insurance in the Sale of Your Practice

In this issue we address the need for Key Person Life Insurance. Key person life insurance helps reimburse a business for economic loss when a key employee dies. The insurance covers the life of an employee who is critical to the success and profitability of the business and can be used to offset business risk. In the event of a loss, proceeds can offset interrupted or lost cash flow, provide funds to hire a temporary substitute, and offset expenses for short term operations and the cost of hiring a qualified replacement.

A key employee generally is an employee or owner who has a significant impact on the revenues or functioning of the practice. If the loss of a key employee or partner would reduce your sales or business earnings, create a loss of a specialized skill, disrupt the daily operation of your business, or create concern among customers about the loss of expertise, then you should consider the need for key person coverage.

In purchasing key person insurance, the business applies for and is the beneficiary of a life insurance policy covering a key employee. If the insured employee dies, the business owner receives the policy proceeds. Premiums aren't deductible, but death proceeds are federal income tax free to the business if the policy is structured properly.

The benefits are that death proceeds are generally exempt from federal income tax. However, C-Corporations may be subject to the corporate alternative minimum tax on part of the death proceeds.

The policy generally demonstrates financial stability to creditors. If the key employee is an owner of the business, the policy can help fund a buy-out of his or her business interest when death occurs.

When using whole life or cash value life insurance, the cash value can be used to provide cash to the business or to provide compensation.

Term insurance is the least expensive and most flexible type of policy to provide coverage. However, it does not have any cash value buildup. Coverage, not cash value, is the most important aspect, so if cost is an issue, purchase term insurance.

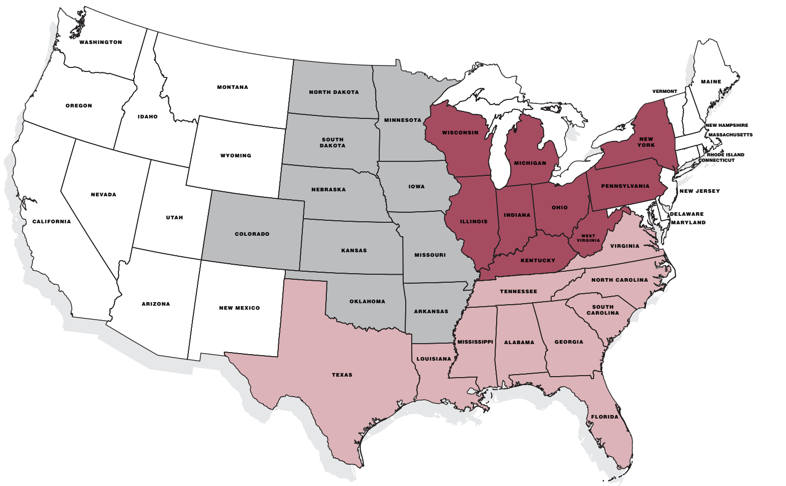
Careful consideration should be used to determine your company's specific needs, and the proper structure of the Key Person life insurance policy.

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.

For information: Contact the Total Practice Solutions Group Associate in your area of interest



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