

The Real 25%+ Practice Value Decline Risk in 2020

In my 60 short years, I have never witnessed such a clear and defined risk of imminent tax increases which could reduce your net proceeds from a sale of all or part of your business by 20% or more. **The multi-million dollar bet that you are making today** by not considering monetizing part or all of your life's work NOW vs. in 2021 or later is that the Democrats will not take the White House.

Each of the leading Democrat candidates have committed to raising the Long-Term Capital Gains tax rates to close to 40% from the current 20%, immediately upon election. This will have a negative, multi-million dollar impact on the net value you realize.

The average LPS transaction in 2019 was over \$10,000,000. Using that same value for a transaction completed in 2020, doctors are guaranteed a maximum federal tax rate of 20%, thus a roughly \$2,000,000 tax bill. Since a sale process typically takes about six months, doctors who delay starting the process until after June 30, 2020 are potentially looking at a \$4,000,000 federal tax bill on the same transaction closed in 2021 vs. 2020.

Certainly, your practice and EBITDA are growing, but the growth of your EBITDA while waiting will have to be massive to offset a 100% increase in Federal tax rates. Consider the math of waiting, and calculate the net cash to you even with a 25% growth in EBITDA, something we hear promises of, but don't see very often:

Example: Transaction closed in 2020:

Current Practice EBITDA: \$1,600,000

Practice Value: \$10,000,000 (6.25X EBITDA)

Sale of 80% of the Practice, Cash Proceeds: \$8,000,000

Federal Tax: \$1,600,000

Net Proceeds: \$6,400,000 after tax (Plus 20% retained equity ownership)

Same Transaction closed in 2021:

Then EBITDA: \$1,600,000

Value of Practice: \$10,000,000

Sale of 80% of the Practice, Cash Proceeds: \$8,000,000

Federal Tax: \$3,200,000

Net Proceeds: \$4,800,000 after tax (25% reduction from 2020)

Continue below to see what happens even with a 25% growth in practice EBITDA

Transaction closed in 2021 with 25% EBITDA increase:

Your Projected EBITDA by 2021: \$2,000,000

Practice Value: \$12,500,000

Sale of 80% Cash Proceeds: \$10,000,000

Federal Tax: \$4,000,000

Net Proceeds After Tax: \$6,000,000

Summary

Even if your practice net income, or EBITDA were to grow by a stunning 25%, **closing a transaction in 2021 would result in \$400,000 LESS net cash in your pocket vs. closing in 2020 on your current EBITDA.** You get no benefit for another year of hard work, even if you achieve massive practice improvement. You are penalized.

I have no idea who will win the election. This is also not an accurate accounting of the tax bill as I have not factored in state taxes, your tax basis in the assets sold, nor the well deserved nominal and tax deductible fee that LPS would receive. **BUT, the magnitude of the potential impact of waiting is considerably fewer millions in YOUR pocket.**

If you are willing to take the risk that the democrats lose, we will look forward to working with you in 2021 with your 25% higher EBITDA. However, if this is not a multi-million dollar bet you want to make, please give us a call.

There are plenty of unknown risks of waiting including natural disasters, key referral sources selling to DSOs and your health. But, a 100% increase in Federal tax rates is a real and known risk in my book.