

Taxes for Dental Practice Monetization in 2021/2022; *Even Uglier Than You Think*

Since Biden became the presumptive candidate, I have been shouting that 2020 is the year for doctors to monetize a part of their practice. Not just because we have seen the peak in practice values, but because taxes are going UP in 2021. And that was before “we the people” signed up for another \$Five Trillion+ in debt thanks to COVID. Many doctors are now grasping this once in a lifetime opportunity and we have signed over \$300,000,000 in new clients since April first. Fortunately, we have also signed Letters of Intent for \$221,000,000 in client value with great partners, all to close in 2020.

Bottom Line if 2021 Tax Rates are Increased as Promised:

You can grow your bottom line (EBITDA) 20% in 2021 and 20% again in 2022 **and still net less after tax than if you monetized in 2020**. You will just work harder and longer to pay the government higher taxes and net less in your pocket. And can you grow your bottom line 20% for two years in a recession? What was your EBITDA growth in the boom of 2018 and 2019?

By now, everyone who is paying attention knows that the leading candidate for the U.S. presidency has stated repeatedly that he will eliminate the Long-Term Capital Gains tax preference on investments and increase the top rate on ordinary income to 39.6%. (vs. 20% today). Do not forget that you may also be subject to the Obama 3.8% investment gains tax as well. This could take your Federal tax bill on the sale of all or part of your practice to 43.4% in 2021. Of course, most states also add their own taxes on top of this which are only deductible against the federal taxes up to \$10,000. See your state tax rates here: **IRS**

And if you think that closing a deal early in 2021 will avoid the tax before it is implemented early on in the new administration, you are probably wrong. Note Bill Clinton’s August 1993 tax hike that was **retroactive to January 1, 1993**. And this was before the COVID bailout bill comes due.

For most doctors, this is a moot point as only very unique practices in the right cities could start the process on August 15 and complete a deal in 2020. To make matters even worse, today’s Wall Street Journal points out that California is proposing to increase its tax on investment gains from a mere 13.3% to a new and exciting level of 14.3% on incomes over \$1.0 million and scaling up to 16.8% on incomes (including capital gains) over \$5.0 million. As an added bonus, the proposal makes the 2020 tax increase retroactive to January of 2020. The other states may have lower rates now, but they will also climb in 2021. Income taxes, property taxes and sales taxes will also all go UP.

In 2021, the lucky doctors in California could see a tax rate of Federal and State taxes of up to 60.2% on the proceeds from the sale of part or all of their practice. Really. That is up from the relatively low 33.3% you would pay in California in 2020.

So Why Do I Send this Now?

If you have a stunning practice in the right place, you MAY be able to get a deal done in 2020 if you hurry. Probably not, but call or email to set up a call with me to find out.