How viable is your dental practice?

The following story of how a dentist narrowly avoided disaster supports NASDAL’s Avoid a Spanner in the Works campaign.

A dentist nearly placed herself in financial jeopardy by buying a dental practice which couldn’t deliver the income she needed. Fortunately, she contacted a NASDAL member and here she tells the story of how she averted disaster thanks to a viability forecast.

I was working as an associate in a mainly private practice and was delighted to be given the first refusal, by my principal, to buy it. I passed the practice’s accounts onto my accountant and financial advisor who both agreed that it was an opportunity not to be missed. But throughout, I had a nagging feeling the practice was not going to deliver the predicted annual profit of £140,000. I explained carefully to the advisors I had at that time I could only work three days compared to my principal who was working five days. I was reassured that this wasn’t a problem and arranged to see the bank manager to arrange a loan.

The bank manager thought the figures were brilliant and discussed how I would be taking out over £90,000 in dividends and had plenty left over to employ extra staff. I again stressed that I worked fewer days than my boss but this appeared not to matter. In fact the bank manager was sure the amount I’d be able to pay myself did not even cover my household bills! I was devastated, but also angry that if I hadn’t had had the NASDAL accountant’s advice I could have proceeded with the purchase and ended up in financial hardship.

‘I would strongly advise any dentist wishing to buy a practice to make sure you get a viability forecast and it is done by an accountant who specialises in this field.’

The NASDAL accountant explained that although figures showed that the annual practice profit was £140,000, this was only the starting point. That figure would come down substantially because the dentist wishing to acquire the practice could only work a three day week.

The more work a practice-owner pays an associate to carry out, the more the practice profits drop. Also, unlike the practice vendor, the buyer would have to make bank loan capital repayments of £35,000 a year out of taxed profits.

‘A detailed financial forecast of income and expenditure was prepared, using the practice’s accounts and NASDAL benchmarking statistics as an additional guide. This revealed the current annual profit of £140,000 was going to be substantially depleted to the point where it simply wasn’t a viable proposition for the prospective buyer. Despite considering a number of alternative ways of reducing costs and increasing income, it just couldn’t be made to work.’

The conclusion: anyone buying a practice should work hand in hand with a specialist dental accountant with experience of preparing dental practice financial forecasts.

'How a dentist narrowly avoided disaster thanks to a viability forecast'

NASDAL highlights the difference a specialist advisor makes

The telltale signs you should be speaking to a specialist

• When you are having financial problems and your NHS contract isn’t working for you and your non-specialist accountant says: “Why don’t you put your prices up”

• When you ask your accountant about forming an associate to carry out, the more the practice profits drop’

• When the solicitor you have employed to assist you buy a practice produces a contract of just two pages (the NASDAL standard contract is 80 essential pages).

• When you have just bought an incorporated practice and discover that the NHS Contract is in the name of the dentist you bought from and not in the name of the company you had agreed to buy.

• When you tell your accountant that your prices have increased, your accountant has failed to increase your taxable profit to reflect the lower earnings – so you have to pay an inflated tax bill as well as the claw back in the same year.

• When you have claw back to pay but the accountant you are using hasn’t adjusted your taxable profit to reflect the lower earnings – so you have to pay an inflated tax bill as well as the claw back in the same year.

• When you ask your accountant about forming a partnership with your other half and they fail to warn you that to be legal, both partners must be GDC registrants.