

Teaming up

If you're buying or selling a share of a practice you'll need to consider partnership options and the impact it will have on the value of goodwill, says Martyn Bradshaw

Partnership structures within a dental practice commonly fall into one of two types: expense sharing or true partnership. Some practices adopt a hybrid of the two.

Under a true partnership, profits are split equally, regardless of the individual partners' fee, income, or days worked. The risk of inequalities makes this a potentially flawed agreement and

is therefore unpopular.

The expense-sharing route, where the principals split either some or all of the expenses, allows for a profit distribution more in line with individual fees produced. A hybrid arrangement may involve the partners taking a percentage of the fees produced as the first layer of income (similar to an associate), with residual profit or loss then split equally.

Goodwill valuations

A goodwill valuation should take account of the partnership structure. If you are considering expense sharing, it is not relevant to simply undertake a valuation on the whole practice and divide it by the number of partners. The valuation should be based on the actual share being purchased, which involves an analysis of the purchaser's potential gross fees and share of the remaining associate income. An experienced valuer will combine this analysis with a projected profit and loss account for the purchaser to ensure that the structure is financially viable.

Sole-owners considering the part sale of their practice run the risk of devaluing their retained interest at the point of their final exit. However a balanced view is called for, as the partial sale may produce some advantages in the form of raising capital, sharing managerial and administrative duties and not least the opportunity to continue work with similar rates of pay.

Partnerships – dispute prevention and protection

A formal partnership agreement should be written by a specialist dental solicitor (see www.apsd.co.uk) to reduce the likelihood of a future dispute.

Partnership protection insurance is recommended to protect dependents and surviving business partners in the event of a partner's death. This enables surviving business partners to retain control of the business and 'buy out' the (non-clinical) dependents of their deceased business partner, without the need to raise finance. Crucially, the deceased's dependents can offload their inherited business shareholding and release the cash value of the inherited goodwill, for which they have no use. This arrangement should be supported by a 'cross option agreement' written into the partnership deed/agreement. **DT**



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