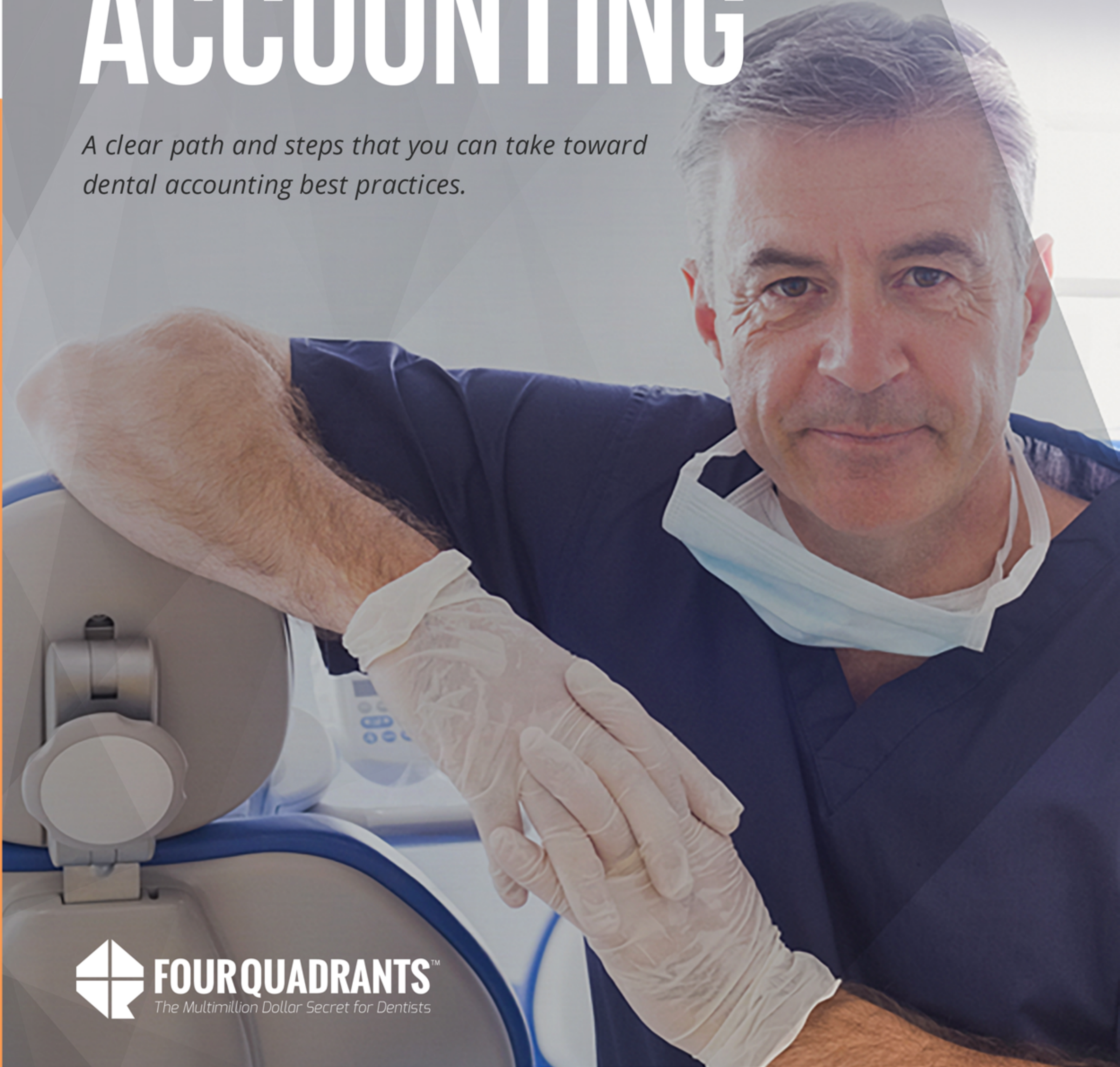
DENTAL ACCOUNTING

A clear path and steps that you can take toward dental accounting best practices.



FOUR QUADRANTS™

The Multimillion Dollar Secret for Dentists

As a dental practice owner, you should be able to practice without fear of financial ruin or tax surprises. You work hard every day. Your family and your staff depends on you.

BUT THERE'S A PROBLEM

You know deep down that your financial situation is a scary mess. Maybe you got a big tax surprise this year and you weren't prepared. Perhaps you're thinking, "Does my tax advisor actually know how to deal with my practice's finances and challenges. Are they looking at the big picture of my practice's financial health, or am I just a box to check off at the end of the year?" We know that accounting practices for dentists are unique and we understand the challenges.

IN THIS GUIDE...

we provide a clear path and steps that you can take toward dental accounting best practices. So that you can look forward to a future where your practice is running smoothly and you're not up late at night worrying about tax surprises or accounting headaches.

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3 DENTAL ACCOUNTING MISTAKES TO AVOID

As financial and business advisors for dentists/specialists in more than 30 states, Four Quadrants defines a tax surprise as any tax refund or taxes owed over $10,000 in a given year. So if that's happening to you something is broken. By managing a client's tax liability consistently throughout the year, surprises can be mitigated and even eliminated. Here are 3 common mistakes tax advisors or dental accounting systems make that can hurt your practice:

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1. MISSING THE MARK ON ESTIMATED TAXES

Most accountants calculate your estimated taxes based on your prior year profits. This works great for the Q1 payment, but most accountants almost always fail to evaluate business profitability throughout the year. How does this happen? Say, for instance, you have a year of decent growth and a drop in expenses. In a practice that collects $1 million a year, your practice's net profit can easily swing more than $100,000. This translates into a $40,000 surprise your accountant didn't detect.

2. INFREQUENT RECONCILIATION OF BOOKS.

Most dentists are lucky to meet with their accountant once or twice a year. And when they typically have the "tax-planning meeting" late in the year, much of the opportunity to spot and avoid tax surprises has passed. A semi-annual or even quarterly reconciliation just won't cut it. Outdated numbers lead to a lack of monitoring; this lack of monitoring means your accountant didn't catch the $100,000 in profit until you have very little time to plan for it. How are you going to cobble together an additional $40,000 to cover a tax surprise from a situation that otherwise should be celebratory?

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3. FINDING A PROBLEM TOO LATE MAKES NEW PROBLEMS APPEAR WHEN THEY COULD'VE BEEN AVOIDED.

As this snowball builds upon itself, you realize why so many people dread "April 15th." Just as you pay for the mistakes of last year, you will also have to pay the estimate for Q1 of this year—the proverbial "double-whammy." How could an unexpected increase in revenue cause so much PAIN?

If these examples sound familiar you're not alone. In a desperate attempt to avert the pain above, many of your colleagues hoard cash. In other instances, they ride the peaks and valleys of thick and thin monthly income waves pinching the pennies just in case.

No matter who you are or what you produce, subjecting yourself, your employees, and your family to this cash flow roller coaster constricts your opportunity to build wealth long-term. The ultimate failure that results from bad tax planning is the inability to save enough for retirement consistently and we think that is an absolute tragedy that is often overlooked.

Planning to avoid tax surprises and calming tumultuous income waves is what we do. Ultimately it's our goal for all of our clients to stabilize their practice income so they can save $100,000 or more each year for retirement.

ONE TECHNIQUE TO AVOID
TAX SURPRISES

One simple technique that our clients and our CPA partners appreciate.

Each fiscal quarter, we analyze a combination of revenue growth and overhead to determine which clients are likely to need tax withholding adjustments. For example, for those clients with revenue up and overhead down for the quarter by a combination of 10%, we'll notify their CPA to make adjustments as necessary.

This has been an interesting barometer for the health of our clients' practices across the board. In the third quarter of 2009, for example, we only had 15 clients that required withholding adjustments. The next year we had 28. We took this to be an indicator that we might be coming out of the deepest of the economic doldrums of 2010, particularly after looking at December numbers for most.

HOW TO EVALUATE YOUR TAX
ADVISOR OR ACCOUNTANT

It's important to have a great – not just good – relationship with your accountant. They have a big role to play in running your practice, and helping you to build a financial foundation that allows you to thrive. But if your accountant doesn't work proactively for the health of your practice, that relationship is broken. Here are a few ways to evaluate your accountant or tax advisor – so you know whether you're getting everything out of the relationship that you should be.

REACTIVE ACCOUNTANT

- *You consistently get hit with an unexpected tax bill at the end of the year.*
- *You feel like you're the one always reaching out to make contact with your accountant, never the other way around.*
- *Your accountant does not know or is not concerned with the big financial picture of your practice.*
- *You receive a mass email from your accountant when there are changes or updates to the Affordable Care Act.*

PROACTIVE ACCOUNTANT

- *No tax surprises at the end of the year. Your account keeps regular tabs on your tax obligations throughout the year and uses current data, not estimates based on last year.*
- *Your account keeps you informed about new laws and regulations that will affect the dental industry and your practice in particular.*
- *You get a call, email or letter from your advisor with specific recommendations for your practice due to the upcoming changes in the Affordable Care Act.*
- *Your account is curious about every aspect of your practice. They see your financial big picture to get your tax structure in order.*
- *Communication from your accountant is regular, and you know that you and your business are a priority.*

From the outside, it looks like your practice is doing really well. You're making money, perhaps $300,000 a year or maybe even more. You've reinvested in the practice and grown it well, with new patients joining you regularly. To keep it going, you've spent on marketing, and maybe even on a practice management firm to help get the little things right, like improving patient care and internal training.

But you know better. There's trouble behind the scenes. You've experienced a lot of pain. Your cash flow is tight, both for your practice and at home, and it's keeping you up at night. Not to mention the worry that tax surprises could hurt your cash flow even more. Add in the pains of growth, like adding new staff, and it all might be getting to be too much.

Feeling these pains is a signal that you need a dental CFO for your practice. A good outsourced CFO can take your practice's overall financial state from "a mild disaster" to "everything you could ever dream of." Once you understand what a CFO can do for you, it'd be a mistake not to have one.

SIGNS THAT YOU NEED COMPREHENSIVE FINANCIAL PLANNING OR A DENTAL CFO:

- *You feel you are on an island all by yourself with no one to talk to.*
- *You have received unexpected tax obligation at the end of the year.*
- *You are making money, but cash flow is tight.*
- *You worry about finances, for your practice and at home.*
- *You are not able to add new staff that you need.*
- *You check your bank account often and worry about payroll.*
- *You aren't sure if you could deal with an emergency.*

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5 STEPS TO GET YOUR TAXES IN SHAPE FOR NEXT YEAR

If you run a dental practice, preparing for April 15 always seems to be crammed with equal parts uncertainty and anxiety. But Tax Time is no longer a day our clients fear. We customize an actual plan for each of them so they can avoid an unexpected tax bill or tax refund that wreaks havoc on bank account stability and retirement savings balances.

So let's get taxes and dental accounting back on track by implementing 5 proven strategies to make next year your smoothest—and most predictable—year ever.

1. CONVERT YOUR COMPANY TO AN S-CORPORATION.

This structure will allow for better cash flow and more predictability (no more bank account roller coaster games) when a compensation structure is planned properly.

WHY DO THIS? — Although taxes still need to be managed in an S-Corp., this is a huge step toward reducing the dreary year-end tax surprises because more taxes are spread throughout the year with a consistent paycheck.

2. HIRE A DENTAL-SPECIFIC ACCOUNTANT.

This is not a CPA that has “some” dental clients, this is a CPA that has “exclusively” dental clients. By being a specialist, and knowing dental terminology, they can develop a dental-specific chart of accounts (i.e. list of expenses) and be aware of financial issues that are unique to dentistry.

WHY DO THIS? —Your accountant is someone that you will interact with many times in a year. If you have to explain to them your business field including technology, best practices, etc., you will be losing time and money. It always helps to be able to talk “shop” with your accountant. But you can’t do that without a dental-specific accountant.

3. DEVELOP AN APPROPRIATE SAFETY NET.

Having the money to pay a tax surprise makes the sting of the surprise slightly less painful, but having structures in place to ensure this happens is harder than you think. You need to be disciplined and be a numbers-hawk consistently. We show you the calculations that go into establishing your minimum practice cash reserve.

WHY DO THIS? — This balance will float up and down against the ideal as overhead fluctuates, so be sure to take your income in a predictable manner. This makes it easier on the cash flow and bank balances and is more predictable to manage.

4. DEVISE A MORE CASH FLOW-FRIENDLY INCOME STRUCTURE.

Most tax advisors suggest you take home most of the cash reserve or stab in the dark at where you should set income. Structuring income this way often results in huge quarterly tax payments or sporadic, lumpy distributions—neither of which are friendly on your personal or business bank account.

WHY DO THIS? — It may not be sexy, but boring, predictable bank accounts are where it's at folks. And we hear more sleep at night from less stress does wonders for the complexion!

5. RE-EVALUATE YOUR RETIREMENT PLAN.

Not all 401Ks are created equal, and you should learn how to identify whether yours is outstanding or mediocre. We recommend a fee-only investment environment, free of commissions that can penalize a proactive involvement.

WHY DO THIS? — By adding a generous match and allowing a profit share component you'll be shocked at how much retirement savings can accumulate without the complication and expense of other "sophisticated" retirement plans. Additionally, you'll get the benefit of being able to shelter money from Uncle Sam via tax savings with a great retirement plan structure.

Ultimately it's our goal for all of our clients to stabilize their practice income so they can save $100,000 or more each year for retirement.

LISTEN TO THE PODCAST:
END OF THE YEAR TAX TIPS FOR DENTISTS

CONCLUSION

End-of-year tax surprises will blow a hole in your financial plan. Normally their cause is poor planning, or no tax planning at all. Don't rely on an accountant who doesn't see your financial big picture to get your tax structure in order. Get comprehensive tax help that's tailored to the specific needs of top-performing dentists. Do you know your tax blind spots for next year? Don't keep getting caught off-guard.

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