Starting in **Private Practice**

Your checklist for **buying into a practice**

NOVEMBER 2017

Welcome to the November edition of Dental Wealth!

For many Dental Practitioners, joining a Practice can be a huge commitment to make, one that must be carefully considered beforehand.

To assist you in your decision making, our first article focusses on the most important points to consider before buying in.

With housing prices at an all-time high, you may be looking to assist your child in buying their first home. To get you started, we have included some helpful strategies that you can implement to secure a place in the market.

We will also touch upon the most important areas to consider when selling your Practice in order to get the most out of your sale.

One of the most debated topics in the finance industry, being shares vs property: which is more beneficial? We will look into the advantages and disadvantages of both, allowing you to consider which option is best for your personal circumstances.

Shane Morgan
PARTNER

Most dentists will be approached to join a practice at some point in their careers. While flattering, it's not a decision to be taken lightly.

Joining a practice is in some ways like getting married. The 'dating period' is the time you've already spent there, getting to know your colleagues and the workings of the business. Then comes 'the proposal' and you realise you're being asked to make a serious commitment.

But before you put ink to paper, you'd better do some due diligence to determine if you can live together 'in sickness and in health!' We've compiled this checklist to help you familiarise yourself with the key issues you need to understand in order to make an informed decision.

☐ **Structure of the practice**

Is it an Associateship arrangement, a Company setup, a Partnership or a Sole Trader and Trust structure? This is crucial to understanding not only how you'll receive your income but also what potential liabilities you might be exposing yourself to.

☐ **Professional insurances**

Are these in place?

☐ **Buy/Sell Agreement**

This is a critical document once you have bought in as it will essentially prescribe how to deal with each other, performance criteria, how you might leave the practice and on what terms.

☐ **Cross insurances**

Are these in place?

☐ **Directorship obligations**

Check whether there are any legislative requirements such as Director obligations under Corporations Law.

☐ **Dental equipment**

Check the value, standard and age of all equipment.

☐ **Lease, rent and finance agreements**

Check the extent and nature of current financial commitments.

☐ **Practice software**

Is it server or cloud based? What are the associated costs?

☐ **Current employee entitlements**

Check whether key staff members are staying and the extent of staff entitlements.

☐ **Talk to an expert**

Like a marriage, getting into a practice is relatively easy. Getting out can lead to a world of pain. That's why it pays to consult with an expert before you make a decision.

If you're thinking about buying into or setting up your own practice, contact Shane Morgan for a no-obligation discussion.

Helping your **children buy a house**

2017 has certainly been a booming year for the Australian property market.

With housing prices at an all-time high, entering the market can be a daunting process for many first time buyers, especially when it comes to the initial and often hardest hurdle: saving for a deposit.

Luckily for those residing in NSW, the Government have recently announced a cut to stamp duty for first home buyers, effective 1 July 2017.

This is a massive development for those looking to enter the market and could save your child thousands of dollars when purchasing their first home.

This development will see a comprehensive package introduced that will include:

- Abolishment of stamp duty on all homes up to $650,000
- Stamp duty relief for homes up to $800,000
- $10,000 grant for builders of new homes up to $750,000 and purchasers of new homes up to $600,000
- Abolishment of insurance duty on lenders' mortgage insurance
- Foreign investors to pay higher duties and land taxes
- Investors no longer able to defer paying stamp duty on off-the-plan purchases

If your child is looking to purchase their first home, there are a number of ways you can assist them in getting ahead before the market rises even further!

Offer a cash gift

A cash gift is a great way to help your child to get a leg up on their deposit. If you have the funds on hand to lend or gift them the deposit, then this will cut out the 'middle man' and ensure they have the necessary funds.

With this in mind, it is important to remember that some borrowers require proof of genuine savings and will not accept a lump sum provided by another person.

If you have a young child, consider putting away money in a term deposit whilst encouraging them to contribute themselves as they enter into the workforce.

Become a guarantor

Another option to consider is becoming a guarantor for your child. While it does require a certain level of equity in your current property to be feasible, it will allow your child to purchase a home without a deposit and could potentially allow them to borrow a higher amount.

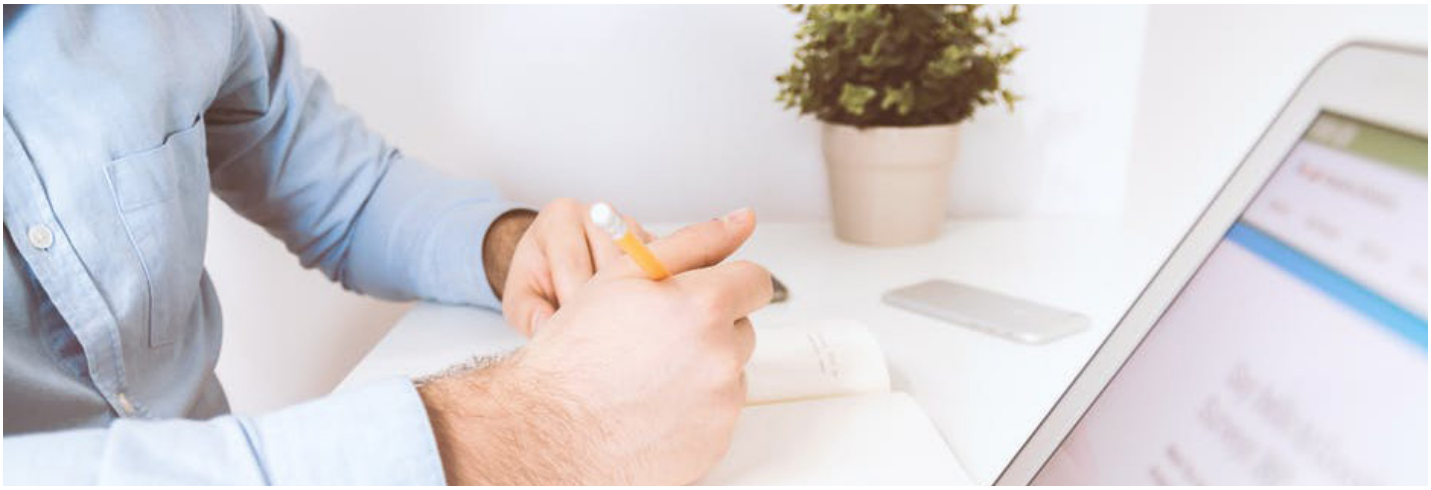
However, it is important to remember that this loan could leave you at risk in the event your child defaults on their repayments, therefore if you have any concerns that they will be unable to make regular repayments you need to consider if this is the best option.

Start a joint venture

If going guarantor or providing a cash gift are not viable options, you can also consider a joint venture with your child. This would mean you each have a stake in the property, allowing them to part own the property and you to assist them in the responsibility of homeownership.

Every situation is different and the choice you make when assisting your child in buying their first home is completely based on your financial and personal circumstances.

Are you thinking **of selling?**



Is it possible to sell my Practice without having to pay any Capital Gains Tax?

The Australian Taxation Office provides small businesses with a range of Capital Gains Tax (CGT) concessions that could result in no capital gains tax being paid upon the sale of your Practice.

An added benefit if you can access these concessions is that you may be able to overcome the $1.6 million superannuation limit which restricts you from making further non-concessional (after-tax) contributions.

If you are under 55 years old at the time your Practice is sold you can contribute to super in order to minimise your Capital Gains Tax.

If older, you have a choice to either keep the cash or contribute to super and still be eligible to access these concessions.

How do I qualify for these small business CGT concessions?

To qualify, you need to be a small business, which means you need to have an "aggregated" annual turnover of less than $2 million or net assets of no more than $6 million (excluding your home and superannuation for example).

The assets sold must generally be used in the business (e.g. Goodwill from the sale of the Practice) and not be a passive asset such as a rental property whose main use is to derive rent.

If the CGT asset that you are selling is a share in a company or an interest in a trust, further conditions apply.

This involves identifying and determining whether the individuals have significant ownership and control in the company or trust to be eligible for these concessions.

The below example illustrates how these CGT concessions apply to a sole trader Practice:

Dr Jones sold his practice on 2 June 2017 for $600,000. He has owned the Practice for 7 years and makes a $500,000 capital gain from the sale of Goodwill.

$ 500,000	Capital Gain
($ 250,000)	Less: 50% general CGT discount (for assets held for greater than 12 months)
$ 250,000	Remaining Capital Gain before applying the Small business CGT concessions
($ 125,000)	Less: 50% active asset reduction (Small business CGT concession)
$ 125,000	Capital Gain

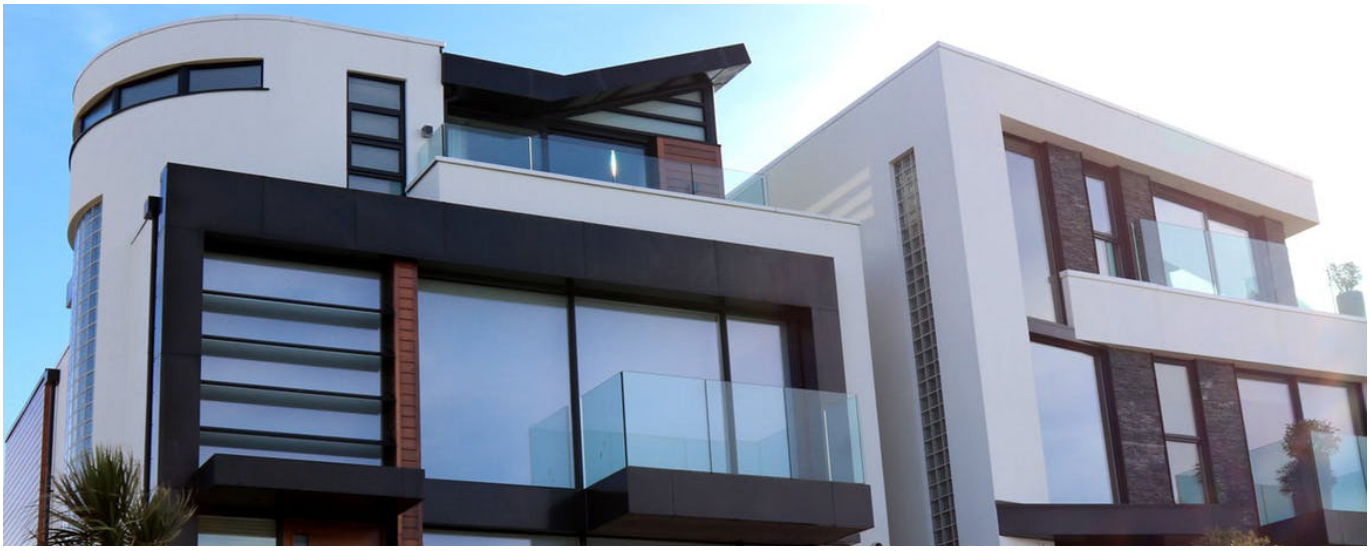
The $125,000 Capital Gain remaining will be exempt from Capital Gains Tax if eligible for the Small Business CGT Retirement Exemption up to a lifetime limit of $500,000.

= $0 Capital Gains Tax Payable

Dr Jones is under 55 years of age and therefore can make a contribution of $125,000 into his complying superannuation fund in order to lower the Capital Gain to zero.

This is a complex area of legislation and we strongly recommend that you seek advice from your tax advisor well before you decide to sell your Practice to ensure your structure is set up correctly to benefit from the Capital Gains Tax concessions.

Shares **vs** Property



It's a debate that has been raging since Australia's first stock exchange opened in 1861, and it largely depends on who you talk to which is the better investment.

Rather than add fuel to that fire we'll just point out the advantages and disadvantages and let you make up your own mind.

The most obvious benefit to property is that it's a tangible asset you can see, touch and live in, whereas shares often just feel like numbers on a computer screen. But that's not all, property is less influenced by daily headlines or morning talk shows.

It can't go into insolvency, banks will readily lend against it and importantly, because we're not making more land, population growth will continue to ensure there is demand for property.

The biggest barrier to investing in property is the cost. According to the Australian Bureau of Statistics the average price of a residential dwelling in NSW is $886,000 and according to the Demographia International Housing Affordability Survey in 2016 the median house price in the Sydney area is $1,077,000.

Furthermore, the 'transaction costs' when buying a property shouldn't be forgotten. Stamp duty on the median house above would cost $45,003, legal fees would be around $1,500 and, when you sell the property, you could expect to pay a real estate agent commissions of around 2%, or $21,540, (assuming no change in price).

All up that's about $68,000 in fees and commissions. Along the way you'll be required to pay council rates, water access fees, insurance, real estate management costs and probably some general upkeep as well.

With shares, the biggest benefit is divisibility – generally speaking you can buy or sell a parcel of shares for a little as $500 but you can't buy or sell $500 worth of a property.

The other main benefits are:

- the smaller minimum investment required to invest in shares means you don't have to put all your eggs in one basket
- you don't have to worry about careless tenants
- you can easily gain exposure to countries other than Australia
- transaction costs are low and there are no ongoing costs
- if you buy Australian companies you may benefit from franking credits

The biggest risk when buying shares is the risk of total capital loss, or the company's bankruptcy. Further, whilst many companies pay dividends from their profits, the amount and frequency of dividends is at management's discretion, and as a shareholder you do not have direct control over how the company is run, so it is difficult to impact your company's decisions.

There is no definitive answer on which investment is better. At a certain stage in your life, shares may prove more valuable and a sound alternative, but at another stage property may tick all the boxes. Or maybe your portfolio will accommodate a mix of both.

It's a case of horses for courses, depending on your stage of life, personal circumstances and attitude to investing.