
*The Deal Room Podcast*

# Episode 209 – Buying or selling a Medical Practice: What accountants want you to know? (Part 1)

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## Transcript

**Joanna:**
Hi, it's Joanna Oakey here and welcome back to The Deal Room podcast, a podcast proudly brought to you by our commercial legal practice, Aspect Legal now today we have the first of a two-part series, all about buying and selling a medical practice. And to talk about these we have on the show Brendan Campbell, who is the director of Prosperity Advisers Group. Brendan is a director in the business services and taxation group based in Brisbane. And he advises clients on a broad range of business issues dealing with medical practices. That is exactly why we have him here on the show today, as we talk about selling and buying medical practices. In this part one, we're talking all about selling a medical practice. And in part two, we are talking about buying a medical practice. Now in this episode, we're talking specifically with Brendan, all about the financial and accounting elements of selling a medical practice. But of course, the legal elements are particularly important as well. Now if you're interested in finding out about the legal elements of buying and selling a medical practice, then listening to the end of this podcast, where I talk about a webinar that we have run, where you can find out much more about the legal elements of selling a medical practice. But for now, here we go with Brendan Campbell talking all about the financial and accounting elements of selling a medical practice. Here we go with Brendan.

Brendon, thank you so much for coming on to The Deal Room podcast. It's so great to have you on the podcast.

**Brendan:**
No problem. Thanks for having me on Jo, pleasure to be here as a long time listener, first time caller.

**Joanna:**
I love it. That's really good. I love it. I love it. Um, now, of course, we are here, for part one of our two part series, all about buying and selling medical practices, we might throw a bit in there about, I think the things that we're talking about here are relevant to medical practices, dental practices, probably even veterinary practices and Allied health. But we particularly focus on medical practices here today. And in this part one, we're talking all about getting ready for the exit of a medical practice. And I am excited to drill into this with you, Brendan, because there's so many things to think about from an accounting and tax perspective.

**Brendan:**
Yeah, there's, there's quite a lot. And yes, we do whatever two parts, as you said, there'll be a buying one and a selling one. So yeah, happy to get into it and talk about some of things and hopefully not just tax, we'll talk about a few other things to think about as well. And to make sure that if you're selling, you're getting the best price, if you're buying you're not paying too much.

**Joanna:**
Exactly. That's what it's all about. That's what it's all about. And as you say, I guess it's about selling making sure you're getting the right price, but then that you can get the right price in your pocket at the end of the day that maximum outcome. And I guess that's that's where this whole tax discussion becomes so critical.

**Brendan:**
Well, that's exactly right. And I guess from a selling point of view, there is something called capital gains tax in Australia that we have to deal with. But fortunately, at the moment, with the time of recording we've got an election coming up soon. But the time recording, definitely, there's a fair few exemptions out there. Probably one of the bigger ones, which I'm sure we'll talk a bit more about is the CGT Small Business concessions. Without getting too much into the detail, because it is a very specific area. And a lot of advice, I guess has to be very careful around this because it's different entities, different structures, one small thing is different. And the changes the whole advice for this but essentially Jo, if you're if you're selling a business, and it's an active business that's running as a business, not a passive investment, but a business that you're running, the government recognizes that you've been putting all your eggs sort of into one basket and really building up this asset, and maybe haven't been putting money aside for the future for things like the super. So they give you some concessions, which is really handy that if you're selling, and you've made a few basic conditions, if it's a business, under 2 million turnover, you've got less, or maybe you've got less than 6 million assets. And again, these are quite specific things. And there's different ways to assess those. But as a general rule, if you meet those, you are likely to be able to get rid of most of your capital gains tax. And so there's, you know, first of all, everyone will get the CGT discount depending on the entity you're in. But most people get the 50% discount, and then know about that when they're selling a rental property or something like that it will share it's your most people will know about that. But as well as at the Small Business concessions, you know, another 50%, if it's active asset, you can have the retirement exemption, you can have a two year rollover exemption, or you can have a 15 year rule where if you've held it, and you've been in business for 15 years and attractive for at least half of them, you can basically get it tax free and not pay any tax, again or a little things depending on the age, you might have put it in the Super, if you're over 55, maybe you just take it out, depend on the structure and the exact details. But there is a lot of good concessions out there. And it's definitely worthwhile looking into it before you sell just to make sure that you're doing it right. You're structuring your in the right way, right? Because you'd hate to sell something, do the structure wrong, and then go Oh, hold on, that's actually going to cost me tax now. Whereas I wouldn't have paid tax if I did it this way. So it's just something to probably consider out there.

**Joanna:**
Absolutely. And there's so many things, you know, I guess we see a lot of these traps from a tax perspective that, that businesses can fall into, because we spend so much time in dealing with businesses that acquisition and exit and I was just having a discussion with someone the other day about issues that had risen because of loan accounts that had appeared in their business or had been in their business. So director Loan Account shareholder loan accounts, that had been in the business that then impacted the ability of the business to potentially to qualify for that active asset test. And I just thought, isn't it interesting, when there's so many things I mean, business owners aren't running their business thinking, you know, how much have I got sitting in line accounts versus you know, are we distributing this each year and, and, you know, there can be ways of running the accounts in terms of minimizing tax today, that they might have these impacts in the on the future ability for you to access what can be significant CGT concessions. So from my mind, this talks to number one, you having accountants on your side and dealing with your business that a turning their mind to these sorts of issues each year for you when they're thinking about loan accounts or whatever. But it's also about having that discussion early on, about how do you probably prepare your business for sale on what might be some of the impediments to you accessing things like these small business CGT concessions, and other things you might be able to do about it in advance.

**Brendan:**
Yeah, if you've got a year, at least or a year or two would be better, you can sometimes tidy those things up if you need to, if that's going to be an issue, and it flags when you're looking at it, well, you know, hey, look, we need to sort this out, we need to either reduce those words, and we need to do this, we need to change that or when you're looking at the income you might be or you're in a phase of growth. And you might be looking at going well, I'm about to do well over that 2 million, but at the moment, I'm under the 2 million, what should I be doing because these small business concessions to another great thing about them is they're not necessarily only for selling to third parties, you might be doing an internal restructure, you might be triggering a CGT concession by doing so. Which if you're not paying any tax, maybe you're okay with that. And that might have that have an added benefit. But then you've actually got to write an increased cost base for when you do sell that in the future. And you can look at those options in the future. So there's times to talk about at times to think about it. And you mentioned one of the things about making good making decisions now, which is great. But if you don't have that in the bank account doesn't have in the back of your head that you're looking at selling and may make a different decision like the there's the your immediate deduction for buying plant and equipment these days, which is great. And the government's that are brought in these concessions which are which are fantastic. And you can write off all that plant equipment, claim it all against your tax, which is great. And weirdly, when you sell it, it's still the right thing to do that, by the way. But if you then sell the business, when you get the CGT exemption, and the small business exemption is all a relation to the goodwill. As part of the sale, they'll also be plant equipment, trading stock, some other stuff in there, the plant equipment should is sold at market value on the contract, or if it's solid on the contract, in some states, if so we're gonna put in the market value for it. And that's sold at market value. But if you've already written it all off and claimed it all, you actually got to pay tax on that. It's still a good result because you're paying tax on it somewhere here and you're getting a deduction, but it's interesting, you can get a huge deduction for one year. And then when you actually sell the business, you might be going Oh, hold on is 200 grand, but the plant and equipment in the sale? What do you mean, I'm paying tax on that? I thought it was all capital gains tax free, everything, still the right decision, because you're getting a big deduction for.

**Joanna:**
and this can line up how we set up contracts in the sales environment, because quite often we'll set up contracts so that they, you know, silent as to the apportionment between goodwill, and an assets and certainly an equipment. And of course, there's a lot that's happened recently, for example, this instant asset write off, make that an attractive proposition. I've actually heard a lot of discussion recently about that instant asset write off impacting a decision buy side whether you're approaching an acquisition as a business or low share. So and we'll talk, we'll come back

to that, in part two of this two part series where we talk about the considerations on buy side when you're buying a medical practice, because I think that's a really interesting one that's around right at this moment in considering share sale versus business sell. But on that theme in while we're talking about tax, and we'll move off tax in a moment because whilst tax is super important, there are a heap of other things to consider as you're gearing up for a sale. But I think tax does sort of dominate or should and should dominate thinking of preparation for sale. I'm not sure that it does always which can be a problem, but it should.

**Brendan:**
That definitely doesn't always come at the top but when they hear they might be paying a fair bit of tax on it, and they could get around away from paying tax that there's definitely a lot of interest speak to that point.

**Joanna:**
And of course many of our medical practices make significant use of trusts from a structure perspective, but for medical practices that are run out of proprietary limited set of corporate entities. There's also this consideration of business versus share sale. And I think it's really important to understand when you're hitting into a sale, really clearly whether business sale or share sale is gonna give you the best outcome because you need to be prepping the business from that perspective.

**Brendan:**
Yeah, absolutely. So are you buying the shares or is the is the company in this case selling you the business and in which case, the company stays on the original directors stay there, as the directors, and the new purchasers will buy, you know, they'll have a new company that will trust or whatever structure they want, that they're buying the business with. And often that's, well, that's probably typically the way the sales occur, because most purchases are trying to buy share elicitor listed entity, but you know, when you're buying shares in there, but most smaller business, so the sales, you're not trying to buy the the company that has potentially some baggage, some issues, some other other problems involved with it, and you really just want to buy that particular business, you don't want anything else that's in that company that that they're running through there. So yeah, that's absolutely something to know, upfront. And it's important, as you said, to be very clear on that when you are selling, are you selling shares? Or are you selling the business itself, and the accountants and lawyers I asked about it straightaway, but often, half of half the talks already happened before then in the third point that, you know, what am I selling?

**Joanna:**
Well, and it's so true, it's so true, you know, we have lots of buyers and very happy to buy shares, rather than the business as a whole. Although, of course, that varies depending it depends on the sophistication of the buyer, and the and the size of the business and the how the business is run. But I just find it's always an interesting discussion with clients when they really haven't understood the difference between the two nor the tax difference. So I think that's, that's part of the necessity of getting proper tax advice, a proper discussion with your accountant well in advance of the sales so that you know, what it looks like and what your considerations are.

**Brendan:**
And if you're selling that you want to be controlling that too, because you're the one selling, you want to be clear on what you're selling, you don't want that left up to someone else deciding what they're buying, you need to be clear on what you're selling.

**Joanna:**
Exactly. Because you can build, you can build a sales pitch for any type of deal structure, any type of way that you intend to sell the business. The critical thing is that, you know, what, way you need to sell the business to or the shares or whatever, to get the best outcome and work backwards.

**Brendan:**
Part of it too, is is knowing not only what you're going to sell, but the planning, we mentioned that I think at the start, but just planning what you're going to sell and planning a lot earlier than during your account and saying I'm thinking of selling, I've got a buyer, here it is, as we've talked about not only the tax, there's just a lot of other considerations to take into it, to make sure you're presenting your business the best you can for sale, and making sure you've got a prime and looking great and fantastic. So a potential buyer looks at it and says that's what I want, and then prepared to pay the right money for it. As opposed to something that might be poorly presented. You know, you might have some expenses running through that actually part of the core running of the business. And all of a sudden, we're backing those out when we're presenting numbers to the potential purchaser to give them, you know, a realistic future maintainable earnings kind of number. But if the if the potential purchaser has already seen a set of financial statements that has a lower or lower profit on it, they're not going to then accept that that actually is a better business that and it's making more money because they've already got a predetermined number of it in their head, and they're going, Oh, this is what this is worth, You've almost got to talk them up to what it really is worth. Whereas if you can present what it's worth initially, people will be a lot more comfortable understanding that value.

**Joanna:**
Do you know what? You're absolutely right. And I think that comes back to, you know, if we backtrack a bit, maybe if we can go through for our listeners, sort of a quick dot point of the sorts of things that they should be thinking about when preparing for sale, from a legal perspective, there are a whole heap of things they need to be thinking about, for example, they need to be thinking about is our lease term appropriate for a buyer coming in, because some funders will require a minimum lease term or a real minimum tenure of property. So in some instancesr buyer will be purchasing the property. But if they're not, then they'll have to be, you know, a minimum period. That it is locked under that lease, either in the term itself or in the options. So there's an example of something that, you know, sellers can turn their mind to before sale, but once you get to the point of sale, it's it can be too late. And so one of the things from an accounting financial perspective that you think sellers should be bearing in mind to prepare in advance for a sale.

**Brendan:**
So what you'd probably want to do is make sure that you've got, first of all, if it's medical practices, I guess we're talking about and I'll narrow down further and say GP practice so I can be a bit more specific on it, but you'd want to make sure you've got all the doctors contracts up to date and that you've got the right contracts in place if you're trying to sell a business and there's no contracts in place with doctors and there's going to be a few questions asked and People are going to be a bit concerned about it, you'd want to make sure you get the staffing levels right as well to make sure you're not sort of, you've got the wrong staff and wrong positions and you, you know, Betty has been with you for 20 years, but doesn't do that much. And you just pay this wage. And yeah, that's great. But a new post is going to want to come in and take over that. And any efficiencies you can bring into the business as well, if you make it more efficient, and now would be the time to build before you're selling it. So it presents better. So you're effectively getting a better price because you get a typically in a medical practice, you'll get multiples, you get an even multiple, so your earnings times by a number of years is a rough way of saying that. And if your earnings is higher, your number of years is likely higher as well. So there's sort of a multiplying effect on presenting better financials. But things like the rent exactly right. So if you've got to, if you're selling and someone's coming in to buy it, they're going to look at it and go, oh, there's only one year left on this lease. And the landlord might be wanting to kick you out and do something else is I want to why would I buy this? Why am I paying for that. And conversely, as well, you might even if you're the if you're the seller, you might want to think about it, you're sometimes the owner of the land, maybe through a superfund or a trust or something as well where it's a connected entity to you, you would probably want to be selling it to guarantee your income a little bit for the Superfund or your trust, you might want to have a lease in place, at least the person who buys it doesn't rip it straight out and leaves you on the ledge sitting there thinking of buildings being rented. And all of a sudden, they've moved next door because they own that premises Wait, what happened, and you've sort of had a bit of a

double whammy on you there and your income starts dropping. So it's important to think about those things, make sure that your lease in place, make sure your contracts are in place, make sure your staff agreements are all in place and are up to scratch. Is a fitout been done for recently. Is it presentable? What are the you've been through your client numbers. So sometimes in your in your software, you'll be able to see the number of patients you've gotten are very attractive patients versus patients in general, just making it present well is a good thing. It's a bit like selling your house. Yeah, and you give it maybe give it a bit of a paint job and spruce it up. And at least sweep the floor for someone comes from looks at it, you make it look nice and make it look presentable. Because you know, it's a good business. And you want them to think it's a good business as well, when they first see it and not have not have questions about it. Because there was a, there's a bit of a bit of paint missing in the in the reception area and a bit of something coming off here and it just doesn't look right, that's gonna that's gonna scare people away.

**Joanna:**
And look, the other thing that I probably want to throw in there as well, as you're talking is this idea of being ready for your due diligence as well, because you know, I just it's a constant source of annoyance to buyers to come in, full of emotion for for the sale, only to find that the seller, the vendor doesn't have all of the information ready for due diligence request. Now sometimes due diligence requests can be, you know, more extensive than they need to be. And it's perhaps not really expected that a seller would have all of these things ready. But generally speaking, there's some obvious things that you need to have in place, you need to have your financials ready, you need to have your legal documents ready, you need your lease ready, but there's just nothing more annoying to a buyer and giving off really bad signals in relation to the way in which the business has been run.

**Brendan:**
Sorry to cut you off Jo but I was gonna say just to jump in there to little things like, make sure your tax returns are done. If they're not up to date, it's very hard to get them up to date within within a week and get them lodged in some evidence to show that this is this was lodged and it's on time and the lessons are all done. And all those little things are done. You're exactly right. I mean, it's you know, do we have access to bank statements have we got all the accounts in order. And it's not just financial accounts, as we talked about it, it's doing as the lead backs to present something that showing you know, the maintainable earnings where you might be backing out certain things. So it's not just here's my P&L from last year, that doesn't really cover it, there's got to be a bit more to it. So you know, a lot of people are back out sort of job keeper income that came in COVID was a thing a couple of years ago, still is around, but not not as relevant now when you're selling but if you're looking at a set of financials that has those things in there, the guy on their side of it, when you're buying, it's going to want to back that stuff out of a cash flow. But as you were saying, he's gonna want to back that out because it's not maintainable earnings. It's not future earnings that you get, it's kind of related to that specific year. So there'll be a lot of little adjustments you're likely making. And you want to have a set of financial statements or a profit and loss that shows that number. Yeah.

**Joanna:**
Brilliant. Okay. Well, look, I think we've we've set it out well there. Next episode, we'll be talking about the buyer side. Are there any last-minute tips that you want to give our listeners, Brendan, and please make sure to let them know how they can contact you in the future as well.

**Brendan:**
Thanks. Yeah, I'd say start early. You know, maybe even like we do a benchmark report for the GP The practices bench market look at five years from selling it not five years, four years if not for three. But before you sell it, look at it. What can I change? What can I tweak? How can I present this the best for sale? And talk to your counter? Make sure they know you're interested in looking at selling it, and how to present it the best but yeah, even running just a benchmark to look at it. Well, where can I improve the business a little bit to that and you want to get in contact with this prosperityadvisers.com.au BCampbell@prosperity.com.au find out one of our advisors in Sydney and Newcastle or Brisbane, we definitely look out for like Medeco so sure

we can help in some way. And I'm sure you'll put up some links for us somewhere on the in the details there. Yeah.

**Joanna:**
100%. We will Brendan will throw up in our show notes, all of those ways to contact Brendan at prosperity. Thank you so much for coming on board, Brendan, and I'm looking forward to talking to you next week all about the Top Tips from an accounting perspective in buying a medical practice.

**Brendan:**
Right thanks Jo.

**Joanna:**
Well, that's it for part one of our two-part series all about buying and selling medical practices. Of course, this was part one where we talked about exiting and medical practice. And in part two, we will be talking about buying a medical practice, which is the next episode after this. But if you're thinking of buying or selling a medical practice we have for you as well, several legal webinars that you might be interested in watching, we have a buy side webinar, and a sell side webinar. So, pick whichever is relevant to you. And in each of those webinars, we run through the five legal perspectives of gearing up for a sale or an acquisition of a business like a medical practice, and that is preparation, primary value protection, purchase structure and process. So, if you are interested in those webinars, just see the show notes over at our website, thedealroompodcast.com. And there you will also find a transcript of this episode and you will also be able to find how to contact Brendan Campbell at Prosperity Advisers Group. If you would like assistance with any accounting aspects of a sale or acquisition of a medical practice. Of course, at a website you'll also be able to find out details of how to contact our Legal Eagles Aspect Legal if you or your clients would like to discuss any legal aspects of selling or acquiring a medical practice. Well, that's it doesn’t forget to tune in to our next episode where we talk with Brendan all about buying a medical practice. Until then, I hope you enjoyed what you heard today and don't forget to pop over to your favourite podcast player to leave us a review if you enjoyed what you were listening to Well thanks again for listening in. You've been listening to Joanna Oakey and The Deal Room podcast a podcast proudly brought to you by a commercial legal practice Aspect Legal. See you next time.