



With

**Nicholas Talarico**

*Partner, Taxation Services*

## **CAPITALIZING ON THE SALE OF YOUR DENTAL PRACTICE**

**Selling your dental practice is a significant financial event, and you want to take the right steps to ensure you make the most from what you've worked so hard to build. However, practice owners have been left grappling with considerable uncertainty due to various tax changes affecting the sale of businesses in the past few years — some fully enacted, some still proposed. The questions and answers below are intended to highlight some of the key considerations when preparing for the sale of a dental practice. This list is not exhaustive, and it is important to obtain professional advice for your specific situation before selling your practice.**

### **Q: How can I structure my dental practice in the most tax-efficient manner?**

The structure you implement to operate your dental practice will depend on many factors. This includes reviewing the regulatory requirements concerning the types of entities you are permitted to use in your province. For example, some provinces permit the use of holding companies or family trusts to own shares of the corporation, which can provide additional flexibility.

Each province also provides different options regarding how family members can own shares of your practice. Generally, you want your structure to provide predictable and tax-efficient outcomes when operating and selling your practice, based on your specific circumstances. Vendors may be able to utilize their lifetime capital gains exemption (LCGE) with a share sale. This can shelter up to \$1.25 million of capital gains realized on the sale of eligible shares from tax, based on proposed legislation to increase this amount from \$1,016,836 in effect prior to the change. Careful planning is also necessary to ensure you are able to utilize this exemption for yourself and family members, if applicable.

### **Q: How am I taxed on the sale of my dental practice?**

A dental practice is typically sold through either an asset sale or share sale, or a combination of both, which have different income tax implications. The purchaser is often interested in an asset sale and the vendor is typically interested in a share sale.

A combined share and asset sale can fulfill objectives for both the vendor and purchaser but requires careful planning in advance. A sale to a DSO, for example, will generally include both an asset sale and a share sale.

Your practice sells assets such as leasehold improvements, equipment, and goodwill in an asset sale. A capital gain will arise if these assets are sold for more than their purchase price, which requires tax to be paid on the capital gain. The capital gain inclusion rate is approximately 66.7 percent based on proposed legislation, while it was 50 percent prior to June 25, 2024. In addition, there may be recapture of previously claimed capital cost allowance (i.e. depreciation) when depreciable assets are sold, which is taxed as ordinary business income.

Vendors may be able to utilize their lifetime capital gains exemption (LCGE) with a share sale. This can shelter up to \$1.25 million of capital gains realized on the sale of eligible shares from tax, based on proposed legislation to increase this amount from \$1,016,836 in effect prior to the change. Careful planning is also necessary to ensure you are able to utilize this exemption.

It is important to note that there is considerable uncertainty with respect to the capital gains inclusion rate and the amount available for the LCGE at the time of this article's publication. Consulting with a professional advisor can help you understand potential impacts on the sale of your practice.

 **Continue reading below**

## **Q: What is LCGE and how can I secure this benefit for both myself and my family members?**

As currently proposed, the LCGE allows you to realize up to \$1.25 million of capital gains tax-free for each individual on the sale of eligible shares. It is important to note that this increase has not been enacted into law.

To be eligible for the LCGE, these shares must be owned by you or someone you are related to for at least 24 months prior to the sale of the shares. As well, during this period, the corporation must be a Canadian-controlled private corporation, with more than 50 percent of its assets used principally in an active business carried on primarily in Canada. Lastly, at the time of the sale, more than 90 percent of the corporation's assets must be used principally in an active business carried on primarily in Canada.

We recommend consulting with a professional advisor to ensure the shares of your professional corporation would qualify for this exemption upon sale.

## **Q: How early should I plan for the sale of my dental practice and what should I do if I have non-practice assets in my professional corporation?**

It is generally recommended to consult with professional advisors three to five years prior to the sale of your dental practice at minimum, to help achieve the best possible outcome. For example, the flexibility of advance planning might allow opportunities to introduce family members into the ownership of your practice before its sale, which enables them to each claim the benefits of the LCGE. Additionally, advance planning gives you more flexibility to transfer any non-practice assets in a tax-effective manner in order to prepare your practice for sale and meet the necessary conditions to qualify for the LCGE.

Planning in the context of a sale instead of in advance of the sale offers less flexibility and could also be more costly in terms of tax and professional fees.

## **Q: How are dental clinics valued and what is the best way to increase the value of my practice?**

Dental practices are typically valued by calculating a multiple on the practice's earnings before interest, taxes, depreciation and amortization (EBITDA). Your EBITDA is an indicator of your practice's profit, financial health, and ability to generate cash. Higher cash flows and increased profitability will lead to a higher purchase price for your practice.

It is also important to ensure your practice has the proper legal agreements in place. This includes associate agreements, employment agreements, and a lease agreement that provides your practice's operations with longer-term consistency. These agreements can help maintain the value of your practice.

## **Q: How do I minimize tax after the sale of my practice and ensure long-term preservation of the funds?**

While it is important to consider the income tax implications of the sale of your dental practice, it is equally important to consider the tax and estate planning for the reinvestment of your post-sale assets that will continue to grow. This requires a complete review of your estate planning to ensure it maximizes your long-term goals of supporting your lifestyle and leaving assets to your family and other charitable causes. It is recommended to explore planning opportunities with a professional advisor in advance to ensure your wishes and legacy are implemented effectively.

