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## How Will the New Tax Proposals Impact Dental Practice Values?

Generally speaking, we have seen an increase in dental practice selling prices over the last 4-5 years. In many areas of Canada there is a strong sellers' market.

The increases have varied across Canada with Ontario and B.C. leading the way, and within those provinces, the Greater Toronto Area and Vancouver/Lower Mainland have been the real hot spots. There has been a spillover effect from these hot markets so that values have increased somewhat in Atlantic Canada as well.

In order to answer the question "How Will The Tax Proposals Impact Dental Practice Values?" we have to look at the factors that are driving this sellers' market:

- By far the most important driver is an over supply of dentists in most areas of the country. In the last 10 years the population of Canada has grown by approximately 16% while the number of licensed dentists has increased by 31%. Within those numbers, the largest portion of growth has been by foreign trained dentists and many of those prefer to live in our largest urban centers.
- There are more dollars chasing the limited number of practices that are for sale. The banks are aggressively financing practice purchases at low interest rates and there are an increasing number of buying groups, many of them backed by pension fund or venture capital money.
- Conversely, this over supply of dentists provides a pool of affordable and available dental providers for the consolidators that are purchasing dental practices.

None of the proposed tax changes will have any effect on these underlying factors that are driving this market.

However common sense would seem to dictate that any decrease in after tax earnings for a dental practice should have an effect on selling prices. Likewise, any tax changes that affect the supply of practices for sale should also have an effect on prices.

What is the likelihood of that happening?

The government has indicated that they will not materially change the rules around the Capital Gains Exemption; and because family salaries are normalized (added back) as part of the valuation process the income sprinkling factor is removed. The proposed changes around passive investment and conversion of ordinary income into capital gains don't really affect valuations that are based on earnings and earnings multiples.

The last factor to consider would be whether the proposed changes will impact the supply of practices for sale or the financial desirability of practice ownership. The changes may result in a slight, short blip in the number of practices for sale. However, for dentist-owners there isn't any other option if they want to be their own boss and for investors there are few, if any, investments that can compete with dental practices on a financial risk-reward basis.

Based on the information presently available in regard to the proposed tax changes; coupled with all the factors that are driving demand, that will not change in the short to medium term; plus, the situation where the proposed tax changes will not really change anything for the consolidators who are purchasing practices; it can be logically concluded that the proposed changes will have minimal, if any, impact on dental practice values.

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