THE BIGGEST FINANCIAL DECISION: SELLING A PRACTICE

The sale price gets all the attention. How much wealth you keep depends on something else entirely: whether the experts around you are working from the same playbook.

BY DAVID B. MANDELL, JD, MBA

When a retina specialist sells a practice, the instinct is to fixate on one number: the sale price. That's understandable, as it represents decades of clinical excellence, business ownership, and personal sacrifice. But the price is only part of the financial outcome. The larger question is: After the transaction closes, how much of those proceeds become lasting wealth? The answer depends on the planning that takes place well before a buyer ever appears.

Most successful physician-owners have a capable team: a certified public accountant (CPA) who prepares the tax return, a wealth advisor who manages investments, an attorney who handles contracts, a banker, and—once a sale is on the horizon—a broker or investment banker running the transaction. Each brings valuable expertise. However, these advisors often work independently, although the decisions they're making are closely connected.

GOOD ADVICE DOESN'T ALWAYS ADD UP TO GOOD PLANNING

When the largest financial event of a physician's career arrives, fragmentation can quietly become expensive. The broker focuses on valuation. The attorney negotiates terms. The CPA, often brought into the conversation after a letter of intent (LOI) has been signed, reports the tax consequences of a transaction they had little opportunity to shape.

None of these advisors are doing anything wrong. In fact, they're optimizing within their own discipline. The challenge is that no one is necessarily responsible for optimizing across the various teams. For example, the CPA could help structure the treatment of goodwill, the timing of cash payments in an installment sale, and the tax treatment of rollover equity, if any. Investment decisions frequently begin only after the proceeds arrive.

That's where coordinated planning creates value. Rather than treating taxes, investments, legal structure, and retirement planning as separate conversations, a coordinated plan brings each expert together around a common objective. The goal isn't simply to execute each decision well; it's to ensure each decision reinforces the others.

WHAT THE SALE OF A PRACTICE REALLY MEANS

The sale of a practice changes more than who owns the business. It changes how a physician earns income, pays taxes, invests assets, and plans for retirement. All those decisions usually happen simultaneously. This makes a practice transition one of the highest-leverage moments in a physician's financial life because choices in one area inevitably affect outcomes somewhere else. The structure of the transaction influences taxes, while tax planning affects how much capital remains available to invest. Investment decisions shape retirement income, which in turn influences estate and legacy planning.

Viewed separately, these are individual financial decisions. Viewed together, they're one planning process.

PLANNING CREATES OPTIONS

Many physicians assume planning begins once they receive an LOI. In reality, the most meaningful opportunities exist well before a buyer enters the picture.

Investment accounts may need years, not months, to accumulate assets that can support future tax strategies, such as tax loss harvesting—accelerated versions of which can be ideal loss-creators in preparation of a practice sale. Retirement plans can play a role, but changes within 1 to 2 years of sale only affect deductible contributions for those years; the earlier changes are made, the better. Entity structures, succession planning, and even the timing of a transaction can influence after-tax outcomes long before negotiations begin.

The objective when deciding when and how to sell a practice is to build flexibility so that when the opportunity arrives, more options remain available.

A CASE STUDY IN COORDINATION

One longtime client, a practice owner in California approaching retirement, illustrates what coordinated planning can make possible. They planned to sell a private practice for approximately $1.6 million after decades of ownership. Rather than waiting until the transaction was underway, planning began several years in advance, allowing their tax, investment, and long-term financial strategies to be developed together.

Nearly $1.7 million had already been invested in a taxable portfolio before the sale, with an additional $1.1 million invested afterward. Because the strategy was designed with the anticipated liquidity event in mind, realized tax losses offset approximately $1.4 million of capital gains from the sale, reducing that year's tax liability by roughly $420,000.

The lesson isn't that every practice owner should pursue this same investment strategy. Individual circumstances vary, and tax-aware investing involves risks. The durable takeaway is that opportunities often emerge when planning begins early and tax, investment, and transition decisions are made as part of a coordinated strategy rather than in isolation.

THE STRATEGY IS COORDINATION

Tax-loss harvesting, direct indexing, and other tax-aware investment strategies have become increasingly sophisticated in recent years. Under the right circumstances, they can improve after-tax outcomes while allowing investors to remain aligned with their long-term investment objectives.

But the tools themselves aren't the strategy.

An investment portfolio can't prepare for a practice sale it doesn't know is coming. Likewise, a CPA has limited ability to improve the outcome of a transaction after the documents have been signed. Sophisticated strategies create the greatest value when they're part of a broader planning process.

That's why coordination matters. The investment strategy should inform the tax strategy. The tax strategy should support retirement planning. The transaction itself should fit within a broader vision for a physician's financial future.

FURTHER READING

TAX-LOSS HARVESTING: A TIMELY STRATEGY

Here's how to leverage market downturns to your advantage.

READ NOW

THE BEST TIME TO PLAN IS BEFORE YOU SELL

It's natural to judge a practice sale by the purchase price. But that's only the starting point. The more useful questions come later. How much of the proceeds remain after taxes? How should those assets support retirement? How do today's decisions affect a family's long-term financial security? Those answers rarely come from any single advisor because they rarely belong to a single discipline.

A successful practice sale is about ensuring that years of work translate into lasting financial flexibility and peace of mind. That begins long before the sale itself with a coordinated approach that treats taxes, investments, legal strategy, and long-term planning as parts of the same conversation. The key is building a team of relevant advisors early and communicating with all of them about a possible sale, ideally 3 to 5 years prior to seriously considering any transaction, so that planning can begin. Key professionals include a CPA, financial advisor, retirement plan specialist, attorney, and, possibly, an investment banker when 1-2 years out. ■

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KEY TAKEAWAYS

- The sale of a retina practice changes how a physician earns income, pays taxes, invests assets, and plans for retirement.
- When selling a practice, a coordinated plan brings together the owner's certified public accountant, wealth advisor, attorney, banker, and broker to ensure each decision reinforces the overall plan.
- A successful practice sale ensures that years of work translate into lasting financial flexibility and peace of mind.