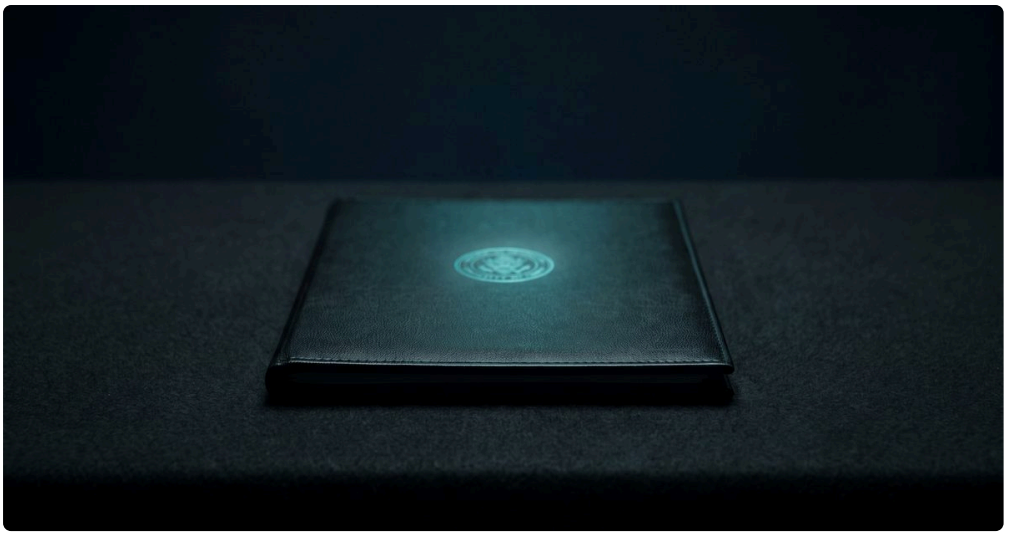

La Jolla is not an ordinary dental market. Practice values tend to reflect a rare mix of high household income, strong fee-for-service potential, attractive coastal location, and a patient base that often expects advanced care and polished service. That is good news for owners planning an exit, but it also raises the stakes on tax planning. A transaction that looks excellent on paper can lose a surprising amount of value once taxes, entity structure, and deal allocation come into focus.

I have seen two deals with nearly identical purchase prices produce very different after-tax results. The difference was not luck. It came down to planning early, documenting the right numbers, and understanding how the same dollar is treated depending on whether it is goodwill, equipment, accounts receivable, wages, consulting income, or rent. In Dental Practice Sales La Jolla, tax strategy is not Dental Practice Sales La Jolla a side issue. It is part of the transaction itself.

For both buyers and sellers, the most expensive tax mistakes usually happen before closing. By the time the purchase agreement is signed, the room to improve the outcome is often much smaller. That is why the best time to think about taxes is when the deal is still flexible, not when signatures are already scheduled.

Why La Jolla deals deserve closer tax attention

A dental practice sale in La Jolla often involves higher goodwill values than many inland markets. Buyers are not just paying for chairs, x-ray units, and cabinets. They are paying for location, reputation, referral momentum, online reviews, long-standing patient relationships, and the income potential that comes from practicing in one of Southern California's strongest micro-markets.

That matters because different assets trigger different tax treatment.

A seller usually wants more of the purchase price allocated to goodwill, because long-term capital gain treatment is often more favorable than ordinary income treatment. A buyer usually prefers more allocation to assets that can be depreciated or amortized faster, because those deductions improve near-term cash flow. Neither side is wrong. They simply have different tax incentives.

La Jolla practices also commonly involve real estate questions. Some sellers own the office condo or building in a separate entity and lease it back to the practice. Others sell the practice but keep the real estate as an investment. Some buyers want both. Once real estate enters the picture, the tax and legal analysis gets more layered, especially when rent, depreciation recapture, and property tax reassessment become relevant.

The allocation of purchase price is where many tax outcomes are decided

When a practice changes hands, the total price must be allocated among asset classes. In an asset sale, which is the format most buyers prefer, that allocation has direct tax consequences for both sides. It affects what the seller reports as ordinary income or capital gain, and it affects how quickly the buyer recovers the purchase price through deductions.

A typical dental practice transaction may allocate value among dental equipment, furniture and fixtures, supplies, restrictive covenants, patient records, and goodwill or going-concern value. There may also be a separate amount for accounts receivable, depending on the structure.

For a seller, equipment can be a tax trap. If the equipment has been heavily depreciated over the years, a portion of the gain may be taxed through depreciation recapture rules rather than at capital gains rates. Sellers sometimes focus so much on the top-line purchase price that they miss how painful an overly aggressive equipment allocation can be.

For a buyer, the opposite concern often applies. Buyers may want a larger allocation to short-lived assets because they can deduct those amounts more quickly. That can make a meaningful difference in the first few years after closing, particularly when debt service is high and cash management matters.

This negotiation should not be casual. A purchase price allocation is not just an accounting exercise done after the fact. It should be discussed while the letter of intent and asset purchase agreement are still being shaped. Once the parties agree to an allocation and file consistently, changing course later is difficult and risky.

Sellers need to know whether they are selling assets, stock, or membership interests

Most dental practice transactions are structured as asset sales, especially when the buyer wants a clean start and does not want to inherit unknown liabilities. For sellers, though, an equity sale can sometimes be more attractive from a tax standpoint, depending on the entity and the facts.

If the practice operates as an S corporation, C corporation, or LLC taxed in a particular way, the after-tax result can vary materially. In broad terms, asset sales often work better for buyers, while sellers may prefer stock or membership interest sales if they can get them. That said, professional corporation and licensing issues in California can make structure more nuanced than it looks at first glance.

The seller of a C corporation dental practice should be especially careful. A straight asset sale in a C corporation can create the classic double-tax problem. First, the corporation pays tax on gain from the asset sale. Then, when the sale proceeds are distributed to the owner, the owner may face a second layer of tax. That can be a painful surprise for a dentist who has built value over decades.

Sometimes there are planning options, but they require time. If an owner waits until the practice is already in escrow, the available choices may be much narrower. That is one reason early coordination among the CPA, attorney, and broker matters so much in Dental Practice Sales La Jolla.

Goodwill is valuable, but not all goodwill is the same

In dental practice sales, goodwill often represents the largest single asset. But goodwill is not always a single, simple concept. There is practice goodwill tied to the business itself, and there may also be personal goodwill tied to the dentist’s individual reputation, relationships, and continued involvement.

The distinction can matter in certain tax situations. In some cases, especially with closely held professional practices, careful analysis of personal goodwill can influence how the sale is documented and taxed. This is not an area for casual drafting. The facts have to support the treatment, and the agreements need to align with reality. If the seller is the face of the practice, has deep patient loyalty, and is central to referral flow, that can strengthen the personal element. If the office runs more like a system with associate production and stable hygiene recall independent of the owner, enterprise goodwill may dominate.

What matters most is not clever labels. It is supportable substance.

The seller's transition period can create unexpected ordinary income

Many La Jolla practice sales include a transition period. The selling dentist may stay for several months to introduce the buyer, complete treatment plans, or preserve continuity with long-term patients. That can be smart business. It can also create tax complications if the compensation is not structured thoughtfully.

If the seller receives payment for clinical work after closing, that is usually ordinary income, not sale proceeds. If the seller signs a consulting agreement but the arrangement really functions like employment, that distinction may not hold up under scrutiny. If the transition compensation is too large relative to the practice sale terms, the IRS could question whether part of the purchase price was really compensation for services.

This does not mean transition arrangements are a problem. It means they should be realistic, well-documented, and coordinated with the rest of the deal. A modest transition schedule tied to genuine handoff responsibilities is common. An oversized "consulting fee" that appears designed to shift tax character is harder to defend.

Real estate can improve retirement income, but it changes the tax picture

Many established dentists in La Jolla own their office real estate through a separate LLC or other holding entity. When they sell the practice, they face a strategic choice. They can sell the real estate with the practice, lease it to the buyer, or retain it for a later sale.

Keeping the property and becoming the buyer's landlord can produce dependable income. In a market like La Jolla, where dental office space is valuable and location matters, that can be attractive. But sellers should model the tax impact, not just the rent. There may be depreciation recapture, capital gain, and state tax considerations whenever the property is eventually sold. There is also concentration risk. A retired dentist who keeps the building may still be economically tied to the success of the practice operator.

For buyers, purchasing the real estate can strengthen long-term control. It can also absorb capital that might otherwise go toward working capital, technology upgrades, or post-acquisition staffing. In a period of higher financing costs, some buyers prefer to acquire the practice first and revisit the property later.

There is no universal answer here. The right call depends on age, debt capacity, investment goals, and whether the practice location is integral to the brand patients know.

California tax reality should be part of every projection

Federal tax analysis gets most of the attention, but California can materially affect the outcome. State income tax can take a meaningful bite out of gains, and business owners who have spent years building substantial value in a coastal market often underestimate what the combined federal and state bill may look like.

That is why “net after tax” matters more than gross price. A seller comparing two offers should not assume the higher headline number is better. An offer with a slightly lower price but more favorable allocation can produce better net proceeds. The same is true for buyers. A deal with a less buyer-friendly allocation may be more expensive than it appears, because the tax deductions arrive more slowly.

This is where clean modeling pays for itself. Even a simple side-by-side projection can reveal major differences in after-tax economics.

Buyers should think about taxes as part of cash flow, not just compliance

For buyers, tax planning is often framed as a filing issue. In reality, it is a cash flow issue. Early depreciation, amortization of goodwill, interest deductions, compensation design, retirement plan contributions, and entity elections can all affect how much cash remains available in the first few years of ownership.

That period is usually the most financially sensitive. The buyer may be servicing acquisition debt, replacing aging equipment, bringing on staff, and introducing operational changes without disturbing patient retention. A tax structure that accelerates legitimate deductions can relieve pressure when it matters most.

The form of the acquisition entity is part of that conversation. Should the buyer use a professional corporation, an LLC where permitted and appropriate, or another structure? Should there be a management entity for non-clinical functions where legally and professionally suitable? How will compensation be divided between salary and distributions where that distinction applies? These decisions affect payroll taxes, retirement planning, and long-term flexibility.

What is sensible for a first-time owner buying a single practice is not always right for a group buyer or a dentist who expects to add locations later.

Accounts receivable can become a silent point of friction

In some dental practice transactions, accounts receivable are excluded from the sale, and the seller collects them after closing. In others, the buyer purchases them at an agreed discount. Either way, the tax and operational consequences should be clear.

If the seller keeps the receivables, there needs to be a practical plan for billing, collections, and patient communication. If the buyer takes over collection efforts on behalf of the seller for a period, roles should be spelled out. Ambiguity here tends to create frustration quickly.

From a tax standpoint, the treatment of receivables depends on the seller’s accounting method and entity structure, among other factors. This is one of those areas where assumptions cause problems. A seller who expects receivables to be “extra money” may be surprised by timing and tax character. A buyer who thinks receivables are easy to monetize may discover the aging report is weaker than expected.

Due diligence should test collection quality, not just the face amount outstanding.

A few tax mistakes show up again and again

The same issues recur in dental deals, particularly when parties get focused on speed and price and leave tax work for late in the process.

- Waiting until the purchase agreement is nearly final before reviewing allocation and entity structure

- Treating goodwill, consulting fees, and non-compete payments as interchangeable when they are taxed differently
- Ignoring depreciation recapture on equipment and leasehold improvements
- Failing to model California tax alongside federal tax
- Assuming the highest offer is automatically the best offer after taxes

None of these errors is exotic. They happen because the transaction feels straightforward until it reaches the closing table. A dental practice has patients, equipment, software, staff relationships, and often real estate. Each piece can alter the tax result.

The non-compete clause has tax significance too

Restrictive covenants are normal in practice sales. Buyers want assurance that the seller will not reopen nearby and pull patients away. Sellers often accept that logic, especially if retirement is real or relocation is planned.

The tax issue is that amounts allocated to a non-compete may be treated differently than goodwill. Sellers generally prefer a lower allocation to the covenant if that pushes more value into capital-gain territory. Buyers may accept some covenant allocation, but usually they care most that the restriction is enforceable and commercially reasonable.

In a premium market like La Jolla, where geography matters and patient loyalty can be strong, a restrictive covenant can have real value. Still, that value should be defensible. An inflated covenant allocation with no business rationale invites questions.

Timing matters more than many dentists expect

The tax year in which a sale closes can affect estimated taxes, retirement contributions, charitable planning, and broader income strategy. A seller who closes late in the year may have fewer options than one who starts preparing earlier. For example, decisions around retirement plan funding, installment treatment where available and appropriate, or bunching certain deductions may require advance work.

Likewise, a buyer who closes at year-end may face immediate accounting and payroll decisions with very little runway. The practical burden can be heavy. New entity setup, sales and use tax considerations where applicable, payroll accounts, benefit plans, and the opening balance sheet all need attention. Good tax planning is partly legal analysis, partly accounting, and partly project management.

Due diligence should include tax diligence, not just production and collections

Most buyers review profit and loss statements, tax returns, procedure mix, active patient count, and hygiene metrics. That is essential. But tax diligence deserves equal weight. Buyers should want to know whether prior returns appear consistent with the financials, whether shareholder compensation has been handled reasonably, whether there are old payroll issues, and whether sales tax exposure exists on any side business lines if relevant.

Sellers benefit from doing their own version of this work before going to market. A pre-sale cleanup can improve credibility and reduce last-minute retrading. If the books are messy, if personal expenses run through the practice in a way that is poorly documented, or if depreciation schedules do not match reality, those issues should be fixed before the buyer's CPA finds them.

The cleaner the records, the easier it is to support value and defend the intended tax treatment.

A practical framework for both sides

The best transactions usually share the same pattern. The dentist, CPA, and attorney start talking early. The broker understands the tax sensitivities well enough to frame offers intelligently. The parties compare structures before they commit emotionally to a single number. They ask not only, “What is the purchase price?” but also, “What survives after taxes, debt service, and transition costs?”

For sellers, the most useful mindset is to think in terms of exit design rather than just sale price. A dentist selling a La Jolla practice may be stepping into retirement, part-time consulting, real estate income, or even a later sale of the office property. Each path has different tax and cash flow effects.

For buyers, the right mindset is to think in terms of total acquisition cost over time. The price paid at closing is only part of what the practice will cost. The tax treatment of that price, the financing, the timing of deductions, and the structure of post-closing compensation all shape the real economics.

Questions worth settling before documents are drafted

A short round of disciplined planning can prevent months of avoidable friction later. The key questions usually include the following:

- Is the deal an asset sale, or is there a credible reason to pursue an equity transaction?
- How should the purchase price be allocated, and what does that do to each side after taxes?
- Will the seller stay on after closing, and if so, in what role and at what compensation?
- Is real estate part of the deal, held back, or leased under a long-term arrangement?
- Have the parties modeled California and federal tax together rather than separately?

Those questions sound basic, but they drive many of the largest financial outcomes in Dental Practice Sales La Jolla.

The most valuable tax move is often simple: start earlier

Dentists are busy, and many practice sales begin with a casual conversation, then accelerate quickly once a buyer appears. That pace creates pressure to accept whatever structure is easiest. Sometimes that is fine. Often it is expensive.

Starting earlier does not mean overcomplicating the deal. It means getting clean books, understanding entity consequences, reviewing depreciation schedules, and discussing allocation before numbers are locked in. It means separating what is legally required from what is merely customary. It means recognizing that the tax result is part of the deal value, not a separate event that happens next April.

La Jolla practices often command strong prices because they are genuinely desirable assets. Sellers have spent years building trust, systems, and goodwill in one of the most attractive dental markets in California. Buyers are paying for that opportunity, and many are willing to compete for it. When the market is this strong, it is easy to assume the economics will work out on their own.

They usually do not.

The dentists who come away happiest from a sale are not always the ones with the highest gross number. They are the ones who understand what they are selling, how it is being taxed, and what they will actually keep. The buyers who feel best a year later are not always the ones who “won” the bid. They are the ones who bought the right practice with a structure that supports healthy cash flow from day one.

In a market as sophisticated as La Jolla, tax planning should match the quality of the asset. That is where smart deals separate themselves from merely expensive ones.

Aesthetic Brokers
800 Silverado St #301A, La Jolla, CA 92037
(619) 742-0310

FAQ About Dental Practice Sales La Jolla

How much does an average dental practice sell for?

Sale prices vary with earnings, the mix of procedures, dependence on the owner, and deal terms. Comparable transactions and the practice's own financial records can help put an asking price in context.

Is it hard to sell a dental practice?

The process typically involves preparing records, finding suitable buyers, reviewing offers, and planning for staff and patient continuity. The timeline depends on how ready the practice is and how the deal is structured.

How do I value a dental practice?

A valuation typically reviews revenue, adjusted earnings, and how much production depends on the selling dentist. It may also consider comparable sales and the terms buyers are likely to offer.