MANAGING YOUR DERMATOLOGY PRACTICE

Selling a Medical Practice

A generation ago, the sale of a medical practice was much like the sale of any other business: A retiring physician would sell his or her practice to a young doctor and the practice would continue on as before. Occasionally that still happens, but changes in the business of medicine—most significantly the growth of managed care—have made a big impact on the way medical practices are bought and sold.

BY JOSEPH S. EASTERN, M.D.

For one thing, there are far fewer solo practitioners these days, and polls indicate most young physicians will continue that trend. The buyer of a medical practice today is more likely to be an institution—such as a hospital, an HMO, or a large practice group—than an individual.

For another, because the rules governing such sales have become so numbingly complex, the services of expert (and expensive) third parties are essential.

While these issues may complicate matters, there is still a market for medical practices. However, you must do everything possible to ensure you identify the best possible buyer and structure the best deal.

The first hurdle is the accurate valuation of your practice, which was covered last month. (If you missed that column, go to www.skinandallergynews.com and click on "The Archive Collection" on the left-hand side.) Briefly, for the protection of both parties, it is important that the appraisal be done by an experienced and neutral financial consultant, that all techniques used in the valuation be divulged and explained, and that documentation is supplied to support the conclusions reached.

Keep in mind that the valuation will not necessarily equal the purchase price; other factors may need to be considered before a final price can be agreed upon. Keep in mind, too, that there may be legal constraints on the purchase price. For example, if the buyer is a nonprofit corporation such as a hospital or HMO, by law it cannot pay in excess of fair market value for the practice.

Once a value has been agreed upon, you must consider how the transaction will be structured. The most popular structures include purchase of assets, purchase of corporate stock, or merger.

Buyers, especially institutional buyers, prefer to purchase assets because it allows them to pick and choose only those items of value to them. This can leave the seller with several "odd lots" to dispose of. But depending on the circumstances, an asset sale may still be to both parties' advantage.

Sellers typically prefer to sell stock because it allows them to sell their entire practice, which is often worth more than the sum of its parts, and often provides tax advantages as described below.

The third option, merger, continues to grow in popularity. Usually this takes the form of a sale (actually a stock trade) of the medical practice to a publicly traded HMO, which issues its own stock in payment. Because these types of purchasers are exempt from the restrictions that apply to not-for-profit organizations, they can pay higher prices, and pay for goodwill, and the stock issued in payment offers the seller an opportunity to participate in future profits and appreciation of value. Stock ownership is not without risk, of course.

Tax issues must always be considered. Most private practices are corporations, and the sale of corporate stock will result in a long-term capital gain that will be taxed by law at 28%. As the saying goes, it's not what you earn, it's what you keep; so it may benefit the seller to accept a slightly lower price if the sale can be structured to provide significantly lower tax treatment. However, any gain that does not qualify as a long-term capital gain will be taxed as regular income—around 40%, plus a Social Security tax of about 15%.

Payment in installments is a popular way to defer taxes, since they are incurred on each installment as it is paid. However, such payments may also be mistaken by the IRS for payments for referrals, which is illegal. And there is always the problem of making certain all the payments eventually are made.

The seller may wish to continue working at the practice as an employee, and this is often to the buyer's advantage as well. Transitioning to new ownership in stages often maximizes the value of the business by improving patient retention, and allows patients to become accustomed to the transition. However, care must be taken, with the aid of good legal advice, to structure such an arrangement in a way that minimizes concerns of fraud and abuse. Congress has created a "safe harbor" to allow continuing employment, but its scope is narrow and does not cover many common arrangements. To qualify, the sale of the practice, including any installment payments, must be completed within a year after an agreement is reached, and the seller cannot be in a position to make referrals to the buyer after a year. ■

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Electronic Prescribing Appears to Reduce Errors in Office Setting

SEATTLE — Electronic prescribing may be a way to significantly reduce medication errors, according to a study that reviewed records involving 749 private-practice patients and more than 1,000 prescriptions.

The study found an error rate of 3.9% when physicians used electronic prescribing, Martha Simpson, D.O., said at a conference on rural health sponsored by the WONCA, the World Organization of Family Doctors. That compares with medication error rates from hospital studies that range from 3% to 6%, and error rates from studies in the community that have reached as high as 10%.

"This is significantly lower than other reported rates have been," said Dr. Simpson of the department of family medicine at Ohio University College of Osteopathic Medicine, Athens.

The study involved four group practices in Ohio, which were given equipment (Rcopia, DrFirst Inc., Rockville, Md.) and training for electronic prescribing to five local pharmacies. The prescriptions were written over a 14-month period. Medical records were then reviewed by a pharmacist, and the patients were telephoned 3 months after their final prescription for an interview to find out if they had had any adverse events or problems.

The study's results are not particularly surprising, because one of the most common reasons for prescription error is physician handwriting, Dr. Simpson said.

However, once electronic prescribing becomes more common, it will bring with it errors and challenges that are unique to the process, she said. For example, physicians can easily point their cursors to the wrong box and click, thereby inadvertently canceling a prescription or ordering the wrong one. Some states do not allow electronic prescribing, and most do not allow prescribing of scheduled drugs. Moreover, electronic prescribing technologies are not automatically entered into electronic medical records.

Dr. Simpson said her study also looked at how the physicians accepted and used the technology they were given. Contrary to her expectations, there were no strong, enlightening patterns. What they did see, however, was that if doctors did not take to the technology right away, they never did, she added.

The study was sponsored by an Ohio Medical Quality Foundation grant.

—Timothy F. Kirn