

Matrimonial Practice Valuations



Graham R. Tuck
H.B.A., C.A.

In the last three months we have completed eight matrimonial practice valuations. One was for a spouse and the other seven were for doctors. This is not the most pleasant time for the doctor but one should try not to be too upset. You are going through something that many others have experienced before.

From our position as an appraiser, we recommend having the valuation done as soon as possible after the separation date. The valuation will be presumed as if it was done on the date of separation. Subsequent events are not considered when doing the valuation. Counting the charts in the practice and documenting the assets should be completed as close to the separation date as possible.

We represented the spouse in one of our valuations, as the original valuation was unacceptable in form and value. The valuation should be written on the basis that it will stand up in court. Ideally, the appraiser will not be required in court as both sides would see the valuation as realistic and representing fair market value. Last month I received a letter from a spouse's lawyer stating, "Your report was instrumental in settling the issues between the parties, and the trial will not proceed next week given the settlement".

Remember, the practice value does not include bank accounts, accounts receivable, accounts payable, artwork and personal items such as automobiles. The value is based on an asset sale not a share sale even if the dentist is incorporated.

If the dentist owned a practice on the date of marriage a Letter of Opinion as to the value on that date may be necessary to offset the current value of the practice. Information back that many years makes a full comprehensive valuation impossible. Typically, we rely heavily on current financial statements because it is impossible to count charts or look at equipment back when the marriage took place.

We have, in the past, been able to use our previous valuations to up-date the asset value for matrimonial purposes. This also lends credence to the current fair market value. Past valuations can also come back to haunt you. If your past

valuation was higher than fair market value you would have a hard time explaining why the value declined in the matrimonial valuation when the billings and patient base had both increased in the interim. This specifically happened recently where others had overvalued the practice prior to the separation date, then considerably reduced the matrimonial valuation. We were called in to review the situation. In essence, the error was in the first valuation as our value was a little higher than the matrimonial value but the original valuation was not in the realm of reasonableness.

I highly recommend that the dentist use their accountant to produce financial statements prior to preparing the tax returns. There is more weight given to an accountant produced financial results than the report that comes from your computer. This is quite incongruous as the accountant uses your computer report to prepare the financial statements.

Remember, the appraiser is independent of both parties. They are there to establish fair market value and document why the value is reasonable and to detail the basis of the valuation, which should also be supported by other sales of similar practices.

Graham Tuck, H.B.A., C.A., is the broker/owner of Professional Practice Sales (Ontario) Ltd., which specializes in the valuation and sale of dental practices. He can be reached at (905) 472-6000 or 1 (888) 777-8825 or by e-mail at: grtuck@rogers.com.