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PRESENTS

2021 DENTAL MARKET WATCH

December 15, 2020

This slide deck contains information on the COVID-19 related Loan Options & Forgiveness Strategies and is the most up-to-date as of **December 15, 2020**.

Changes are constant and additional guidance is on-going. We will keep you posted on changes through our weekly webinar updates and COVID-19 resource center. You can also reach out to your Sax advisor for the most recent information.

Please visit our Resource Center at **www.saxllp.com** for on-going updates, or email **covid19@saxllp.com** with questions.

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Today’s Agenda

- Emerging Trends in Dental Service Organizations (DSOs)
- Market Trends in Dental Practice Mergers and Acquisitions
- PPP Loan Forgiveness Update
- New Jersey Business Alternative Income Tax
- HHS Cares Act Provider Relief Fund Reporting Requirements

Today's Presenters

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Emerging Trends in Dental Service Organizations

Mandelbaum Salsburg | 90 YEARS

Attorneys at Law

Market Trends in Dental Practice Mergers and Acquisitions

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Main Topic Points

- **What's happening in Transitions**: Trends going into 2021
- **What's happening in Transitions**: Trends Post-COVID

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Transitions: The Trends - Late 2020

- Continues to be a seller’s market
- Fair Market Value continued to grow
  - Greater buyer demand than practices available
- Practice values “generally” 50% to 80% of gross
  - Highest currently over the past 10 years
  - Even higher in some areas of U.S.A. (e.g., CA)
- Specialty Practice sales back in the market

Transitions: The Trends - Late 2020

- Doctor Partnering / Branding
  - Successful Doctors buy a 2nd or 3rd practice together
  - Objective: Merge all practices under one name in different locations
- Practice Owner / Individual growth
  - Sole practitioner owners buy a 2nd or 3rd location
  - Triangle demographic
- Increase in multi-doctor relationship
  - General and Specialist-One stop shopping

Additional Trends - Into 2021

- 15% of doctors nationally will now be over 70 years old

- 40% of doctors nationally will now be ready for Transition
  - Selling their practices within the next 2 to 5 years
  - Pandemic world may lead to earlier retirements

- From 2016 to 2019 *Higher grossing practices* hitting the market increased by 20%
  - Grossing 1.5 M and up

- From 2016 to 2019 *Practices grossing 400K to 1M* hitting the market increased by 16%

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Additional Trends – After COVID

ADA-HPI RECENT SURVEY TO NATIONAL MEMBERS

November 14th

What do you intend to do in the next 6 months?

• Sell My Dental practice	18%
• File for Bankruptcy	5.3%
• Outright retire	16%
• Affiliate with a DSO	2.4%
• Find another profession	6.5%

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Post-COVID Review Heading to 2021 *as of November 16th*

ADA-HPI RECENT SURVEY TO NATIONAL MEMBERS

- **Recovery and Renewal:** one-third of dental practices reported “business as usual” in terms of patient volume
- **Patient volume** was estimated at 76% of pre-COVID-19 levels
- **Staffing** in dental offices was at 90% of pre-COVID-19 levels, slightly down from previous weeks.
- **Patient Capacity:** More than one-third report being at 51-75% of their current maximum patient capacity
- **Measures Taken to maintain Financial Sustainability**
    - DSO-affiliated practices have been more likely to downsize the dental team
    - Practices not affiliated with a DSO have been more likely to raise fees or borrow from a bank.
- **Future Financial Sustainability Considerations:** Dentists 65 and older, more than one-third indicated they would consider selling their practice and roughly 40% would consider retiring.
- **Consumer Sentiment:** Development of a vaccine remains an important part of bringing the remaining patient base back into the dental office.

Transition Conclusions Ending 2020

- So far it's still a seller's market
- Buyer market has not taken control / as many experts predicted
- Sharp increases in Doctor's seriously considering retirement
- Practice Valuations are being completed to help Doctors with their future

- *No one can predict how the transition trends will change in 2021*

PPP Loan Forgiveness Update

PPP Loan Forgiveness
Stimulus Package

- House of Representatives
  - Democratic HEROES II Bill - $2.2 Trillion in Aid
- Senate
  - Republican HEALS II Bill - $500 to $600 Billion in Aid
- Bipartisan Emergency COVID Relief Act of 2020
  - Bipartisan $908 Billion in aid released by “Gang of 8”
- Trump Administration / Senate Majority Leader McConnell / Secretary Mnuchin
  - $916 Billion in aid

PPP Loan Forgiveness

Stimulus Package (cont'd)

- Gang of 8 $908 Billion Bill
  - PPP/EIDL
    - PPP 2.0
    - Expense Deductibility
    - Loosened loan forgiveness restrictions for loans <$150K
  - PPP 2.0 Criteria
    - <300 employees
    - 30% revenue loss in any quarter in 2020
    - Expanded forgivable expenses
      - Supplier costs
      - Investments in facility modifications
      - PPE
    - Smaller borrowers and underserved communities
    - Eligibility for certain small 501(c)(6) organizations
  - Unemployment Assistance
    - Federal unemployment insurance benefits expanded by $300/week for 16 weeks from end of December into April 2021
    - 16-week extension of pandemic unemployment insurance programs (12/31/2020 expiration w/o action)

PPP Loan Forgiveness
Stimulus Package (cont'd)

- White House $916 Billion Bill Provisions
  - $429 Billion from Treasury, $140 Billion of unused PPP funds
  - Liability protection
  - State and local aid
  - Stimulus payments
    - $600 per qualifying adult; $600 per child
  - Extended pandemic unemployment insurance programs
  - PPP 2.0
  - Airline aid
  - Vaccines & Testing

  - Absent: Expanded unemployment benefits

PPP Loan Forgiveness

PPP Loan Tax Implications – Expense Deductibility

- Pursuant to IRS Notice 2020-32, expenses associated with forgiven loan proceeds are not deductible for tax purposes
  - Bill S.3612 (Small Business Expense Protection Act of 2020)
    - Bipartisan bill allowing for deduction of all PPP-related expenditures

- Overlapping Years
  - IRS issued guidance on November 18, 2020
    - Rev. Rul. 2020-27
      - If borrowers have a reasonable expectation to anticipate PPP loan forgiveness, do not deduct expenses in Year 1 and include loan forgiveness in income in Year 2
      - Reasonable expectation is not specifically defined
    - Rev. Proc. 2020-50
      - Provides a safe harbor for taxpayers to deduct PPP expenses if the eligible expenses are paid or incurred during the 2020 taxable year and in a subsequent taxable year:
        - » The taxpayer’s loan forgiveness request is denied; or
        - » The taxpayer decides to withdraw the application for forgiveness

PPP Loan Forgiveness

PPP Loan Forgiveness Application Timing

- 10-month post-Covered Period loan forgiveness application deadline
- 2 Year vs. 5 Year loan amortization
- Changing rules (new IFRs, FAQs, etc.)
- Change in control/ownership
- Financial statement implications
- New Stimulus Package
  - PPP 2.0
  - Potential increase to loan forgiveness thresholds (currently $50k)
- Loan Forgiveness Questionnaire for loans of $2M or more
- How do borrowers document the FTE rehire exceptions?
- How will FTE rehire exceptions apply if borrowers apply for forgiveness before the end of the covered period? How does the December 31, 2020 deadline impact this?

NJ Business Alternative Income Tax

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NEW JERSEY BAIT UPDATE

In early 2020, New Jersey implemented an elective tax on pass-through entities – the Business Alternative Income Tax (BAIT).

- The purpose of the BAIT regime is to find a work-around for the federal limitation on state and local tax deductions at the individual level.
- After months of silence, the Division of Taxation issued guidance on the application of the BAIT by way of a new FAQ page on its website.

NEW JERSEY BAIT UPDATE (cont'd)

Important notes –

- The BAIT is a taxpayer election effective annually for tax years beginning on or after January 1, 2020.
- Partnerships, Federal S Corps with valid NJ S Corps elections, and multi-member LLCs are eligible to make the election.
- Single member LLCS ***can not*** make the election.
- There is no penalty for failure to make estimated payments for the 2020 tax year.
- The Division has enabled online estimated payments; cash-basis taxpayers should make payments during 2020 to claim the deduction on the federal income tax return.
- NJ will honor credits to resident taxpayers for the Connecticut Pass-Through Entity tax on their residents' gross income tax returns.

NEW JERSEY BAIT UPDATE (cont'd)

The tax is imposed in accordance with the following table:

Sum of Each Member's Share of Distributive Proceeds	**Tax Rate**
First $250,000	5.68%
Amount over $250,000 but not over $1 million ($14,187.50 plus 6.52% of excess over $250,000)	6.52%
Amount over $1 million but not over $5 million ($63,087.50 plus 9.12% of excess over $1 million)	9.12%
Amount over $5 million ($427,887.50 plus 10.9% of the excess over $5,000,000)	10.90%

NEW JERSEY BAIT UPDATE: **EXAMPLE**

- NJ Dental Practice has 2020 net income of $1,000,000. There are 2 LLC members, each owning a 50% share, reporting $500,000 of New Jersey income.

- Using the BAIT rate schedule, practice reports NJ tax of $63,087.50; each member receives half of that, as $31,543.

- Each member is eligible to claim $31,543 as an offset to his NJ gross income tax liability.

- Additionally, practice will claim a deduction for federal income tax purposes for state level taxes; the limitation applied to individuals is not present to business entities.

NEW JERSEY BAIT UNCERTAINTIES

- Main uncertainty with respect to the BAIT:
  - Will neighboring states honor a credit for its resident individuals for BAIT paid at the entity level? Most states are silent. New Jersey indicated it would honor Connecticut’s similar mechanism, which hints at the underlying uncertainty.

- Political forecast?
  - The SALT limitations which the BAIT is designed to address has been a political issue. Will the federal election (House, Senate, White House) affect the ongoing limitations to the SALT deduction?

- Connecticut has a similar Pass-Through Entity Tax
  - It is mandatory, which may position Connecticut more favorably with respect to both of the uncertainties listed above.

HHS Cares Act Provider Relief Fund Reporting Requirements

Provider Relief Fund

- The Provider Relief Fund was established to support healthcare providers, hospitals, physicians, skilled nursing facilities and other eligible healthcare providers in the battle against COVID-19.
- The federal government had allocated $175 billion in payments which distributed through the Provider Relief Fund(PRF). Phase 3 funding application process ended November 6th.
- Qualified providers of health care, services and support were eligible to receive PRF payments for healthcare-related expenses or lost revenue due to COVID-19
- Distributions are not required to be repaid as long as providers comply with the terms and conditions set forth by HHS

Provider Relief Funds Terms and Conditions

- All recipients of the Provider Relief Fund payments are required to comply with the outlined reporting requirements described in the Terms and Conditions located on the HHS website.
- Reporting is required for providers that accepted one or more payments exceeding $10,000 in the aggregate
- January 15, 2021: Reporting portal opens for providers
- February 15, 2021: First reporting deadline for all providers on use of PRF funds
- July 31, 2021: Final reporting deadline for providers who did not fully expend PRF funds prior to December 31, 2020.

The Provider Relief Funds (PRF) state that the relief fund payments will be used to prevent, prepare for and respond to coronavirus and shall reimburse the recipients only for healthcare expenses and lost revenue attributable to coronavirus

Reporting Requirements

- Healthcare related expenses attributable to coronavirus that another source has not reimbursed and is not obligated to reimburse, which may include G&A or healthcare related operating expenses.
- Patient care lost revenues attributed to the coronavirus
    1. Revenue/net charges from patient care
    2. Revenue by patient care payor mix

- Comparison of 2020 revenue compared to 2019 revenue inclusive of the HHS funds received during the year. This information will be reported based on quarterly reporting.
- If recipients do not expend all of the PRF funds, then they will have an additional six months to utilize the remaining amounts for either the healthcare related expenses or lost revenues.
- The base period of comparison will once again be the 2019 tax year.
- The current language states that the recipients will report their use of PRF payments ***using their normal method of accounting (cash of accrual basis).***
- Awaiting further clarification since your entity can utilize cash basis of accounting for the preparation of the tax returns and accrual basis method of accounting for financial statement preparation.

PRF Amounts Between $10,000 and $499,999

- Entities that received between $10,000 and $499,999 are required to report healthcare related expenses attributable to coronavirus, net of other reimbursed sources in two aggregated categories:

    1. G&A expenses and

    2. Other healthcare related expenses

PRF Amounts Received in Excess of $500,000

- Entities that received in excess of $500,000 are required to report the same category of expenses as well as an expanded sub-category of the General and Administrative expense attributable to Coronavirus which is over what may have been reimbursed by other sources:
- Mortgage/Rent: Monthly payments related to mortgage or rent for a facility.
- Insurance: Premiums paid for property, malpractice, business insurance, or other insurance relevant to operations.
- Personnel: Workforce-related actual expenses paid to prevent, prepare for, or respond to the coronavirus during the reporting period, such as workforce training, staffing, temporary employee or contractor payroll, overhead employees, or security personnel.
- Fringe Benefits: Extra benefits supplementing an employee’s salary, which may include hazard pay, travel reimbursement, employee health insurance, etc.
- Lease Payments: new equipment or software lease.
- Utilities/Operations: Lighting, cooling/ventilation, cleaning, or additional third party vendor services not included in “Personnel”. g.
- Other General and Administrative Expenses: Costs not captured above that are generally considered part of overhead structure.
- Healthcare related expenses attributable to Coronavirus

PRF Amounts Received in Excess of $500,000

The actual healthcare related expenses incurred over and above what has been reimbursed by other sources.

a. Supplies - Expenses paid for purchase of supplies used to prevent, prepare for, or respond to the coronavirus during the reporting period. Such items could include: personal protective equipment (PPE), hand sanitizer, or supplies for patient screening.

b. Equipment: Expenses paid for purchase of equipment used to prevent, prepare for, or respond to the coronavirus during the reporting period, such as ventilators, updates to HVAC systems, etc.

c. Information Technology (IT): Expenses paid for IT or interoperability systems to expand or preserve care delivery during the reporting period, such as electronic health record licensing fees, telehealth infrastructure, increased bandwidth, and teleworking to support remote workforce.

d. Facilities: Expenses paid for facility-related costs used to prevent, prepare for, or respond to the coronavirus during the reporting period, such as lease or purchase of permanent or temporary structures, or to modify facilities to accommodate patient treatment practices revised due to coronavirus.

e. Other Healthcare Related Expenses: Any other actual expenses, not previously captured above, that were paid to prevent, prepare for, or respond to the coronavirus.

PRF Amounts Received in Excess of $750,000

- Single Audit Requirement
- Reporting Entities that expended $750,000 or more in aggregated federal financial assistance in 2020 (including PRF payments and other federal financial assistance) are subject to Single Audit requirements, as set forth in the regulations at 45 CFR 75.501. Recipients must indicate if they are subject to Single Audit requirements in 2020, and if yes, whether the auditors selected PRF payments to be within the scope of the Single Audit (if known at the time the Reporting Entity submits report).
- AICPA Town Hall meeting update states that a 3 month extension will be provided for entities that require a Single Audit as a result of the Cares Act Funding.

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