

Partnership: The Third Way

When two or more Dentists run a practice together, a decision must be made as to how they share the fruits of their labour. The traditional method is a partnership. The more modern manner in which to divide profits is Expense Sharing.

To illustrate the potentially significant differences in the division of profits arising from each method, we have used fairly extreme figures. We have, for the purposes of this article, ignored issues such as hygienists, part time working, the payment of Associates, property complications and a myriad of other matters that go to making up the overall picture that is a shared ownership Practice.

In all cases Andrew and Brian gross £400,000.00 and £100,000.00 respectively. The expenses of their Practice are £200,000.00.

Under a Partnership Agreement, each Partner is entitled to 50% of the net profit. Each Partner will receive one half of gross profit of £500,000.00 less expenses of £200,000.00, i.e. £150,000.00 each. This is obviously unfair on Andrew. He grosses £400,000.00 but takes home only £150,000.00. What irks him more is that Brian only grosses £100,000.00 and also takes home £150,000.00!

Under an Expense Sharing Agreement, each of Andrew and Brian keep their entire gross fees and each would be responsible for one half of the Practice expenses. It follows that under an Expense Sharing Agreement, Andrew would take home £400,000.00 less £100,000.00, i.e. £300,000.00. Brian would take home £100,000.00, less his £100,000.00 contribution to expenses, meaning that he would work all year for nothing.

In turn, these figures suggest that Brian is being harshly treated. Not so. If he is setting up in business with Andrew, with a view to earning gross fees and having a less expensive costs environment then setting up on his own, he must pay one half of the Practice expenses.

In reality, the contrast between the gross fees of the two (real life) full time expense sharers is not so great and a less stark contrast between take home pay is usually achieved. Nonetheless, it is perfectly reasonable for Andrew to want to enter into an Expense Sharing Agreement with Brian.

There is a third way; a way more frequently encountered in the world of commerce. Andrew and Brian should consider themselves to be executive employees of the Practice and should pay themselves 50% of their respective gross fees, as if they were Associates. The remaining 50% of gross would then be used to meet the overheads of the practice. Any resulting excess would be split equally between them, in their capacity as owners of the Business. If there were a resultant shortfall, the owners of the Business would meet that shortfall on a 50/50 basis.

It follows that on this analysis, Andrew keeps his notional Associate fees of £200,000.00 and Brian keeps his notional Associate fees of £50,000.00. The remaining £250,000.00 goes to meet the Practice expenses of £200,000.00, leaving a notional profit of £50,000.00, which is split equally between the owners. On this basis, Andrew takes home £225,000.00 and Brian takes home £75,000.00.

To Summarise, on gross fees of £500,000.00 and expenses of £200,000.00:

Gross	Andrew £400,000.00	Brian £100,000.00
Partnership	Andrew £150,000.00	Brian £150,000.00
Expense Sharing	Andrew £300,000.00	Brian nil
Notional Associate fees	Andrew £225,000.00	Brian £75,000.00

This article illustrates that there is another way in which to share profits, the third way. The structure of this scheme means that expenses are borne in proportion to the amount of work and resource that the respective Dentists do/use at the Practice.

Expense Sharing probably remains our favoured method of dividing expenses, but it may not suit all circumstances.

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