

# TAX CONSIDERATIONS WHEN SELLING TO CORPORATE VETMED

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For many veterinarians, the decision to sell a clinic is the culmination of decades of effort—an opportunity to unlock the value they've built and create financial flexibility for the next phase of life. In recent years, corporate veterinary groups have actively pursued acquisitions, offering attractive valuations and streamlined transitions.

However, the sale of a veterinary practice often triggers a significant taxable event, and many practice owners are caught off guard by the associated tax liability. While every situation is unique and should be carefully reviewed with a qualified tax advisor, there are several general strategies that veterinarians may want to understand as they prepare for a transaction.

## Maximizing Tax Deductible Accounts

The year of sale often results in a significant spike in income, potentially pushing the seller into top federal tax brackets. One way to help reduce that impact is by maximizing contributions to tax-advantaged accounts. Several options may be available depending on the business structure and seller's age:

- Health Savings Accounts (HSAs) – For those enrolled in a high-deductible health plan, HSAs offer triple tax benefits: contributions are tax-deductible, growth is tax-deferred, and qualified withdrawals are tax-free. Balances can be invested and carried forward indefinitely.
- Traditional Retirement Plans – Owners may contribute to SEP IRAs, solo 401(k)s, or even defined benefit or cash balance plans, which can allow for six-figure deductions based on income and age. These pre-tax contributions may also be converted to Roth IRAs in future lower-income years.

- Catch-Up Contributions – Those age 50 and older can make additional retirement contributions, further increasing deduction limits.

## Bunching Deductible Expenses

Selling a clinic typically involves a team of professionals—attorneys, accountants, consultants, and financial advisors. While not all transaction-related expenses are deductible, some may be, especially if they are incurred in the course of generating taxable income. In some cases, it may make sense to accelerate or "lump" deductible expenses into the year of the sale to reduce overall tax exposure. A tax professional can help determine which fees qualify and how they should be reported.

## Charitable Planning Strategies



Veterinarians who are philanthropically inclined may consider charitable giving as part of their post-sale planning. Two commonly used vehicles include:

- Donor-Advised Funds (DAFs) – DAFs allow donors to make a charitable contribution, receive an immediate tax deduction (subject to AGI limits), and then recommend grants to qualified nonprofits over time. DAFs can accept cash, appreciated securities, and even business interests in some cases, making them a flexible tool for offsetting a high-income year.
- Private Family Foundations – Foundations may be appropriate for those seeking a more structured and long-term charitable legacy. Contributions can be deductible in the year made (within IRS guidelines), and the assets can be invested and grown over time. In many cases, founders and their family members can serve on the board and, where appropriate, may receive reasonable compensation for administrative oversight, allowing continued involvement in philanthropic goals.

## Utilizing Passive Losses

Veterinarians with investments in passive real estate, partnerships, or other taxable accounts may have unrealized or suspended capital losses. If appropriate, realizing these losses in the same tax year as a practice sale can help offset capital gains and reduce total tax exposure. Your CPA can help determine which losses are currently available and how they may be applied to your specific situation.

## Utilizing Business Losses

In certain cases, practice owners may be able to reduce their tax liability by generating legitimate active business losses in the year of sale. It's important to emphasize that these losses must be actual, documented, and meet IRS criteria for "active" participation—not simply operational shortfalls.

Some potential ways to generate qualifying deductions include:

- Purchasing equipment and leveraging bonus depreciation before the sale
- Accelerating write-downs for obsolete or unrecoverable assets
- Reviewing final-year inventory for shrinkage or write-offs
- Paying family members—such as children who help with the business (e.g., cleaning kennels, filing, or marketing). As long as the compensation is reasonable for the work performed, and properly documented (including W-2s or 1099s), these wages may be deductible and can shift taxable income to a lower bracket within the household.

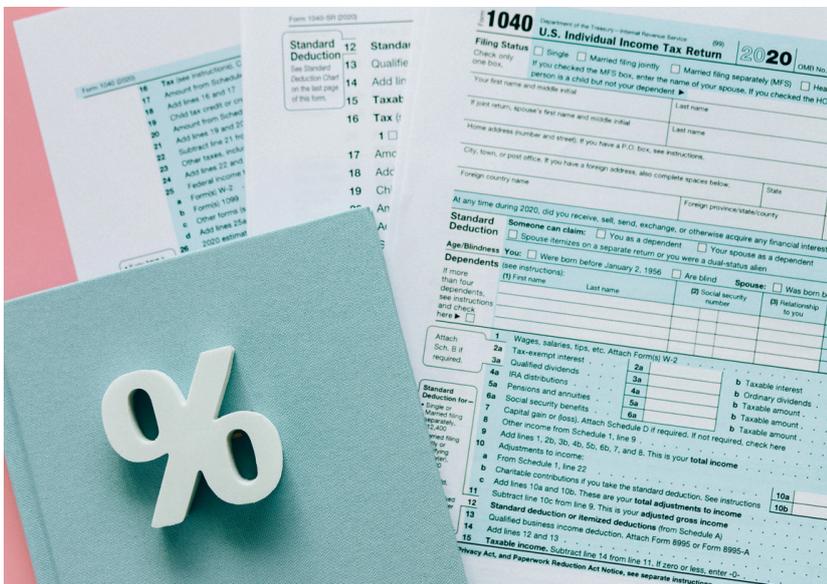
Each of these opportunities should be evaluated and executed with the support of a qualified CPA to ensure full IRS compliance.

## Consider IRS-Incentivized Investment Opportunities

There are several federally supported investment structures that may provide deferral or partial elimination of capital gains under certain conditions, including:

- Qualified Opportunity Zones (QOZs)
- Section 1202 Qualified Small Business Stock (QSBS)
- Like-kind exchanges (for real property only)

These options are complex and not suitable for all investors, but in some cases, they may align with a seller's long-term investment strategy and provide meaningful tax benefits when used correctly.



## Coordinated Advice is Key

Selling a veterinary clinic is both a financial event and a life transition. The strategies outlined above are for informational purposes only and should not be interpreted as tax or legal advice. Every seller's situation is unique, and careful planning with a CPA, attorney, and financial advisor is essential to ensure that the strategy fits your specific goals and regulatory requirements.

Our role is often to help coordinate the entire advisory team—ensuring that all professionals are working in sync, deadlines are met, and no key opportunity is missed in the transition.

## Considering a Sale?

We work with veterinarians nationwide on comprehensive transition and wealth planning strategies. If you're exploring a sale or already in discussions with a corporate buyer, now is the time to plan proactively. We'd be happy to discuss how we can support you and your advisory team through this important next step.

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