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Guide · Taxes for owners 10 min read

Buying Into or Selling a Medical or Dental Practice: How the Price Gets Taxed

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Updated October 31, 2026 · Written for physicians and dentists buying into, buying, or selling a practice, including sales to DSOs and private equity groups

The short answer

In most practice sales the buyer purchases assets, and the price is split across them on Form 8594. Each piece is taxed differently: goodwill is usually long-term capital gain to the seller and deducted by the buyer over 15 years; equipment is ordinary income to the seller up to the depreciation already taken; a non-compete or consulting agreement is ordinary income to the seller. So the allocation can move the seller's tax by tens of thousands of dollars on the same price. Sellers whose practice is a C corporation can face two layers of tax unless the goodwill is personally theirs and sold directly. In Washington, the 7% capital gains tax can apply to goodwill gain, but a qualified family-owned small business deduction can remove it for most practice sales.

How the price gets split

Buyers of practices nearly always buy assets rather than shares: they get a fresh tax basis to deduct and leave old liabilities behind. Buyer and seller agree an allocation and both report it on Form 8594. The IRS expects the two returns to match.

What's being paid for	Seller's tax	Buyer's deduction
Equipment, furniture, technology	Ordinary income up to past depreciation (recapture); capital gain above that, rare	Depreciated; often 100% bonus depreciation
Supplies and inventory	Ordinary income	Deducted as used
Patient records, goodwill, practice name	Usually long-term capital gain	Amortized over 15 years
Non-compete agreement	Ordinary income, no payroll tax	Amortized over 15 years
Consulting or transition employment	Ordinary income, and wages if employment	Deducted as paid
Accounts receivable (cash-basis practice)	Ordinary income	Deducted or collected

Seller and buyer pull in opposite directions. The seller wants more in goodwill; the buyer wants more in equipment and consulting it can deduct sooner. Settle the allocation in the letter of intent, before the purchase agreement, while you still have leverage.

C corporation practices and personal goodwill

Many older practices are professional corporations taxed as C corporations. If the corporation sells its assets, the gain is taxed once to the corporation at 21% and again to you when the cash comes out. Buyers rarely want to buy the shares instead.

The usual answer is personal goodwill: the patient relationships and reputation that belong to you, not the corporation, sold directly by you at capital gain rates. It works only if the goodwill is really yours. In Howard v. United States, a dentist's goodwill was held to belong to his corporation because he had signed a non-compete and employment agreement with it, so his personal goodwill sale failed. Check your own agreements with the practice before you plan on this, and get a valuation that supports the split.

Practices taxed as S corporations, partnerships or sole proprietorships don't have the double tax, though an S corporation that converted from a C corporation within the last five years can owe a built-in gains tax.

Buying into a practice

- Buying shares of a professional corporation or PLLC taxed as an S corp: the price is your stock basis. You get no deduction for it until you sell. Many groups structure buy-ins partly as a period of reduced pay instead, which is effectively paid with pre-tax dollars.
- Buying into a partnership: ask whether the partnership will make a section 754 election. With it, your share of the practice's goodwill and equipment is stepped up to what you paid, and you deduct that over 15 years for goodwill. Without it, you get no deduction until you leave.
- Payments to a retiring partner: in a service partnership where capital isn't a material factor, payments for unstated goodwill to a general partner can be ordinary income to the retiree and deductible to the partners who stay. It changes who bears the tax, so agree it in the partnership agreement.

Selling to a DSO or private equity group

Sales to dental service organizations and physician practice management companies usually pay part of the price in cash and part as rollover equity in the buyer's holding company. The rollover can be tax-deferred if it's structured as a contribution to a partnership or a qualifying corporate exchange; if it's not, you can owe tax on equity you can't sell. Earn-outs and post-sale employment agreements add ordinary income and, often, payroll tax. Model the after-tax cash, not the headline multiple.

Timing the gain

- Installment sale. A seller-financed note lets you report the goodwill gain as payments arrive. Depreciation recapture on equipment is taxed in the year of sale regardless.
- Net investment income tax. An owner who materially participated generally avoids the 3.8% tax on the gain from selling an S corporation's or partnership's practice assets. Selling C corporation stock is investment income.
- QSBS doesn't apply. Health is excluded from the qualified small business stock exclusion, so a C corporation practice can't use it.

Washington's capital gains tax on a practice sale

Washington taxes long-term capital gains above an annual deduction at 7%, and 9.9% above $1 million. Equipment and other depreciable business property are exempt, and so is real estate. Goodwill gain is not exempt by default.

The qualified family-owned small business deduction removes the gain entirely when all of these are met: the business had worldwide gross revenue of $10 million or less in the 12 months before the sale (adjusted each year); you held your interest for at least five years; you or your family materially participated in the business for at least five of the last ten years; and you sell substantially all (at least 90%) of the business's assets or of your interest. Most owner-run practices can meet it. A sale of a partial interest, or a sale soon after buying in, usually can't.

Frequently asked questions

How is the sale of a dental practice taxed?

It depends on the allocation of the price. Goodwill is usually long-term capital gain, equipment is ordinary income up to past depreciation, and non-compete and consulting payments are ordinary income. If the practice is a C corporation, a corporate asset sale is taxed twice unless personal goodwill is sold directly.

Is the money I pay to buy into a practice deductible?

Not directly when you buy shares. Buying into a partnership that makes a section 754 election lets you amortize your share of goodwill over 15 years. Buy-ins paid through reduced compensation are effectively pre-tax.

What is personal goodwill in a medical practice sale?

Goodwill that belongs to the physician personally, such as patient relationships and reputation, rather than to the practice entity. Sold directly by the physician, it can avoid corporate-level tax, but not if the physician has a non-compete or employment agreement with their own corporation.

Does Washington's capital gains tax apply when I sell my practice?

It can apply to goodwill gain. Equipment and real estate are exempt, and the qualified family-owned small business deduction removes the gain for most owner-run practices with $10 million or less in revenue that have been held five years and are sold in full.

General information based on federal law for tax year 2026, not tax advice for your situation. State rules vary.

Want this applied to your situation? Book a free 30-minute call with Akanchya Acharya, CPA at acharyacpa.com/contact or email akansha@acharyacpa.com.

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