

November 18, 2013

Chairman Dave Camp  
House Committee on Ways and Means  
Washington, DC 20515

Ranking Member Sander Levin  
House Committee on Ways and Means  
Washington, DC 20515

Dear Chairman Camp and Ranking Member Levin:

On behalf of the 157,000 members of the American Dental Association (ADA), we are writing to express our thanks for your leadership and responsiveness to small business concerns about the Internal Revenue Code ("Code"). The Chairman's small business tax reform discussion draft, Proposed Tax Reform Act of 2013, Title II – Tax Reform for Businesses (March 12, 2013) ("Proposal") is an important step towards tax reform simplification. However, we are concerned about the proposed limitations on the use of the cash method of accounting used by practicing dentists and how it might impact them.

One of our members' highest priorities for tax reform includes continuing to permit firms with no more than \$5 million in gross receipts to use existing cash basis accounting. The Proposal significantly expands the number of taxpayers that may use the cash accounting method. We support this expansion. However, the proposed limitation on certain business entities in the Proposal will adversely impact the practice of dentistry.

An ADA survey determined that the business of dentistry is changing. Today, only 34 percent of ADA members practice as sole proprietorships and this number is declining. Their businesses are taking on different forms. Nearly 40 percent of all ADA members are in partnerships and S-corporations, 13 percent of all dental practices are organized as Limited Liability Companies, and more than 11 percent are organized as C-corporations. These numbers are growing. The ADA survey also learned that in excess of 20 percent of ADA members self-identified as professional service corporations, an important change in how dental practices do business.

With more than 53 percent of all dental practices being structured as pass-through entities, the Proposal raises serious concerns in practice management. Under current law, most dentists are permitted to use the cash basis of accounting. Income, essentially, is recognized when it is received, and expenses are recognized when paid. Eliminating the safe harbor that currently exists for these pass-through entities creates tremendous administrative and accounting burdens.

In general, dental practices would be discouraged from growing their businesses. For example, a sole proprietorship might be hesitant to enter into a business partnership with a corporation. If the combined revenue of the sole proprietorship's practice and the corporation exceeds \$10 million in annual receipts, an accounting change would be triggered. In other words, the proposal creates obstacles to using the cash method, which would prevent dentists from entering into beneficial business relationships.

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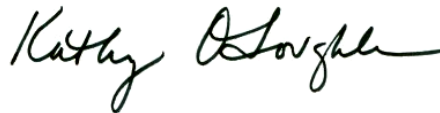
As the health care market place has changed, so has the practice of dentistry. Dentists are looking for new ways to work together, and create efficiencies in their practice. Shifting their attention away from providing quality oral care and refocusing it on cumbersome accounting rules undermines the practice of dentistry.

If you have any questions, please contact Mr. Tom Dawson at 202-898-2402 or [dawsont@ada.org](mailto:dawsont@ada.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Charles H. Norman". The signature is fluid and cursive, with a large initial "C" and "N".

Charles H. Norman, D.D.S.  
President

A handwritten signature in black ink, appearing to read "Kathleen T. O'Loughlin". The signature is cursive and elegant, with a large initial "K".

Kathleen T. O'Loughlin, D.M.D., M.P.H.  
Executive Director

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