



Selling a cosmetic or med spa practice is rarely a clean handoff. It is months of preparation, a few tough negotiation cycles, and a long tail of integration details. Owners who approach it as a financial transaction with a tax plan attached, rather than a one-time sale moment, keep more of what they built and avoid unpleasant surprises. I have sat with physicians and non-physician med spa owners in conference rooms from La Jolla to Miami and watched smart people lose hundreds of thousands to misallocated purchase price, poorly drafted earnouts, and last-minute entity decisions. The good news, if you start early and know where tax friction hides, you can shift the after-tax outcome dramatically.

## **Start earlier than your broker suggests**

Advisors talk about a 6 to 9 month sale timeline. Start your exit readiness 18 to 24 months before you expect to close. That extra year is where most tax value is created. You can settle ownership of intellectual property, tighten up non-compete and non-solicit agreements with key injectors, rationalize compensation, and document clinical protocols and vendor contracts. These steps matter to valuation, but they also determine whether the deal lands as ordinary income or capital gains in key areas.

One La Jolla med spa I worked with had \$5.2 million in revenue, growing 18 percent annually, with a 24 percent EBITDA margin. The owner waited until an LOI was on the table to fix her accounts receivable policy and standardize membership contracts. The buyer insisted on a larger working capital peg and pushed for an asset deal with heavy allocation to inventory and supplies. We recovered some ground by documenting enterprise goodwill and shifting more value to patient lists and trade name, but the late changes still cost her roughly \$180,000 in extra tax and price adjustments. If we had started a year earlier, we would have cut that in half.

## **What exactly are you selling**

Every buyer tries to buy assets. Many sellers prefer to sell equity. The difference drives tax. In a typical physician-owned cosmetic practice, professional services must remain with a physician entity, depending on state corporate practice of medicine rules. Many groups split the practice into two arms. The professional corporation performs medical services, while a management services organization, or MSO, holds non-clinical assets such as brand, staff, leases, and equipment, and provides administrative support under a management services agreement. If you already operate with a compliant MSO structure, you have more flexibility to sell equity in the MSO while maintaining clinical control. That can lead to more favorable tax treatment on the MSO side.

Med spa sales that are not physician-owned also commonly use an MSO model to comply with state laws. If you have a hybrid structure, make sure your cap table, intercompany agreements, and transfer pricing are clean. Sloppy MSO arrangements can trigger recharacterization of revenue and, in extreme cases, regulatory headaches that scare off buyers or justify a steep discount.

## **Asset sale versus equity sale, with tax in mind**

Here is the crux. An asset sale lets the buyer step up the basis of acquired assets and amortize intangibles over 15 years, attractive to them, but it often creates ordinary income for you on certain components. An equity sale can produce a cleaner capital gains outcome for the seller but may be less attractive to the buyer. In the cosmetic practice world, especially where equipment and leaseholds matter, allocations can swing hundreds of thousands of dollars in taxes.

- Quick comparison for owners deciding on deal structure:

- Asset sale: buyer-friendly for tax, often lower headline price, more ordinary income to seller on non-compete, consulting, and depreciation recapture.
- Equity sale: seller-friendly for tax because more proceeds can be capital gains, but buyers may push for reps, warranties, and indemnities because they inherit liabilities.
- Asset sale with partial equity rollover: can balance interests, giving the buyer basis step-up while the seller benefits from future upside and possible deferral on the rollover.
- Stock sale with 338(h)(10) or 336(e) election for S-corporations: hybrid approach, economically similar to an asset purchase for the buyer, often neutral to slightly negative for the seller on tax unless price adjusts.
- Split deal across MSO and professional entity: common in CPOM states, requires careful allocation and two Form 8594 filings if both sides are asset deals.

Keep in mind that medical and health-related businesses generally do not qualify for the Section 1202 qualified small business stock exclusion. Even if your MSO is a C-corporation, management services that are effectively health services or tied to a health business usually fall into excluded service categories. I have seen owners count on QSBS only to have counsel walk them back during diligence. Do not bank on it without a written opinion.

## Know your tax buckets

When you sell, the IRS does not see one blob of goodwill. It sees specific categories, each with its own rate. The three big ones are capital gains, ordinary income, and depreciation recapture.

Capital gains are your friend. Enterprise goodwill, patient lists, trade name, non-competition covenant in some states if structured as part of goodwill, and equity interests typically fall here. Federal long-term capital gains rates are generally 15 to 20 percent, plus the 3.8 percent net investment income tax if your income crosses certain thresholds.

Ordinary income is where sellers get pinched. Compensation for post-closing services, consulting, and payments tied to non-compete agreements are ordinary income and can also trigger payroll taxes if treated as wages. Depreciation recapture on equipment and leasehold improvements is taxed up to 25 or 37 percent depending on the asset type and your individual bracket. I once watched a beautiful \$9 million asset deal lose nearly \$400,000 of after-tax value because the seller had aggressively accelerated depreciation on lasers and RF devices, then agreed to a buyer-favorable allocation that pushed more proceeds into Section 1245 recapture.

## Purchase price allocation and Form 8594

Both parties file Form 8594 for an asset sale, reporting how the purchase price was allocated among asset classes. The allocation should match. If not, you may trigger audits or at least unwanted questions. The negotiation here is not just about headline price, it is about where the tax falls.

Class IV through Class VII assets are where most of the value sits in a cosmetic practice. Class VI covers covenants not to compete and workforce in place, Class VII includes goodwill and going concern value. Buyers want more Class VI because they amortize it. Sellers want more Class VII because it typically produces capital gains. The facts still must support the allocation. You do not get to just write 90 percent to goodwill if you also sign a tight non-compete covering your metro area for five years. Inconsistent agreements weaken your position.

## Personal goodwill, done carefully

Personal goodwill can be a powerful tool when the brand rests on the owner's name, skill, or patient rapport, and when no prior employment or shareholder agreement transferred that goodwill to the company. In a La Jolla facial plastic surgery practice I advised, we supported a \$1.1 million personal goodwill allocation with evidence. The surgeon had never assigned his name or patient relationships to the corporation, **Med spa consulting Aesthetic Brokers** his referral base centered on his personal reputation, and new patient intake surveys cited him directly. That allocation shifted proceeds from corporate level tax to individual capital gains.

Two cautions. First, overreaching invites challenge. Second, if you are in a corporate practice of medicine state, do not let personal goodwill arguments undermine your compliance structure. You can credit personal reputation while still respecting the line between clinical and administrative entities.

## **Earnouts, installment sales, and timing**

Earnouts are common in med spa consulting circles because buyers want to see retention of high-value injectors and membership revenue stability. The tax character of earnouts follows the underlying allocation. If the earnout is pegged to services you provide post-close, you could be looking at ordinary income. If it is tied to business performance without required services, it often adds to purchase price and capital gain. Document this clearly.

Installment sales under Section 453 let you spread recognition of capital gains to match payments, improving cash flow and potentially keeping you in a lower bracket. Depreciation recapture and ordinary income portions are generally taxed in the year of sale, not as payments are received. If you plan to use the installment method, watch the interest component and security terms, and model your cash needs for taxes due in year one.

## **Rollover equity and why it matters**

Many private equity backed platforms will ask you to roll 10 to 40 percent of your proceeds into the new entity. That rollover is often tax-deferred if structured properly. If the buyer's growth plan hits, the second bite can easily exceed the first sale. But it also concentrates your risk and ties your hands. Read the drag-along and tag-along provisions. Clarify your role, compensation, and whether your non-compete renews with a second sale.

From a tax angle, the rollover can preserve capital gain treatment on that portion if you receive equity in a tax-deferred exchange. Make sure the term sheet calls out the intended code section for the exchange and that counsel designs it accordingly.

## **Compensation clean-up before the sale**

Many owners in this field pay themselves through a mix of W-2 salary and distributions. Right-sizing your salary at least 12 months before a sale helps. Too little wages in an S-corporation invites IRS scrutiny and can distort valuation metrics like EBITDA. Too much salary means you already paid payroll taxes you will not recover at closing. Aim for a defensible, market-based salary for your clinical or executive role, then distribute the rest. If you plan a cash balance plan or defined benefit contribution to shelter income in your final year, coordinate contributions with your comp plan and close date.

## **Retirement plans as a tax lever, not a last-minute patch**

If you have strong cash flow in the 12 to 24 months before exit, a well-designed retirement plan can shelter significant income. I routinely see owners in their early 50s defer \$100,000 to \$250,000 annually across 401(k) and cash balance designs. The trick is to balance contribution levels with staff costs, vesting rules, and timing so you

do not hand back the tax savings in bonuses and severance. Do not slap in a plan three months before close and expect full deductibility or staff goodwill.

## **Real estate held separately**

If you own the building or suite through a separate LLC, decide whether you will sell it, keep it, or 1031 exchange into another property. A market lease to the buyer stabilizes your cash flow if you keep it. [Aesthetic Practice Consulting](#) If you sell, coordinate the real estate closing with the practice sale to manage state transfer taxes and depreciation recapture on improvements. In California, I have seen landlords spend six months clearing estoppels and consents while the deal clock ran down. Start landlord conversations early.

## **Philanthropy and pre-sale gifting**

Owners often want a charitable component. Two approaches stand out. Gifting a portion of equity to a donor advised fund before a binding sale can eliminate capital gains on that slice and give you a deduction, subject to AGI limits. The key is timing. If your sale is effectively locked and only ministerial steps remain, the IRS can treat the gift as an assignment of income. The second approach, using a charitable remainder trust, can defer gains and create an income stream, but it is paperwork heavy. I have seen both work. Neither should be a Friday afternoon decision after an LOI lands.

If family is in the picture, you can gift minority interests before the deal, applying valuation discounts for lack of control and marketability. That reduces your taxable estate and shifts some growth to the next generation. Your appraiser and attorney must coordinate to avoid a mismatch between the strategic valuation for the buyer and the fair market value used for gift purposes.

## **State and local taxes, especially in California**

If your practice sits in California, build state and local taxes into every model. California taxes capital gains as ordinary income. The combined federal and state top rate can pass 45 percent. Cities like San Diego have their own gross receipts and business license taxes. Nexus is expanding, so remote teleconsults or pop-up events across state lines can complicate apportionment. For a La Jolla owner, Aesthetic Practice Consulting La Jolla firms know local permit and zoning quirks that affect lease assignments and tenant improvements. Bring them in early.

Membership programs and prepayments also raise sales tax and revenue recognition issues. Several states tax membership components like retail product discounts or wellness services. Clean up the accounting so you do not surprise the buyer with deferred revenue balances that trigger a price reduction or a larger working capital target.

## **Valuation is not a single number**

An aesthetic practice valuation is not just a multiple on last year's EBITDA. Buyers will underwrite by service line. Injectables and skin health memberships often command higher multiples than invasive procedures if they have predictable retention and low physician dependence. Retail product margins matter but can drag down overall quality of earnings if they dominate growth. Seasonality, payor mix, and lead source concentration are worth explicit modeling. If 30 percent of your revenue comes from a single Instagram influencer partnership, expect a haircut or an earnout.

Use a third-party quality of earnings review that understands med spa and cosmetic practice data, not just general healthcare. I have watched generic QoE teams treat prepaid services like revenue, then watch deals re-

trade when the buyer's analysts corrected the math. If you hire Aesthetic Practice Consulting groups with med spa consulting experience, they will catch these issues and prep you to defend your numbers under diligence.

## **Compliance and MSO hygiene**

Regulatory compliance drives deal certainty in this space. Corporate practice of medicine, fee splitting, supervision rules, scope of practice for NPs and PAs, laser technician regulations, and advertising restrictions are diligence magnets. Contracts must match operational reality. If your MSO collects all revenue then pays a management fee that is a percentage of revenue, make sure the fee complies with fair market value and state law. If you pay injectors on a pure percentage of collections, document how it aligns with Stark, anti-kickback analogs at the state level, and commercial reasonableness standards. Clean MSO documentation keeps buyers comfortable enough to accept a seller-friendly structure or higher goodwill allocation.

## **Working capital, memberships, and refunds**

Cosmetic and med spa practices often carry sizable deferred revenue from memberships and pre-sold packages. That line item can cause more tension than price. Buyers do not want to pay you for services they must perform post-close. Sellers do not want to eat refunds for services rendered before closing. The working capital peg should explicitly carve out deferred revenue treatment. Some deals move all prepaid liability to the buyer with a price reduction. Others split liability based on usage rates. Whichever route you choose, put it in the LOI so you are not discovering the issue after exclusivity.

## **Insurance and claims-made policies**

If you operate under claims-made malpractice insurance, clarify who pays for tail coverage. Buyers often require you to buy a tail covering pre-close services. Budget accordingly. On the MSO side, check that your cyber liability and EPLI cover pre-close claims and define who handles in-flight matters. These costs do not directly change tax, but they change net proceeds and should be penciled in before you model after-tax outcomes.

## **Two-speed negotiation: headline price versus after-tax cash**

Owners understandably focus on the headline number. You should also track after-tax net in every turn of the term sheet. I keep a simple model for clients that updates after-tax proceeds in real time as allocation, earnout character, and rollover terms shift. A \$10 million asset deal with heavy 1245 recapture and a large consulting agreement can deliver less to your bank account than a \$9.2 million equity deal with a clean goodwill allocation. The only way to see that is to run the math each time the buyer edits a paragraph.

## **Your short, practical checklist**

Before you sign a letter of intent, run through this quick list with your CPA and deal counsel:

- Map your entities, including MSO and professional entity, and confirm compliance with state law.
- Model after-tax outcomes for asset, equity, and hybrid structures, using reasonable allocation assumptions.
- Identify and document enterprise and personal goodwill, and ensure your employment and shareholder agreements support your position.
- Clean up memberships, prepaid packages, and refunds, and decide how these will be handled in the working capital peg.

- Decide on pre-sale retirement plan contributions, charitable gifts, and any family transfers, and schedule them well before a binding agreement.

## How advisors fit together

You do not need a cast of thousands, but you do need a tight core team. A CPA with healthcare transaction experience should drive tax modeling and purchase price allocation strategy. A healthcare attorney who understands C POM and MSO nuances should draft and review the management agreements and equity documents. A sell-side banker or broker who works routinely in this niche will shape the buyer list and keep the process moving. Independent Aesthetic Practice Consulting outfits add value by tuning clinical workflows, KPI dashboards, and brand assets ahead of diligence. If you are near the coast, shop local context too. Firms focused on Aesthetic Practice Consulting La Jolla, for example, tend to know which landlords react fast to assignment requests, which med spa consulting platforms are building in Southern California, and which buyers have paid for personal brands versus network effects.

## A case study, condensed

A three-location med spa with a physician medical director and MSO structure, \$7.8 million revenue, 22 percent EBITDA. Two buyers at the table. Buyer A offered \$12.5 million in an asset purchase, 70 percent cash at close, 20 percent earnout keyed to membership growth, 10 percent rollover equity. Buyer B offered \$11.6 million in a stock purchase of the MSO, 80 percent cash, no earnout, 20 percent rollover.

On paper, Buyer A won by \$900,000. After tax, and after modeling allocation, depreciation recapture on \$1.6 million of equipment, a \$400,000 consulting agreement the buyer required, and California rates, the owner's net was \$6.3 million with Buyer A. Buyer B's equity deal with more goodwill and less recapture yielded \$6.55 million net, plus cleaner terms and faster close. The seller chose Buyer B. Sixteen months later, the platform recapitalized, and the rollover produced another \$1.8 million. That second bite would not have happened if she had optimized only for the sticker price.

## Final thoughts for owners planning a thoughtful exit

Treat Cosmetic practice exit planning as a distinct project, not a line item under "sell the business." The levers that matter are specific to this industry. The MSO structure you choose, how you compensate injectors, how you draft non-competes, and how you allocate purchase price across goodwill and covenants, all of it shapes what the IRS and your state will take. If you bring in targeted expertise, from med spa consulting teams that live in this terrain to a CPA who has filed many Form 8594s, you reduce friction and keep the upside you spent years creating.

The earlier you start, the more choices you have. Twelve months out, you are negotiating deal terms. Eighteen to twenty-four months out, you are redesigning your entity map, your compensation, and your accounting so those terms bend in your favor. That is the difference between a sale that feels merely satisfactory and one that funds the next decades of your life on your terms.

Aesthetic Brokers

Address: 800 Silverado St #301A, La Jolla, CA 92037

## **FAQ About Aesthetic Practice Consulting**

### **What does an aesthetics consultant do?**

An Aesthetic Consultant provides guidance to clients on cosmetic treatments and procedures, helping them achieve their desired aesthetic goals. They work in med spas, plastic surgery clinics, or dermatology offices, educating patients on options like injectables, laser treatments, and skincare.

### **What are the issues in aesthetics?**

The four central issues in aesthetics—identity, ontological status, interpretation, and evaluation—are interdependent.

### **What is an aesthetic practice?**

Aesthetic Medicine comprises all medical procedures that are aimed at improving the physical appearance and satisfaction of the patient, using non-invasive to minimally invasive cosmetic procedures.