



Physician Incorporation, New Tax Rules & Deductible expenses

June 3, 2019

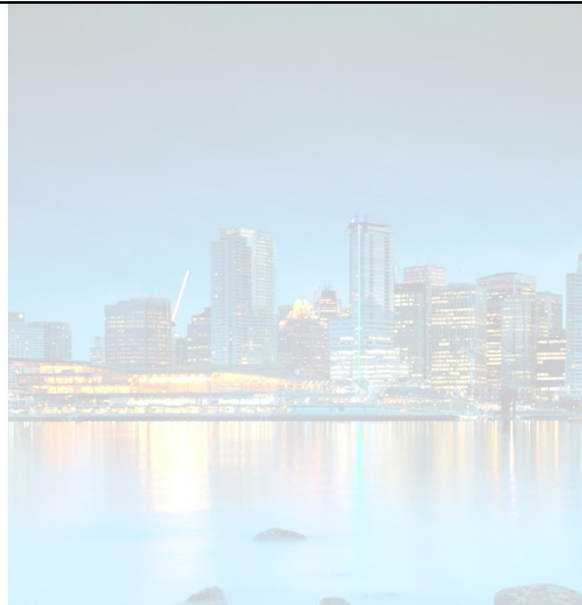
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Who is Baker Tilly

One of BC's largest independent firms

- Over 100 personnel
- Specialize in owner-managed businesses
- Full service accounting firm
 - Tax (Canadian, US, estate planning)
 - Professional services group (dentists, doctors, etc.)
 - Audit and accounting
 - Corporate finance and valuations
 - Business advisory and consulting
 - Insolvency and restructuring
 - Public companies



Who we are



Heather Loblaw, CPA, CA

- Partner
- Chartered Professional Accountant
- More than 25 yrs of experience
- Work with small to medium size businesses
- NPO audit

Mark Sherritt, CPA, CA

- Partner
- Chartered Professional Accountant
- More than 20yrs of experience
- Private company tax advisory & compliance



Agenda

- Incorporation

Case Studies

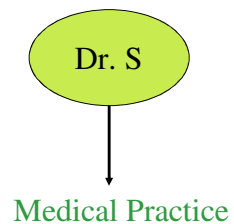
- The new doctor
 - The experienced physician
 - The retiree
-
- Deductible Medical expenses

INCORPORATION

WHEN SHOULD YOU INCORPORATE YOUR PRACTICE

What is incorporation?

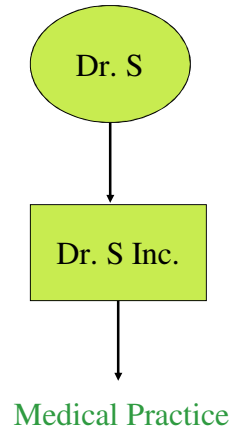
First, let's consider an unincorporated doctor:



- All revenues and expenses are incurred personally (reported on personal tax return)
- All assets (e.g. equipment) and liabilities (e.g. debt) are held personally

Incorporation

- Now, let's consider an incorporated doctor

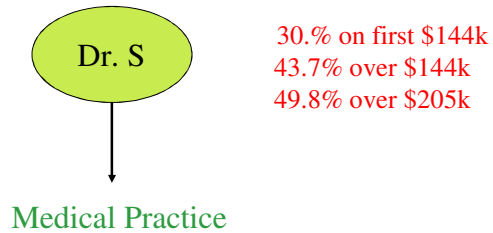


What is incorporation?

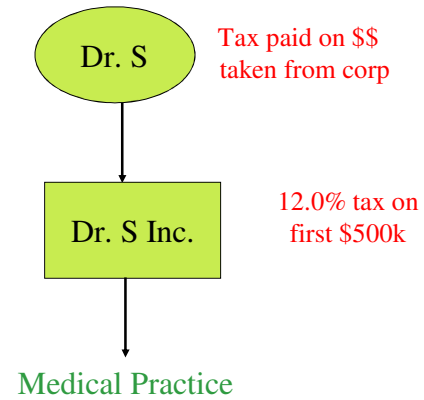
- Creation of a separate legal entity
- The corporation owns your medical practice
- Corporation has its own assets, liabilities, revenues and expenses
- Taxed separately at lower rates than personal tax rates
- Legal liability limited to corporations assets

Benefits of Incorporating

Unincorporated



Incorporated



Benefits of incorporating

Benefit #1 – Tax Deferral

- Low corporate tax rate: 12.0% on the first \$500,000 of business or professional
- Personal tax rates are much higher:
 - Almost 30% on first \$144,000
 - 43.7% on amounts over \$144,000
 - 49.8% on amounts over \$205,000!

Benefits of incorporating

Tax Deferral (cont'd)

- Tax *deferral* not savings
- Funds withdrawn from the corporation will still incur personal taxes
- Deferral only works if funds earned in corporation are NOT immediately withdrawn
- Ideal for professionals whose earnings **exceed** their personal expenditures

Benefits of incorporating

Tax Deferral (cont'd)

- Example: Doctor is earning \$300,000 (net) but only needs \$200,000 (i.e. save \$100,000).
- **Incorporated:** \$100,000 less taxes of \$12,000 leaves \$88,000 left to invest within corporation.
- **Not incorporated:** \$100,000 less taxes of \$49,800 (49.8%) leaves \$51,200 to invest.
- Incorporation allows \$39,200 in taxes to be **deferred**.
- This deferral amount can then be invested and earn income

Benefits of incorporating

Income splitting

- Allocation of income from high income person (high tax bracket) to low income person (low tax bracket)
- Usually involves splitting to spouse and/or family members
- Two main approaches:
 1. Salaries
 2. Dividends

Benefits of incorporating

Salary: a “reasonable” salary can be paid for work done for your practice. What would you pay someone else to perform the same tasks

If shareholder – could be paid a dividend instead of salary, but again must be reasonable for work performed

Return on investment

If spouse has contributed money into the corporation they could also receive a dividend as a return on investment for the amount – again must be reasonable

Income splitting

TOSI = Tax on Split Income

- **When in business with a family member, TOSI is the unreasonable portion of income, taxed at the highest marginal rate**

Benefits to incorporation

Other

Legal liability limited to corporation's assets, but physician is still personally liable for malpractice.

Disadvantages of Incorporating

- **Complexity:** Separate legal entity
- **Costs:** Additional legal, accounting, and tax filing fees
- **Minimal tax savings:** if practitioner is drawing out all his or her earnings

Deductible Expenses as a Physician

WHAT CAN BE EXPENSED?

Income earned – what is deductible?

Expenses

Must be incurred to earn income from the business and be reasonable, such as:

- Automobile – see slide
- Capital assets – see slide
- Dues and memberships: College of Physicians and Surgeons etc.
- Insurance: CMPA & office insurance – deductible, - also see slide
- Office rent: may claim a home office based on expenses of home and square footage of office space

Income earned – what is deductible?

Expenses (Continued)

- Meals & entertainment – incurred for business purposes are 50% deductible for tax
- Office and medical supplies
- Professional fees: for the corporation including incorporation costs are deductible
- Salaries & wages paid to staff and physician
- Telephone costs
- Conferences – travel etc: fully deductible for up to two conferences per year

Expenses

Automobile

Note: travel from home to the location of the business is NOT business use

A log should be maintained to track business use, and support any reimbursement.

- If you track mileage, you can simply pay yourself based CRA's stated rate per kilometre.

Expenses

Capital assets

Examples: computer hardware, software, furniture (desk, chairs) and leasehold improvements.

These items are written off over a number of years, based on CRA's rates

Expenses

Insurance

Life Insurance:

- Is deductible for accounting if owner and beneficiary of the policy is the company
- Is NOT deductible for tax purposes unless required as collateral for corporate debt

Disability insurance

- Should be paid by the physician, not the corporation. If paid by the physician then any benefits received are not taxable, if paid by corporation – taxable

Private Medical Health Premiums: may be paid and deducted by the company

The New Doctor

WHERE TO BEGIN & WHAT TO KNOW



New Doctor – where to begin & what to know

Should you Incorporate:

- When the time is right, if you are simply drawing all the money out of the company, there is no tax savings / deferral
- You may be paying of student loans, purchasing a car, saving for a house and catch up on RRSP's and TFSA room, thus may not be much \$\$ left in company
- There are increased costs for: bookkeeping, year end accounting, tax filings

New Doctor – where to begin & what to know

How do I involve my spouse, is there any benefit:

- Spouse should own non-voting participating shares of your corporation
- Salary: a “reasonable” salary can be paid for work done for your practice. What would you pay someone else to perform the same tasks

New Doctor – where to begin & what to know

Should I have a family trust?

- LCGE: unlikely that you will sell the shares of your medical corp – thus not really an opportunity to multiply the LCGE
- Protect assets: trust holds the assets on behalf of its beneficiaries – may protect them from creditors.

New Doctor – where to begin & what to know

Start saving early

- There is compounding effect of starting as soon as you can

RRSP's: (2019 Maximum \$26,500)

- A good way to start saving money
- Home buyers plan (2019 \$35,000)– must be repaid in 15 years

TFSA: 2019 Maximum \$6,000

- Money put in uses after tax dollars, so not subject to income inclusion if withdrawn
- Income earned is tax free within the TFSA
- Can withdraw and contribution limit is returned

New Doctor – where to begin & what to know

- Disability insurance: Important to protect yourself and your family if you are unable to work
- Life insurance: Important to protect your family and also potentially as a tax shelter
 - Term life: Coverage for only a set term.
 - Universal / whole life: Coverage for your lifetime. More expensive but have investment portion.
 - Will: Ensure to update after significant changes (e.g. incorporating, marriage, having children etc.)

The Experienced Physician

TAX TIPS AND PLANNING AHEAD

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Hopefully you have:

- Paid off your student loan
- Purchased your home and are paying off the mortgage
- Putting some money away in RRSPs & TFSAs
- Accumulating investments in your corporation

So now what?



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Compensation

- likely a salary dividend combination;

Investments

- earning a return – paying high rate tax corporately

Concern: Small business deduction grind

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Small business deduction grind: What is it?

- Up to \$50,000 in investment income is allowed to be earned;
- Above \$50,000 – the \$500,000 SBD is ground, so that investment income of \$150,000 there is no SBD
- As you are still earning active income that is eligible for the SBD, but also accumulating investments, this may effect you

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SDB Grind

This should be reviewed with your accountant each year, in order to make decisions in terms of:

- Withdrawing more money
- Perhaps OK as you are close to retirement and not needing any SBD or active income is declining so you don't need as much

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Income splitting

- Children make becoming of working age, can pay them a reasonable salary for work performed
- Spouse may also be working for company for reasonable salary

Savings

- Corporate investments
- TFSA's
- RRSP's
- Pay off your mortgage

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Scientific Research & Experimental Development tax incentive (SRED)

Typically the practicing doctor is involved in epidemiology studies, data collection and data analysis that leads to the advancement of knowledge in a field of medicine, which may or may not be published

For every **\$1000** of T4 salary earned by a doctor that is categorized as eligible work under the program, the PMC (Professional Medical Corporation) will receive a credit of **\$668**, most of which is refundable, even if the corporation is not profitable.

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SR&ED – complex rules & regulations

Talk to you tax advisor!



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Should you dissolve your current family trust?

- Let's wait and see what happens in the federal election
- Then discuss with your tax advisor, there may be other benefits

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Things to consider for the next 10-15yrs:

- Do you have a Will
- Do you have life insurance
- How much will you need in retirement,
 - What are your goals?
 - What lifestyle do you want to have?
 - Where will you live?
- Do you plan to support your children through University and beyond

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Assemble your team of **Trusted Advisors**:

- Accountant: Tax planning & filings, advice on financial decisions
- Broker / advisor for buying / selling
- Financial advisor: Investments, insurance, financial planning
- Banker: Banking, borrowing, investments
- Lawyer: Estate planning, contracts (e.g. lease agreements, joining a practice, etc.)
- Bookkeeper: Regular bookkeeping and up-to-date financial information

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- Reach out to them throughout the year so they are up-to-date and can help you
- Ensure that they communicate with each other so they take a holistic approach

The Retiree

WHAT HAPPENS NOW?

The Retiree

Hopefully you have:

- Paid off your mortgage
- Children are independent
- RRSP savings
- TFSA's savings
- Accumulated wealth, other investments, within your corporation

The Retiree

Paying for your retirement options

\$13,610 Max CPP for 2018

\$ 7,039 Max OAS for 2018

\$20,649 Income before tax

Other income

- Personal savings
- RRSP's / TFSA's
- Income from Company

The Retiree

How does it all work?

RRSP's – must be converted to RRIF's when you are 72.

- Then you must take a min. amount each yr, based on total value of RRIF
- This is pension income eligible to be split with your spouse
- You may want to consider taking some out between the ages of 65-72, in order to reduce the minimum you must take once you are 72.
- Your income may clawback the OAS you receive: grind starts at \$76,000 and completely clawed back at \$123,000

The Retiree

TFSA's –

- No mandatory withdrawal
- Use as a safety net, roof needs to be replaced, boiler, emergency fund
- Can be distributed to your beneficiaries tax free

The Retiree

Company assets

- Investments held in your corporation are essentially your pension
- Once you have reached 65 years of age, you can income splitting with your spouse, (i.e. dividends can be paid to either of you), hence good to have your spouse as a shareholder

The Retiree

What pool of cash to use first?.....it depends

- Some would say the funds that already have been taxed, so personal savings
- But you want to create some income to use the lowest marginal rates, so paying a dividend from the company
- RRSP – covert to RRIF, you will be required, may want to take money out before converting to minimize mandatory amounts.
- Client's no longer want the hassle of a company, the legal & accounting costs...best to discuss with your accountant

Patient Medical Expenses

WHAT CAN BE CLAIMED AS A MEDICAL EXPENSE?

Patient Medical Expenses

BC MSP covers: fertility testing and surgery but not the cost of fertility treatment

Patient Medical Expenses

What is allowable for a medical expenditures in Canada?

Fertility-related procedures – amounts paid to a medical practitioner or a public or licensed private hospital to conceive a child

- amounts paid for a surrogate mother are **not** eligible.

In vitro fertility program – the amount paid to a medical practitioner or a public or licensed private hospital, not including donations to a sperm bank.

Patient Medical Expenses

- **Laboratory procedures or services** including necessary interpretations – prescription needed.
- **Needles and syringes** – prescription needed.
- **Pre-natal and post-natal treatments** paid to a medical practitioner or a public or licensed private hospital.

Patient Medical Expenses

- **Prescription drugs and medications**
 - You **cannot** claim over-the-counter medications, vitamins, or supplements, even if prescribed by a medical practitioner (except [Vitamin B12](#)).

Patient Medical Expenses

- **Medical services outside of Canada –**
 - if you travel outside Canada to get medical services, you can claim the amounts you paid to a medical practitioner and a public or licensed private hospital.

Patient Medical Expenses

- **Travel expenses (at least 40 km)**

The cost to travel (bus, taxi, train) when travel >40Km but <80Km

- To claim transportation and travel expenses, **all** of the following conditions must be met:
 - Substantially equivalent medical services were not available near your home.
 - You took a reasonably direct travelling route.
 - It is reasonable, under the circumstances, for you to have travelled to that place to get those medical services.

Patient Medical Expenses

Travel expenses (at least 80 km) –

- the cost of the travel expenses, including accommodations, meals, and parking,
 - Same conditions as for at least 40km

Summary

- Incorporate when ready
- Start saving early
- Trusted advisors – accountant, broker, lawyer, financial advisor, bookkeeper:
Use them!
- Other items to consider (life & disability insurance, updating your will,)
- Advising your patient of eligible medical expenses

Questions



Feel free to contact us with any questions

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