



Nova Scotia Dental Association

## **PRACTICE CHOICES:**

The business of dentistry,  
corporate interests and you

A resource & guide  
for Nova Scotia Dentists.

### **Part 3:**

Financial & Tax Information for Dentists

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***The Nova Scotia Dental Association supports the belief that dentists are best able to make self-determined, informed practice decisions when they are equipped with all the necessary information regardless of practice model. Patient-centred care is best delivered when the dentist/patient relationship is based on the dentist having full autonomy for treatment decisions.***

Important questions every dentist should ask before making a practice model decision (from the 2013 Investigative Report on the Corporate Practice of Dentistry from the Academy of General Dentistry):

- a. Who is my employer?
- b. Who can create or edit a treatment plan? Who is responsible for the treatment plan? Do I have the authority to disagree or change a treatment plan?
- c. Who owns the dental professional entity? Who owns the business entity?
- d. What is the governance structure of the dental profession entity? Of the business entity?
- e. Does the business entity have a relationship with any outside investors, such as an equity firm or public company?
- f. Is there a management service agreement? If so, does that agreement comply with provincial laws and regulations?
- g. What are my employer's expectations regarding my productivity, patient volume, and revenue? For example, may I take two hours to complete a crown prep?
- h. What formula is used for dentist compensation? That is, to what degree is my compensation based on my productivity?
- i. What is the relation between my compensation and that of the business entity?
- j. Who owns the lease agreement for the building? For the equipment? If I buy a practice, will I have the opportunity to own the equipment in full, or will I rent the equipment perpetually? If I can own the equipment, what is the lease term, and is there a separate agreement for a lease-to-own opportunity?
- k. May I use any vendor for supplies? Is there a cap on the volume or type of supplies available?
- l. May I use a dental laboratory of my choosing? How are lab costs ascertained and apportioned?
- m. Who has control over the revenue stream distribution, and how is the revenue stream distributed?
- n. Who owns patient records? Upon termination, would I have access to patient records? If so, to what extent? Is there a procedure for accessing these records?
- o. How are after-hours emergencies addressed?
- p. Who makes hiring and firing decisions? Are there any protocols or guidelines for these decisions?
- q. May I have access to all contracts and other documentation upon which the above answers are based, so that I may share them with an independent attorney, accountant or professional advisor?



Nova Scotia Dental Association

## **Financial & Tax Information for Dentists**

*Prepared by:*

MNP LLP

*for*

The Nova Scotia Dental Association

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MNP publications are intended to provide information of a general nature only and readers should seek professional advice before proceeding on matters covered or related to the material.

The information presented is current to the publication date and may be subject to change following the publication date.

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## **CHAPTER 1**

### **MAKING AND MANAGING MONEY AND INVESTMENT STRATEGIES**

#### **Making and Managing Money**

New graduates face an exciting new chapter in their lives. During school many graduates have limited financial resources and rely on student loans or part-time jobs to get by. Once school is complete, graduates are presented with varied career opportunities, which in turn provide new financial opportunities. The temptation to jump into expensive lifestyle choices such as purchasing a new house, a new vehicle, or taking an exotic vacation are difficult to resist. However, rushing into this new lifestyle may hinder the ability to meet key financial goals, such as paying off student debt, or saving to assist with the purchase of a dental practice.

Every person has a different financial situation, therefore it is not possible to provide a “one size fits all” financial plan. It’s best to determine short- and long-term personal and financial goals with an advisor and work to develop a personalized plan which will assist in meeting those goals. A good first step is outlining what your cashflows will be, what your goals are and how to prioritize debt repayment and saving.

#### Income inflows and outflows:

Preparing a budget that outlines recurring monthly cash inflows and outflows can answer a lot of financial questions, such as: can I afford that monthly car payment? Can I afford the rent at this new apartment? How much can I pay to reduce my debt each month?

Common fixed monthly expenses:

- Rent or mortgage payment
- Insurance (car, home, health, disability, life, etc.)
- Utilities (phone, internet, cable, power, heat)
- Property taxes
- Condo fees
- Car loan or lease payments
- Student loan payments
- Vehicle costs such as fuel
- Food
- Gym membership

When looking at monthly expenses, it is also important to consider funds available for variable or unplanned expenses such as:

- Income taxes
- Clothing
- Repairs and maintenance on house, apartment, vehicle
- Vet bills
- Medical bills
- Travel
- Entertainment
- Furniture and electronics
- Gifts

The more experienced budgeter may want to start tracking all actual expenses on a monthly-basis to determine if these budgeted amounts are realistic. This will provide more information to determine how much to cut back in one area, or if more can be spent in another area.

With an outline of income and expenses, the next step is to determine how much to allocate towards debt repayment or savings. This may result in revisiting expense outflows to determine if there are areas to cut back. Debt repayment and saving is discussed further below.

#### Setting Financial Goals:

Financial goals vary, whether it is saving for a vacation, repaying debt, buying a home, buying a dental practice or providing for income taxes. However, it is difficult to reach goals if they are not defined or there is no plan to reach those goals. Therefore, outlining financial goals and communicating with a professional advisor is the first step in reaching those goals.

#### Debt Repayment vs. Savings

A suggested rule of thumb is that debt repayment and saving to meet goals need to occur at the same time. Even starting with a small amount of monthly savings is a good start.

Holding a large amount of debt can hinder the ability to save, and thus hinder the ability to achieve financial goals. For most graduating professionals, financial institutions are willing to provide loans and credit cards, so one must be cautious in order to pay off existing debt and to avoid unnecessary new debt.

#### “Good” Debt vs. “Bad” Debt

Debt can be positive when it is used to meet your goals. Debt is often necessary to earn a degree, purchase a home, purchase a car, and to establish a dental practice. Debt can become a burden when it is used or abused to cover living expenses, purchase consumer goods, or used to fund travel. This debt is often incurred on high interest rate credit cards or lines of credit and is referred to as “consumer debt.”

To determine which debt to pay off first, look at the interest rate charged on each type of debt. To minimize interest charges, paying off the highest interest rate debt first usually is best:

- **Credit card debt:** Interest rates can be high on credit card debt, thus repaying credit card debt should be your top priority. It is good to avoid the vicious cycle of repaying then re-incurring the debt while other debts go ignored.
- **Line of credit or student line of credit:** Lines of credit and especially student lines of credit can have favourable interest rates. National and Provincial student loan do have tax relief (credits) as well, however the interest rate may be low enough on a student line of credit that it may make sense to reduce or eliminate National or Provincial student loans before your student line of credit.
- **Nova Scotia student loans: Nova Scotia continues to provide one of the best student assistance programs** in the country, as provincial loans are interest-free and there are upfront grants, loan forgiveness and the Nova Scotia University Student Bursary. Combined, an eligible student can receive more than \$40,000 they do not have to repay.
- **Vehicle loans:** Many vehicle companies are offering zero percent interest or payment plans over seven years. A zero percent or low interest rate usually means the finance charge is built into the price of the vehicle. In addition, longer payment plans have a risk that you may owe more than the vehicle is worth in the future.
- **Mortgage:** Mortgage rates are at an all-time low. As with vehicle loans, consider carefully the long amortization periods.

### Strategy for Paying off Debt

When looking at how much the monthly debt payments should be, consider making more than the minimum monthly payments. Sometimes minimum payments barely cover the interest cost and will result in paying off debt over a much longer period and hence, paying a large amount of interest over time. Speak to a professional advisor about monthly debt payments and the timeline for having the debt repaid.

### **Strategy for Investing**

#### Looking at Goals

Once you become established in your career, income will likely be increasing while student debt is decreasing. With the increased income and cash flows it is time to begin saving and investing. There are a lot of options on where to put your money, such as a regular savings account, an investment account, a Registered Retirement Savings Plan (RRSP), or a Tax-Free Savings Account (TFSA). Within each type of account, you will have a large list of types of investments to choose

from; an interest savings account, GICs, bonds, mutual funds, shares of a company (equity), etc. The type of investment made will depend on your goals and your risk profile, which will require the advice of a financial advisor. It is also important to determine how much you must put towards saving and investing – is it as much as you need to meet your short- or long-term goals? At this point it may be necessary to revisit your budget as discussed under “Making and Managing Money.”

To determine an investment strategy, it’s important to think about what your next steps are in achieving your personal and professional short- and long-term goals, such as:

- Buying or opening your own dental practice
- Specialization, requiring further education
- Buying a home
- A wedding
- A trip

A professional advisor will help to determine if you’re on track to meet these goals and how much you will need within your estimated timeline.

The following is additional information on common tax advantageous saving vehicles. Note that in each type of account (either an RRSP or TFSA) you can invest in several different types of investments, such as mutual funds, GICs, bonds, equities, etc.:

#### Registered Retirement Savings Plan (RRSP):

Each taxpayer can only contribute a limited amount into their RRSP account (referred to as deduction limit). This limited amount is dependent on a taxpayer’s “earned income” (income from employment and business and not dividend income and most income from investments). The deduction limit increases each year by 18 percent of the previous year’s earned income, to a maximum of \$26,230 (in 2018). The maximum increase to the deduction limit is indexed each year.

A contribution to your RRSP, up to your deduction limit, provides you with a deduction against taxable income. The higher your marginal tax rate, the higher the tax savings. Contributions to an RRSP can be invested and as the income earned on the investment accrues, tax is deferred. Withdrawals from RRSPs are taxable income (including original contribution, income earned in RRSP, and growth in RRSP). Generally speaking, contributions are best made while you’re taxed at a higher marginal tax rate (i.e. you are earning a higher level of income), and RRSPs are best withdrawn at a lower marginal tax rate (i.e. when you’re earning a lower level of income, such as when you’re retired).

You can also contribute to your spouse’s RRSP; the contribution is a deduction to the contributor and is also subject to the contributor’s RRSP deduction room.

**Tip: Your RRSP deduction limit is shown on your Notice of Assessment each year**

Taxpayers can withdraw funds from their RRSP, without being taxed on the withdrawn amount under two programs, the Home Buyers Plan and the Lifelong Learning Plan. These withdrawals are essentially an interest free loan from your RRSP, and must be repaid under a specific timeframe:

- Home Buyers Plan (HBP): Up to \$25,000 can be withdrawn from your RRSP to purchase or build your first home. You must repay the amount withdrawn into your RRSPs over a period of 15 years beginning the second year after the withdrawal.

**Tip: If you have funds for a down payment outside of an RRSP, you can contribute these to your RRSP, and receive a large tax deduction in the year. As long as these funds have been in your RRSP for at least 90 days, they can be withdrawn under the HBP for a down payment.**

- Lifelong Learning Plan (LLP): Up to \$20,000 can be withdrawn from your RRSP for full time post-secondary education, for yourself or your spouse. Up to \$10,000 can be withdrawn each year, to a maximum of \$20,000 in total. You must repay the amount withdrawn into your RRSPs over a period of 10 years beginning the earlier of:
  - o The second year after you are no longer a full-time student or
  - o Five years after the withdrawal

Some points to consider in determining whether you should contribute to an RRSP:

- What are you saving for? If it is to meet certain short-term goals, an RRSP may not be appropriate as RRSP withdrawals are taxed as regular income.
- Are you saving for a down payment on a home or to pursue further education? Programs such as the HBP or LLP can be used to make tax-free withdrawals from your RRSP, however they must eventually be repaid.
- What is your marginal tax rate? If you're a new graduate with only a half year of income, an RRSP will not provide you with as large of a tax savings than if you were to contribute when you have a full year of income. RRSP contributions are better made once your annual income is higher, providing you with a tax deduction at a higher tax rate.
- Do you have funds set aside for a down payment on a home or continuing education? Consider contributing those into an RRSP to be available to withdrawal under the HBP or LLP in 90 days. The tax savings that year can be used as additional funds to either reinvest or used further for pursuing your goals.
- Don't forget that you will require available cash to pay for income taxes due in April of the next year which may limit how much you are able to invest.

### Tax Free Savings Accounts (TFSA)

Taxpayers can contribute to a TFSA up to their contribution limit, which increases by the same amount each year for all Canadian residents who are 18 years old, or older.

TFSA contribution room was \$5,000 from 2009 – 2012 inclusive, \$5,500 from 2013 – 2014, \$10,000 for 2015, and \$5,500 for 2016 – 2018. Therefore, someone who was at least 18 years old in 2009 and has never made a withdrawal or contribution to a TFSA has contribution room in 2018 of \$57,500.

Contributions to a TFSA are not tax deductible; however, income earned in a TFSA is tax free, as well as any withdrawals from a TFSA are also tax free. Once you start using your TFSA the rules to calculate the ongoing contributions can be quite complex. On an ongoing basis, the contribution limit to a TFSA is dependent on past contributions as well as withdrawals. We suggest that it is best to speak to a tax or professional advisor or confirming directly with CRA to determine your ongoing contribution limit.

Some considerations which should be made to determine whether you should contribute to a TFSA:

- Are you saving for a short-term goal? A TFSA may be more appropriate as any withdrawals are added back to your contribution room in the following year.
- In saving for retirement, TFSA withdrawals won't be included in your income, and may allow you to take better advantage of retirement benefits, such as Old Age Security.

These can all be great savings vehicles, and many dentists use a combination of RRSPs, TFSAs, and non-registered accounts to achieve their saving and investing goals. Your accountant or financial advisor are always available to offer guidance on these decisions.

### Over Contribution to RRSPs and TFSAs

As discussed above, there are very defined limitations on how much you can contribute to either of your RRSP and/or TFSA. As with most limits there are penalties for exceeding them. Although an RRSP allows a \$2,000 excess to be contributed, should you over contribute to your RRSP or TFSA a penalty tax of one percent of the over contribution per month is required to be paid, along with additional penalties for late payment of the one percent tax plus interest and additional costs associated with the reporting of the tax. It is strongly recommended when using these very advantageous savings vehicles, that you and your advisors monitor the limits regularly.

## CHAPTER 2 PREPARING YOUR PERSONAL TAX RETURN

### **Filing your Tax Return as a New Graduate Employee or Self-Employed Associate**

Once you have graduated, your personal tax return will likely be more complex than it was while you were a dental student. This is particularly true if you begin your career as a self-employed dental associate. This chapter covers the basics of the Canadian tax system, and the numerous credits and deductions you may be entitled to. You may have the opportunity to work as an employed dentist or a self-employed dental associate, and each of those titles comes with very different tax consequences which are discussed below. Lastly, this chapter discusses the changes to your personal taxes you should expect during any major phases in your life; such as getting married, having children, going through a divorce and finally, the impact of death and taxes.

### **The Basics**

In short, in Canada, individual taxpayers pay tax on their world-wide income less deductible expenses to determine your “net” income. The tax calculated on net income is then reduced by tax credits. This can get complicated; how does taxable income differ from regular income? What deductions can be claimed against income? What is the tax rate charged on the income? What’s the difference between a tax credit and tax deduction? Which one is better? What tax credits are available? How do tax credits reduce your tax bill?

#### Income:

There are many types of income, and not all income is taxed in the same manner:

- **Employment income, business income and rental income:** These types of income are considered “earned income” which becomes an important distinction which will be discussed in chapter three. Tax rates on these types of income are generally higher than the rate on other types of income.
- **Interest Income:** This is income earned on savings accounts, GICs, bonds, and loans. Interest income is taxed at the same tax rates as employment, business, and rental income.
- **Dividends:** Dividends are distributions of after-tax corporate profits. As this distribution has already been taxed in the corporation, the dividends are taxed at a lower tax rate than earned income or interest income.
- **Capital gains:** Capital gains are incurred if capital property (such as real estate or investments) is sold for more than the purchase price. Only 50 percent of capital gains are taxable. Furthermore, some capital gains may be fully tax exempt, such as the sale of a

principal residence or the shares of a qualifying small business corporation (such as an incorporated dental practice, which will be discussed in chapter six).

Individual Tax Rates:

Income is taxed based on a graduated tax rate system. The higher the income, the higher the marginal tax rate until an individual reaches the top tax bracket where the top rate is capped. The tax rate is based on tax brackets, which are the ranges of income which are assigned a particular tax rate. There is a misconception that once your income reaches a particular tax bracket, that all of your income is taxed at that bracket’s tax rate. However, only the income earned above and beyond that tax bracket is taxed at the higher rate.

Tax Deductions vs. Tax Credits:

Tax deductions are deducted from the types of income outlined above. Common deductions would be childcare, RRSP contributions, professional dues and fees, etc. Tax is then calculated based on your income after deductions. Tax credits are then determined and applied to reduce this amount to determine the actual taxes for the year. Common credit items are the basic personal amount, tuition, medical, donations, etc. There is a false impression that tax credits will reduce income by the credit value, however only a percentage of the stated credit value reduces taxes. Most tax credits reduce taxes by approximately 24 percent in Nova Scotia, for example, your \$10,000 tuition fee reduces your tax bill by approximately \$2,400. Donations are one exception, where the credit can be up to 54 percent of the donated amount once your donations exceed \$200.

**Employee vs. Self-Employed**

Once you have graduated you may have the opportunity to become an employee of a dental practice or become an associate in a dental practice. There are significant tax differences to being an employee versus being self-employed (as an associate), which are discussed below.

Determining whether or not you are an employee or a self-employed associate is not as simple as the given label. CRA looks at several factors to determine your status:

	<b>Employee</b>	<b>Self-Employed</b>
<b>Level of control</b>	<ul style="list-style-type: none"> <li>• Principal determines treatment plan and work.</li> <li>• You rely on the employer’s professional judgement.</li> <li>• You must work set office hours.</li> <li>• You do not have flexibility with which patient cases to perform.</li> </ul>	<ul style="list-style-type: none"> <li>• You determine the work to be performed on patients.</li> <li>• You work autonomously.</li> <li>• You are usually able to choose your own schedule.</li> <li>• You can accept or refuse to perform work.</li> </ul>
<b>Tools and equipment</b>	<ul style="list-style-type: none"> <li>• The principal provides all tools and equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• You provide your own tools and equipment.</li> </ul>
<b>Opportunity for profit</b>	<ul style="list-style-type: none"> <li>• Remuneration is fixed.</li> <li>• You receive a salary.</li> </ul>	<ul style="list-style-type: none"> <li>• You control and limit the number of patients you</li> </ul>

		provide services to based on your clinical judgement and physical capacity.
		<ul style="list-style-type: none"> <li>You work at more than one clinic increasing control of your income.</li> </ul>
<b>Financial risk</b>	<ul style="list-style-type: none"> <li>Principal is responsible for legal, financial liabilities from patient complaints, malpractice, professional misconduct etc.</li> </ul>	<ul style="list-style-type: none"> <li>You are responsible for legal, financial liabilities from patient complaints, malpractice, professional misconduct etc.</li> </ul>

The following are some of the income tax implications of being an employee vs. self-employed:

- Self-employed income is business income while employment income is salary. Business income and salary are taxed at the same tax rate.
- Expenses incurred to earn business income qualify to be deducted from income, while deductions from salary income are very limited. This will be discussed further below.
- As an employee, you pay into the Canada Pension Plan while your employer matches your contributions. As a self-employed individual, you must pay both your portion and the employer portion into CPP.
- As an employee, you are contributing to Employment Insurance, and thus qualify to receive EI should you need it due to job loss, sickness, maternity or paternity leave. While self-employed, contributing to EI is optional. To contribute to EI, you must register to do so and the situations in which benefits can be paid are limited (typically parental leaves) should you require EI benefits.
- As an employee, your employer deducts income tax from your salary and remits it to CRA on your behalf. As a self-employed individual, you will be required to pay all your income tax by April 30 following the tax year.
- Unlike employees who have taxes withheld at source, individuals who are self-employed or have significant investment income are required to make quarterly installments payments (payments on account) to pay for the current year's taxes.
- Cash management is very important, too frequently self-employed individuals are caught off guard after their first successful year when they suddenly must make a large tax payment for last year and then an installment payment for next year's taxes all at the same time. It is best to speak to a tax advisor to estimate what your tax bill will be and how much you should be setting aside.

### **Common Deductions Available to Dentists**

Tax deductions or "write-offs" are deducted from your employment or business income in determining what your taxable income is, thus reducing the amount of income subject to tax.

As discussed under “Employee vs. Self-Employed”, expenses that can be deducted from employment income are *explicitly identified* in the Income Tax Act. To be allowed to deduct expenses from employment income, your employer must sign form T2200 – Declaration of Conditions of Employment, which would outline expenses you are required to incur as an employee. Expenses are limited but may include, travel costs, cost of supplies, automobile expenses, or home office expenses which your employer requires you to pay during employment. As the type of expenses and the circumstances in which they can be deducted for employed dentists are limited, a more detailed discussion on the expenses which can be deducted from business income is below.

The type of expenses which can be deducted from business (self-employed) income are much broader. The general rule for deductions against business income is:

- The expense must be incurred to earn business income
  - There must be a causal relationship between earning business income and the expense which is incurred
- The expense must be reasonable
  - The expense cannot be more than one would reasonably expect to pay for such an expense.

If the expense falls into the general rules, it is deductible, *unless specifically excluded* under the Income Tax Act.

#### Current vs. Capital Expenses:

Generally, current expenses are short term expenditures for goods or services which will not provide a long-lasting benefit (i.e. the good or service purchased will be used during the year) and would also include any repair or maintenance to an asset. Capital expenditures are for goods or services that will provide a long-term benefit. Current expenses can be deducted in the year the expense is incurred, whereas capital expenditures must be deducted, or depreciated, over a period (referred to as capital cost allowance, or CCA). The CCA which can be claimed depends on the “class” the asset belongs in. There are several CCA classes in the Income Tax Act which dictates the rate at which assets are depreciated.

For example, you currently own a photocopier which is broken and you can either fix it for \$1,000 or buy a new one for \$5,000. The \$1,000 to fix the photocopier would be a current expense and would be deductible in the year the expense was incurred. The \$5,000 paid to purchase a new copier is a capital expenditure and CCA can be deducted at a rate of 20 percent per year on the non-depreciated balance. Most expenditures discussed below are current expenses unless otherwise stated.

Below is a list of common expenses which can be deducted against business income:

### Potential Deductions Available for Self-Employed Dentists:

**Vehicle expense:** Vehicle expenses can be deducted from income if you're required to use your vehicle to earn income as an associate. Travelling to work from home is excluded. The amount of the deduction is determined by taking a percentage of all vehicle expenses (gas, repairs and maintenance, insurance, etc.) The percentage is determined based on the amount of kilometres driven for business purposes over the total kilometers driven in the year.

**Conventions and seminars:** The costs to attend conventions or seminars related to your profession can be deducted, if held in a relevant geographical area. Up to two conventions can be deducted per year.

**Dental equipment:** This could include hand pieces or loupes. Dental equipment would be a capital expense and CCA would be deductible at various CCA rates, depending on the equipment.

**Dental supplies and tools under \$500:** Supplies and tools which cost less than \$500 can be fully deducted in the year they are purchased.

**Laptop, computers, tablets, and smart phones and other electronics:** These would be capital assets and CCA can be deducted at either 55 percent or 20 percent per year depending on which CCA class the asset belongs in. If used for both business and personal use, only the business use would be deductible.

**Cell phone and internet expenses:** The business portions of these expenses are deductible.

**Books and publications:** Books or publications related to your profession may be a capital asset which is deductible at CCA rate of 20 percent per year, or a current expense (if it is a periodical publication or subscription).

**Meals and entertainment:** The deduction for meals and entertainment is limited to 50 percent of the actual costs with some exceptions. Deductible meals and entertainment include expenses incurred with business contacts, patients, or while away at a conference or seminar.

**Professional dues or fees:** Fees to the Canadian Dental Association, Nova Scotia Dental Association, and the Provincial Dental Board of Nova Scotia are deductible.

**Legal, accounting, or bookkeeping fees:** Legal fees to review your associate agreement, accounting fees to have your tax return prepared, and bookkeeping fees are deductible.

**Scrubs:** Clothing can be claimed if it can only be used in your practice. Likely the only clothing which would meet this restriction would be scrubs.

**Salary to family members:** Salaries to family members are deductible if the salaries are reasonable. Therefore, the family member must be performing a job for your business and the salary must be reasonable given the job they are performing.

**Tip: Any items listed above which were purchased during dental school and are now being used in your business may be available as a deduction once you're earning business income.**

Note the above list of expenses is not an exhaustive list of deductible expenses. The expenses listed are common for dental associates. If, however, you open your own dental practice (either as an individual or owned through a corporation) the amount and types of expenses incurred will become much greater. The general rule and specific rules for deductibility and capital versus current expense still apply whether incorporated or not, or whether you are an associate or running a dental practice. Please discuss with a tax adviser the expenses you are incurring and whether they are deductible, either as a current expense or capital expenditure.

#### Tax Credits and Deductions Available to Newly Graduated Dentists:

There are some tax credits which may be available to you, some of which may only be applicable after graduating, and many will be applicable on a go forward basis. Below is a list of tax credits available to new graduates:

#### Common Tax Credits Available for New Graduates:

**Tuition costs:** A tax credit is available on the portion of tuition paid. Canadian Universities will issue a tax slip, T2202A, outlining the information needed for your tax return. Students who attend a qualifying foreign university would be required to obtain form TL11A from the university which would outline the information needed for your tax return.

Unused tuition credits can be carried forward, therefore if you did not file a tax return during university (as it is not required if no income was earned), it may be worth filing those returns to claim the unused tuition credit in future years.

If your income is too low to claim the tuition credit in the current year, you can choose to transfer up to \$5,000 of the federal and provincial credits to your parents, grandparents, or spouse.

Having a large amount of unused tuition credits upon graduating is a valuable tax savings and this could result in a big tax refund for a number of years for many new graduates once you are working. These big refunds can be used to get a jump start on paying down your student debt.

**Examination fees:** Similar to the tuition tax credit, examination fees to the National Dental Examining Board of Canada entitle you to a tax credit.

**Interest on national and provincial student loans:** Interest paid on national or provincial student loans is eligible for a tax credit. As mentioned previously, interest on student lines of credits or other debt incurred for education purposes are not entitled to the tax credit.

In comparing interest rates on debt, the interest on student loans, net of tax credits should be considered. Discuss with a tax advisor which debt had the higher effective interest rate to determine which should be paid first.

### **Other Tax Credits and Deductions**

In addition to the above credits and deductions specific to new dental school graduates, there are many tax credits and deductions available to taxpayers, some of which are discussed below under “Personal tax changes through life.” It should be discussed with your tax advisor whether there are additional credits or deductions available to you.

### **RRSPs and TFSAs**

Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSAs) are two important savings and retirement tools, which were discussed in detail in chapter one under “Strategy for investing”, below we will briefly revisit the personal tax attributes of each saving vehicle:

#### **RRSPs:**

Contributions to an RRSP, up to your deduction limit, are deducted against taxable income. The higher your marginal rate, the greater the tax savings. Income earned in an RRSP is tax deferred and funds withdrawn from your RRSP are fully taxable at the same tax rate as employment or business income.

#### **TFSAs:**

Contributions to TFSA are not tax deductible, however income earned in a TFSA and withdrawals from a TFSA are tax free.

Whether to contribute to an RRSP or TFSA is dependent on your personal situation, therefore, a financial advisor and tax advisor should be consulted before contributing to these accounts.

#### **Tax Instalments:**

As previously discussed, as a self-employed associate, you earn business income rather than a salary. As an employee, your employer is required to withhold income tax from your paycheck and remit that tax to CRA. When filing your tax return at the end of the year, once your taxes payable is calculated, you are credited for whatever tax your employer remitted to CRA. As a self-employed associate you are responsible for remitting all tax to CRA. The result of this is that you are left with a large tax bill at the end of the year. The first year this happens (usually after you’ve worked for a full year after school and the tuition tax credit has been fully used), it can be quite shocking.

If you have taxes payable more than \$3,000 in a tax year, CRA will require that you begin to remit quarterly instalments beginning in September of the following year. This will assist in lessening the burden of a large tax bill at the end of year, but the instalment must also be paid to avoid CRA charging interest and penalties on the instalments due. Ongoing quarterly instalments are due on the 15 of March, June, September and December.

## **Personal Tax Changes throughout your Life**

### Personal Tax Once a Professional Corporation is Established

This chapter has focused on personal taxes for a newly graduated self-employed dental associate. As you progress in your career, it will be time to consider whether to incorporate a professional corporation (PC). You may continue as a dental associate in a PC, or if you are considering buying or opening a dental practice, this may also be done in a PC. This is discussed further in chapter three and chapter six. If incorporated, your personal tax return will likely become much simpler. Rather than the business income being reported on your personal tax return, all business activities are reported on a corporate tax return. On your personal tax return, you may only need to report dividends and/or salary from the corporation.

### Tax Considerations When Getting Married

For personal tax purposes, for the most part, common law couples are treated the same as married couples, whether an opposite sex couple or a same sex couple. Any tax considerations discussed below are applicable to married and common law couples. When referring to “couples” or “spouses” in this chapter, we are referring to both married and common law partners, either opposite sex or same sex.

Couples are not required to file a joint tax return although each person must disclose their spouse’s income on their tax return. It is also important to prepare your returns together as there are tax breaks that are more beneficial if combined between spouses, or there may be credits or deductions that only one spouse is entitled to claim. Some of these tax breaks are also discussed below under “financial considerations of having children.”

The following are various tax impacts and considerations once you’re married:

- **Donations:** In Nova Scotia, the tax credit for donations is 23.79 percent on the first \$200 of donations made in a year and 50 percent after the first \$200 of donations. Spouses can combine donations made in order to reach that \$200 threshold more quickly to maximize the tax credit. For individuals whose income exceeds 205,842, the credit for donations increases to 54 percent to match the top tax rate for their income.
- **Medical expenses:** A credit for qualifying medical expenses can be claimed on medical expenses over and above the lesser of three percent of your income, or \$2,268 (in 2017), medical expenses can be combined and claimed on one spouse’s tax return. The medical expense credit can be maximized by combining expenses and claiming on the lower income spouse’s tax return, if three percent of their income is lower than the \$2,268 threshold.
- **Spousal RRSP:** A person can contribute to their spouse’s RRSP. The person contributing would receive the tax deduction, and the contributing spouse must have the RRSP deduction room available. This is a beneficial way to split income on retirement. The higher income spouse would receive the tax deduction for the RRSP contribution, and the lower income spouse would be taxed on the withdrawals upon retirement. The RRSP holding spouse also has the ability to withdraw the RRSP before retirement (although a

withdrawal cannot be made within three years after the contribution was made by the contributing spouse), to take advantage of the lower tax rates of the lower income spouse, however this is not always advisable and should be discussed with a tax accountant.

- **Spousal loan:** In order to equalize investment income, a higher income spouse can loan money to a lower income spouse, which the lower income spouse could use to invest. This allows investment income to be taxed at lower tax rates by the lower income spouse. Interest must be charged and paid on the loan at a rate prescribed by CRA which is set quarterly by CRA and the interest income on the loan would be reported by the lending spouse.

#### Tax Considerations when Having Children

Many tax credits, deductions, and benefits are offered to parents.

**Child care expenses:** Generally, eligible child care expenses include day care, a portion of payments made to boarding schools, and summer camps. A deduction for up to \$8,000 is available for children under the age of seven and a deduction of \$5,000 is available for children age seven – 16. If a child qualifies for the disability tax credit, a deduction of \$10,000 is available if they are 16 or younger, and \$5,000 if they are over 16. The deduction must be made on the lower income spouse's return against earned income (unless that spouse is in school or mentally/physically incapable of working).

**Adoption Expense Credit:** Expenses to adopt a child, such as fees paid to an adoption agency, court, legal and administrative fees, reasonable travel costs, child immigration fees, etc. can be claimed as a tax credit for up to \$15,670 of expenses, in 2017.

**Registered Education Savings Plan (RESP):** Up to \$50,000 can be contributed to a child's RESP in their lifetime. Unlike an RRSP, the contributions are not tax deductible, however the RESP can grow and earn income tax deferred and will only be taxed by the child once they withdraw the funds (likely at a low tax bracket). In addition, the government will match 20 percent of the contributions, up to \$500 per year, and \$7,200 during the child's lifetime.

#### Tax Considerations as a Consequence of Divorce

Going through a divorce is very challenging and it is important to remember the tax consequences when settling the details of a divorce.

**Support payments:** Payments for support can be in two forms: Child support payments and spousal support payments. Each is treated very differently for tax purposes. Spousal support payments, if made under a written agreement, are tax deductible for the individual making the payments, and taxable income to the person receiving the payments. In order for the spousal support payments to be deductible, they must be periodic payments (lump sum payments are not deductible).

Child support payments are not deductible, nor are they taxable income to the recipient.

**Eligible dependent credit:** The parent who has custody of the child can claim an eligible dependent credit, of up to \$11,635 in 2017. If both parents have custody, the parent who is paying child support payments cannot claim this credit. If no one is paying support payments, or both parties are paying support payments it must be decided between the parents who is to claim the credit.

When children are involved with a divorce it is important to determine which parent is claiming credits and deductions for each child.

#### Tax Planning and Death

The tax implications on death are significant, and proper planning can help reduce a potentially significant tax bill on death.

When a person dies, they are deemed to have disposed of all their assets. This includes RRSP or RRIF, investments, shares in a professional corporation (PC), home, cottage etc. This results in a significant tax event. The value of the RRSP/RRIF becomes taxable income, and a capital gain would be realized on all assets that are worth more than they were when purchased. However, there are ways to reduce the subsequent tax bill as a result of this deemed disposition.

- When assets are transferred to a surviving spouse, any capital gain or income to be realized on death can be deferred until the surviving spouse dies. It is important to name the spouse in the will as a beneficiary and name the spouse as a beneficiary on any accounts, such as an RRSP, TFSA, and other non-registered investment accounts. If there are other beneficiaries to the estate, such as children, planning can be done to take advantage of the tax deferred rollover of assets to the spouse.
- A spousal trust can be put into place which would protect the assets until the spouse's death to be distributed to children beneficiaries. The ability to claim the Lifetime Capital Gains Exemption (LCGE) is discussed in chapter three and chapter six. The gain may be able to be sheltered by the LCGE, however it is important to ensure the company always qualifies for the LCGE (which is discussed in chapter six).
- Income tax isn't the only significant expense on death; an estate must also pay probate fees. Probate fees are \$1,002.65 on the first \$100,000 of assets in the estate, and 1.695 percent of the assets over and above \$100,000. Assets which are left in a spousal trust will not be included in the assets subject to probate fees.

The most important first step in planning for death is to have your will, power of attorney, and medical directive in place. Without a will, assets may not go to the desired beneficiary(ies), and there may not be the opportunity to take advantage of the tax saving measures described above. Meeting with a lawyer to set up even a basic will, power of attorney, and medical directive is strongly advised. As your financial affairs become more complex, it is advisable to consult with a tax advisor specializing in estate planning to review options that may be available to you to help manage the tax costs of passing your assets onto others.

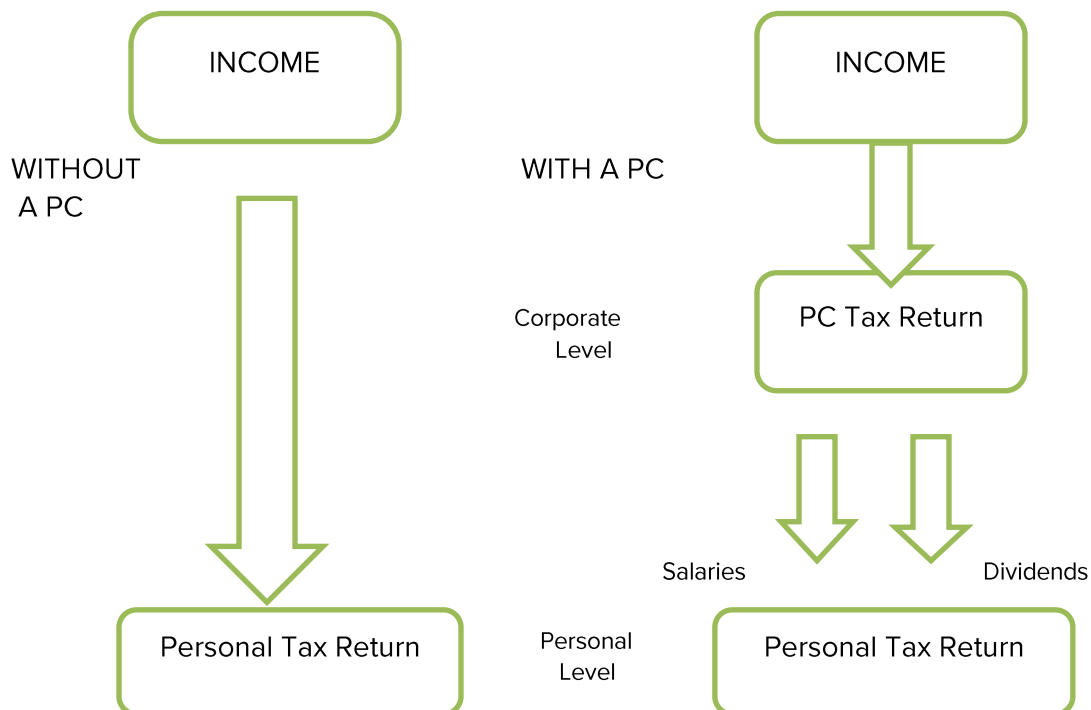
## CHAPTER 3 PROFESSIONAL CORPORATIONS

Dental associates have the opportunity to run their business through a professional corporation (PC). This chapter will discuss what a PC is and whether it is available to you, the benefits of having a PC, the basics of setting up a PC, and the ongoing maintenance and use of a PC. If you are considering opening or buying a dental practice, it is also important to consider whether this should be done in a corporation. This chapter focuses on establishing a PC as a dental associate, however most of the considerations for whether to run a dental practice in a corporation are the same. Buying or opening a dental practice is discussed further in chapter six.

### What is a PC?

A PC is a separate legal entity. In setting up a PC, the PC would be taxed on the income you earn as a dental associate or self-employed dentist and the PC must file its own tax return. A PC pays tax at a much lower rate than if earned personally, at 13 on the first \$500,000 of income.

Income earned in a PC is initially taxed in the corporation and is usually only taxed personally when the income is taken out of the corporation. There is flexibility on when income is taken out personally, providing a tax deferral. There is also flexibility on either taking out the income as a dividend or salary.



### **Should you set up a PC?**

Not everybody benefits from the structure of having a PC. There are start-up costs of setting up a PC and ongoing costs, therefore the benefits must outweigh the costs. A general rule of thumb is to consider incorporating once net income reaches \$150,000, however for some it makes sense to set up a PC with a lower income, and for others a higher level of income is needed to benefit from a PC. It is best to speak to a corporate lawyer, tax advisor, and financial advisor to determine whether setting up a PC is right for you.

In chapter two we discussed the difference between being a self-employed associate and an employee. A PC is not available if you are an employee, and there are adverse tax consequences for being an employee and reporting the employment income in a PC. As mentioned, it is not always clear whether you are an employee or a self-employed associate. Canada Revenue Agency will look through what your title is and make a determination based on many factors of your relationship with the dental practices. If you're concerned that your status is unclear, you can request CRA to decide based on the factors of the relationship with the principal.

### **Benefits of a PC**

#### Tax Deferral

A tax deferral allows an individual to delay paying personal income tax on income earned. In Nova Scotia, a PC pays tax at 13 percent on the first \$500,000 in (2018), whereas the top marginal tax rate for individuals is 54 percent (on income above \$205,842). Therefore, if money is earned and kept in a PC (to save or invest), rather than earned personally, there is a potential deferral of tax of up to 41 percent.

The income is taxed personally once it is removed from the corporation; therefore, the tax deferral is maximized by keeping money in your corporation and limiting withdrawals from the corporation. If your personal cash flow needs are such that all money earned would be taken out of the PC, you would not benefit from the tax deferral opportunity. This tax deferral can significantly accelerate the accumulation of funds within the corporation which can be used to buy new equipment, open or acquire additional practices, or saved and invested as a retirement asset.

#### Income Splitting

Prior to the introduction of Tax on Split Income (TOSI) on January 1, 2018 professional's, through their corporation, could split income with other people they supported financially, thereby lowering their overall tax burden.

Going forward, these opportunities are severely restricted during practice years. Recommendations, at this time, is typically that unless your spouse is also a practicing dentist, income sharing in a family be in the form of a reasonable salary that compensates the family member for their direct contributions to the practice. Individual circumstances do vary, and professional advice should be sought.

Looking forward to retirement, once a dentist is 65 years old, the TOSI rules are somewhat relaxed in that and income splitting with a spouse is allowable. This will be an important consideration when planning for income and tax management in retirement and how that impacts asset accumulation during your practice years.

Passive Income

In conjunction with the TOSI rules introduced in January 2018, the government also introduced rules that limit the amount of income taxed at the low rates inside a company when that company has more than \$50,000 of investment income. As investment income increases, the \$500,000 amount qualifying for the 13 percent rate decrease such that once taxable investment income is above \$150,000 all of the active income is taxed at the higher 31 percent corporate rate.

The following chart shows the relationship between your business income and investment income for a corporation, under the new rules.

**Active business income qualifying for the small business tax rate under new business limit (\$)**

Business Income	Investment Income				
	50,000	75,000	100,000	125,000	150,000
50,000	<b>NOT AFFECTED</b>				0
75,000					0
100,000					0
200,000					0
300,000			125,000	0	
400,000		250,000	125,000	0	
500,000	375,000	250,000	125,000	0	
	375,000	250,000	125,000	0	

Note: Assumes that the corporation has less than \$10 million of taxable capital.

Although perhaps not as relevant on the startup of a practice, it is something to take under consideration as your corporate assets grow.

Use of Capital Gains Exemption

Using a PC may allow you and other shareholders to use the Lifetime Capital Gains Exemption (LCGE). Each taxpayer can claim up to \$848,252 (adjusted annually for inflation) of capital gains tax free on gains on the sale of a Qualified Small Business Corporation (a dental practice may qualify as a Small Business Corporation, subject to other tests as discussed in chapter six). In other words, if you sell the shares of your PC dental practice, up to \$848,252 of the gain on the sale could be tax free. The sale may be subject to Alternative Minimum Tax, which is a special tax that could be refundable in later years.

If family members own shares of the PC, this could multiply the availability of the LCGE (as each family member could recognize a gain up to that amount tax free).

## Setting up a PC

Incorporating a PC requires the advice of professionals, usually a corporate lawyer and a tax advisor, to determine the structure and who should be shareholders of the company:

As a dentist, you must own shares in the PC, however you may want family members to own shares of the PC as well. The Nova Scotia Dental Act and regulations outline some stipulations of the ownership structure of a PC. The Act should be considered, along with legal and tax considerations of the share structure.

### Stipulations in the Nova Scotia Dental Act:

- The majority of the voting shares of the PC must be owned by a licenced dentist
- The majority of the directors and officers must be licenced dentists.

### Legal and Tax Considerations for setting up a PC

- **Associate agreement:** Does your associate agreement allow for the use of a PC? Review your associate agreement, and discuss with the dental practice principal, if applicable.
- **Shareholder agreement:** If others own shares thought should be given to a shareholder agreement. This agreement will lay out dispute resolution mechanisms, what will happen when a shareholder dies, what happens to a family member's shares in the event of a death or divorce, etc.
- **Voting control of the PC:** Shares of the PC can either be entitled to vote on company matters, or not entitled to vote. Voting shares will have power to make decisions in the company. Under the Nova Scotia Dental Act, dentists must have the majority of the voting shares. If you set up a PC as an individual dentist, then you would have the majority of the voting shares, and thus would control the company. However, if you set up a PC to operate a dental practice with a number of other dentists, deciding who has the voting shares determines who has control of the company.
- **Shares to family members:** In many cases, each family member would have a different class of shares to allow flexibility in paying dividends on one class at the exclusion of the other class.
- **Use of a Family Trust:** Shares of the PC can be owned by a family trust. This can add flexibility having the ability to have multiple people claim the LCGE, while still allowing you to retain control of the corporation. Details of how a family trust is set-up and used is beyond the scope of this material and should be discussed with a lawyer and tax advisor.

The noted legal and tax considerations are advanced topics, and therefore should be discussed with a lawyer or accountant.

## **Ongoing Use and Maintenance of a Professional Corporation**

### Required Tax Filings

As a self-employed individual, you are only concerned with filing your personal tax return, and you may need to file T4 slips each year if you have hired employees.

With a PC, you must continue to file your personal tax return and also file a corporate tax return (T2) for the PC, T4 slips for any employees or if you have paid a salary or bonus to yourself, and T5 slips for any dividends paid to you and other shareholders.

The corporation must file annually with the Province of Nova Scotia Registry of Joint Stocks.

### Dividends vs. Salary

As previously discussed, income earned in a PC is taxed in the PC and only once funds are extracted from a PC is it taxed personally. Funds are extracted by either a dividend or a salary. Funds can also be extracted from a PC by way of a loan, which will be discussed later in this chapter.

The question becomes, is it best to pay dividends or a salary? The answer is based primarily on personal circumstances and preferences. What is best, given your circumstances should be discussed with a tax advisor. Discussed below is the tax impact of paying a salary and paying a dividend and the benefits and shortfalls of each.

### How Salary and Dividends are Taxed

Salaries paid from a PC are a tax deduction for the company; therefore, no corporate income tax is paid at the PC level on funds which are paid out as a salary. Dividends are paid from after tax profits in the PC; therefore, funds paid as dividends will first be taxed in the PC and then will be taxed personally. It appears salary is ideal as there is only one level of tax, however salary is taxed at higher tax rates personally, while dividends are taxed more favourably personally to account for the fact that tax was already paid at the PC level.

There is no one-size-fits-all solution, and the pros and cons of each must also be weighed:

### Benefits of Salary:

- A salary is considered “earned income” (unlike dividends) which means that a salary will increase your RRSP contribution room each year by 18 percent, to a maximum of \$26,230 in 2018, meaning you will need a salary of \$145,722 to maximize RRSP contributions.
- When a salary is paid, the employer (the PC) and the employee (you) must contribute to the Canada Pension Plan (CPP). CPP is paid on pensionable earnings which includes salary, but not dividends. By paying into CPP, you will be eligible to receive CPP benefits upon retirement. The maximum contribution into CPP is reached with a salary of \$55,900 (in 2018).

- A deduction for child care costs is only available when you have earned income and are the lower income spouse, in most cases.
- Many disability insurance plans will only replace lost earned income (salary and not dividends). Discuss with your insurance advisor whether your plan would replace salary and dividend income in the event of a disability.

#### Considerations when paying salary:

- Payroll remittances, for income tax and CPP will need to be made on a monthly basis.  
Salaries paid to family members must be reasonable and comparable to market salary for a similar job performed.

#### Benefits of Dividends:

- Paying dividends is simple, no payroll remittances needed, however personal tax instalments may need to be made to CRA.  
Dividends are paid from after tax income in the corporation. The top personal tax rate in Nova Scotia in 2018 is 54 percent, while the corporate tax rate is 13 percent on the first \$500,000 of income. Therefore, if funds are left in the corporation to later be paid as a dividend, there is a potential tax deferral of up to 41 percent.

#### Considerations when paying dividends

- Does not create RRSP contribution room
- No ability to contribute to the CPP
- May not be able to deduct child care expenses
- May be required to pay personal tax instalments

### **Taking Loans from the PC**

The PC may also lend money to a shareholder. Caution should be used when taking money from a company that is not in the form of a dividend or a salary:

- It is easy to begin using the company bank account as your personal bank account. This can cause several tax issues, which are explained further below. In addition, it makes accounting for the company and reconciling the bank accounts more difficult and time consuming.
- Funds taken in the form of a loan from the shareholder must be repaid by the end of the company's next fiscal period end. An imputed interest benefit is included in personal income while the loan is outstanding and failure to repay the loan within that time frame will result in the loan being fully taxed in the year it was taken.
- Loans can be taken from the company, as an employee of the company, without adverse tax consequences to purchase a vehicle or a personal residence. However, there are a

few rules which must be followed to allow a shareholder to borrow funds from the company:

- The loan must be made by virtue of your employment with the PC and not by virtue of being a shareholder.
- The ability to loan money for those purposes must be offered to all employees of the company for a shareholder to take a loan for that purpose. This may not be feasible depending on the number of employees in the company, and the nature of the relationship with them.
- The loan must include bona fide arrangements for repayment under a reasonable time frame.
- A loan agreement is recommended, but not necessary.

As there are restrictions on the ability for a shareholder to borrow money from a corporation, it is important to speak to a tax advisor before doing so.

## **CHAPTER 4**

### **TAX ISSUES AT THE PEAK OF YOUR CAREER**

#### **Reducing Taxes by Paying a Bonus**

As a business grows and becomes more successful, the bottom line also grows, and so does the resulting tax liability. As previously discussed, one of the benefits of having a PC is paying lower corporate tax at 13 percent. Once taxable income is over \$500,000 the tax rate increases again to 31 percent (in 2018). Recall also that, as discussed above, this \$500,000 amount is reduced once investment income exceeds \$50,000. Once taxable income becomes this high, not only is the benefit of deferring tax reduced, but there is a potential tax cost if that income is taxed in the corporation first, and then removed as a dividend.

To prevent the potential tax cost, mentioned above, a popular strategy is to pay a bonus to reduce taxable income in the corporation to below the small business limit of \$500,000.

The corporate tax rates and dividend tax rates often change each year; therefore, the savings may vary greatly with changes to income tax rates. Therefore, it is important to discuss with your accountant each year whether it is best to pay a bonus or a dividend if the income in the PC is over \$500,000.

Furthermore, if the corporate income is over \$500,000, and there is no personal cash flow need to remove the additional income, there is still a deferral of income tax, as the corporate tax rate alone is lower than the personal tax rates.

#### **Considering use of a Holding Company**

Once your company becomes more successful, and earnings and cash flow start accumulating in the company, it may be time to discuss whether a holding company is right for you, given your corporate ownership structure, the cash flows and other assets in the company, and your future goals. This section discusses what a holding company is, what its uses are, and when it may be appropriate for you.

#### **What is a Holding Company?**

A holding company is a separate legal entity, and just like the PC, files its own tax return and is owned by its shareholders. The purpose of a holding company will determine who the shareholders of the company are (yourself, family members, or a family trust) and would also determine how the company is connected with the PC (whether it is a shareholder of the PC, or a beneficiary of a family trust, if applicable). The holding company is used to hold assets that you may not want to keep in the PC, for reasons discussed further below.

## **Uses of a Holding Company and when to Consider**

There are a number of reasons why one may want to establish a holding company. It is important to discuss with a lawyer and tax advisor whether these reasons are applicable and right for you given your personal circumstances, and the progression of your PC.

### Maintaining the Qualified Small Business Status

As discussed in chapter three, each taxpayer can claim up to \$848,252 (in 2018, adjusted annually for inflation) of capital gains tax free on the sale of shares of a Qualified Small Business Corporation (QSBC). This is called the Lifetime Capital Gains exemption (LCGE). Requirements must be fulfilled for the company to be a QSBC, and thus it is important to meet those requirements in order for the taxes on any eventual sale of the PC to be sheltered, or partially sheltered by the LCGE. The requirements to meet QSBC status is discussed in more detail in chapter six, however, basically, the company cannot hold too much cash or investment assets if they are not required in the dental practice operations. Therefore, if the company begins to accumulate excessive cash or investments, it may be offside the QSBC status rules.

Depending on the ownership structure, dividends may be able to be paid to the holding company tax free. The holding company can invest these tax-free dividends. This can be beneficial if you want to remove funds from the operating company and defer any personal tax allowing investments to accumulate faster than if they were first taxed personally, and then invested.

Cash and investments can be moved and accumulated in a separate company which will allow the company holding the dental practice to remain clean of excess cash and investments. The movement of investments and cash to a holding company may result in adverse tax consequences if not done appropriately, therefore it is important to discuss with a tax accountant before moving forward.

### Holding Real Property

If the dental practice owns real property, it may be beneficial to move that property to a holding company. This would be particularly beneficial if a portion of the owned property is rented to a third party. Like excess cash and investments, real property not used in the dental practice operations may cause the company to be offside the QSBC status rules, in which case, it may be beneficial to hold the property in a holding company.

### Creditor Protection

As each corporation is a separate legal entity, a holding company could be used to protect assets should there be a default on debts in the dental practice. A lawyer should be consulted to discuss creditor protection when using a holding company, particularly to discuss the possibility of protection against malpractice liabilities.

Separate Interest when Dental Practice is Owned with Multiple Dentists:

If the main dental practice is incorporated and run by multiple dentists, rather than you and your family members holding shares of the practice directly, it may be preferable to hold shares through a holding company. As discussed above, dividends paid from the company to a holding company may be tax free, therefore, with a holding company in place, you are better able to control when the dividends will be taxed personally.

Using a holding company is not appropriate in every situation and the set-up and use of a holding company requires the advice of numerous professionals. There are additional costs to establish and maintain a holding company, therefore it must be determined if these extra costs and administrative burdens outweigh the potential benefits.

During your career it is always important to revisit the company's ownership structure and make sure it is meeting your needs. Are you income-splitting effectively? Will the company qualify as a QSBC if you're contemplating a sale? Are your assets protected? Are you deferring enough tax? These are all questions which should be asked during regular intervals in your career and the answers may change as the company progresses.

## CHAPTER 5 HST CONSIDERATIONS

### HST and Dentistry

#### Overview:

When operating a dental practice, typically, most dental services you will provide are exempt from Harmonized Sales Tax (HST). This means no HST is charged to the patient and you are not able to recover the HST you pay on expenses. Most other types of businesses are required to charge HST on products and services they supply to customers and can claim credit back for HST they pay on their expenses. Dentists, like most medical practitioners, therefore must pay 15 percent more for their expenses, such as rent, utilities, equipment and office supplies than do most other businesses. Salaries to employees never attract HST, therefore dentists will pay the same amount on that expenditure as do other types of businesses.

There are three types of HST treatment applicable to the supply of goods and services by businesses in Canada. These are as follows:

- Taxable supplies – A business supplying products and services to which HST is applicable at 15 percent is required to register for HST purposes with Canada Revenue Agency and file HST returns to report HST collected and claim credit for HST paid on expenses – called Input Tax Credits.
- Exempt supplies – As described above, a business supplying exempt products and services does not register for HST and does not charge HST to its customers.
- Zero-rated supplies – A business supplying zero-rated products and services charges HST at zero percent. A zero-rated supply is considered a taxable supply, but the applicable tax rate is zero percent rather than 15 percent. A business making zero-rated supplies is required to register for HST purposes and to file HST returns. In most cases, a business supplying mainly zero-rated products and services will always show a refund on its HST return as it is able to claim Input Tax Credits for the HST paid on its expenses and has no HST collected to remit to CRA. The main types of businesses that provide zero-rated supplies are farmers and exporters.

While most dental products and services are exempt from HST, there are some more specialized supplies that may fall into either the zero-rated or taxable categories, as described in the next section.

### **Applicability of HST on Dental Products and Services:**

The following dental products and services are considered **exempt supplies**:

- 1) Consultative, diagnostic, treatment and other health care services rendered to an individual by a dentist. Specifically, CRA has reviewed the following listing of services and agreed these are exempt from HST:
  - a) Dental diagnostic services such as examinations, radiographs, diagnostic tests, patient consultations, facial and dental photographs or imaging.
  - b) Preventative dental services such as cleaning, polishing, topical application of fluoride or other agents, sealants or hygiene instruction.
  - c) Restorative dental services such as dental restorations, fillings, or inlays.
  - d) Endodontic dental services such as root canals, pulp treatment procedures and pain control.
  - e) Periodontic procedures such as management of periodontal diseases, cartilage, scaling, root planning, grafts, gingivectomy and occlusal adjustments.
  - f) Prosthodontic procedures, including all procedures other than the provision of “artificial teeth,” which are zero-rated if billed separately from the procedure or service.
  - g) Dental surgical procedures, such as extractions, enucleations, transplants, biopsies, incision for drainage, treatment of fractures, dental-orthopaedic surgery and osseointegrated implants.
  - h) Orthodontic procedures including all procedures other than orthodontic appliances, which are zero-rated if billed separately from the procedure or service.
  - i) Temporomandibular joint procedures such as temporomandibular joint (TMJ) diagnosis, TMJ appliances, and TMJ treatment.
- 2) Dental Hygienist’s services.
- 3) Supplies covered by Provincial Health Insurance
- 4) Other dental services, such as laboratory, radiological or other diagnostic services generally available in a health care facility and the administration of drugs, biologicals, or related preparations in conjunction with the provision of these services.

The following services are considered **Taxable Supplies** (15 PERCENT HST applies):

- 1) Cosmetic dentistry – services performed solely for cosmetic purposes and not for medical or reconstructive purposes are excluded from the general exemption for dental services. CRA’s position on cosmetic dentistry is “*Surgical and dental procedures that alter or enhance a patient’s appearance and have no medical or reconstructive purpose are considered to be cosmetic surgery and generally are taxable.*” Further, an example CRA has used in the past is the application of a veneer by a dentist without any treatment of pathology or improper form or function of the tooth.

- 2) Consulting services – consulting services that do not fall under one of the exempt services listed above, such as:
  - Expert witness fees
- 3) Preparation of medical-legal reports
- 4) Review of medical/dental documentation for a third party such as an insurance company
- 5) Other Business Activities – The rental of excess office or parking spaces or the provision of administrative services to another dentist would all be considered taxable supplies.

The following services are considered **Zero-Rated Supplies** (zero percent HST applies):

- 1) Medical and assistive devices including:
- 2) Artificial teeth
- 3) Orthodontic appliances
- 4) Orthotic or orthopaedic devices
- 5) Medical or surgical prostheses and articles or materials for their application and maintenance, and
- 6) Parts, accessories or attachments specifically designed for the above.

If you only provide services that would be considered exempt supplies, you would not be required to register for HST purposes. However, if you mainly provide exempt services but also provides some services that would be considered either zero-rated or taxable supplies, you may be required to register for HST if the total of your zero-rated and taxable supplies exceed \$30,000 annually. This level is considered the Small Supplier Limit, and if a business has sales to which HST is applicable, but they do not exceed \$30,000 in a year, they are not required to register and charge HST, even on the supplies to which HST would otherwise be applicable.

Dentists making a combination of exempt, taxable and/or zero-rated supplies who exceed \$30,000 of non-exempt supplies will have to register and begin charging HST, but only on the taxable or zero-rated supplies. The supplies listed above under the exempt supply section will never attract HST.

#### HST on a Dentist's Expenses:

HST will be applicable on many of the costs you will incur to operate your practices. There are also some types of expenses which will not attract HST when paid by you, as they will be either exempt or zero-rated supplies, as described in the section above. The following table lists typical costs incurred by dentists and indicates whether they are taxable, exempt, or zero-rated supplies for HST purposes.

### HST on Typical Costs Incurred by Dentists

Type of Cost	Taxable at 15%	Zero-rated	Exempt
Office rent/utilities	X		
Parking	X		
Office equipment	X		
Computers and software	X		
Office supplies	X		
Dental equipment	X		
Accounting and legal services	X		
Banking/financial services			X
Prescription drugs		X	
Artificial Teeth*		X	
Laboratory costs related to providing artificial teeth		X	
Orthodontic appliances		X	
Services and accessories for zero-rated dental devices		X	
Professional development courses			X
Conventions	X		
Dues and licenses			X
Dental hygienist's services			X
Salaries			X
<b>* CRA's interpretation of artificial teeth includes:</b>			
artificial teeth			
full dentures			
partial dentures			
bridges			
crowns			
partial crowns			
osseointegrated implants			

### Filing HST Returns:

Once you exceed the Small Supplier Limit and are required to register and begin collecting HST, you will have to prepare and file HST Returns in addition to your regular income tax returns. Most dentists would be eligible to file their returns on an annual basis as their overall sales in a given 12-month period would not exceed \$1,500,000. If this threshold is exceeded, or if the threshold is not exceeded but you choose to file more frequently, returns would be filed on a quarterly basis.

Preparation of an HST return is fairly straight-forward. Overall sales for the period are reported, as well as HST collected during the period, and HST paid out on expenses (called Input Tax Credits or ITCs). The difference between the two latter figures is the HST payable to Canada Revenue Agency for that period.

It must be noted that you would not be eligible to claim Input Tax Credits for the HST paid on all your expenditures as a significant amount of your costs would relate to the provision of services which are exempt from HST. ITCs can only be claimed to the extent they relate directly to either taxable or zero-rated products or services.

In addition, proportionate ITCs may be able to be claimed on HST paid on overhead or general expenditures, such as rent and utilities. The allocation method used must be reasonable in the circumstances and must be used consistently. If less than 10 percent of your total sales are non-exempt, no ITCs can be claimed on overhead or general expenditures. If more than 90 percent of your sales are non-exempt, full ITCs can be claimed on overhead or general expenditures and no allocation calculation is necessary.

Allocation methods CRA has deemed as acceptable are a direct allocation method or an output-based method. Under a direct allocation method (the CRA's preferred method), direct costs are allocated between exempt and non-exempt activities, and then indirect costs such as overhead are allocated based on the proportion of exempt to non-exempt direct costs. Under an output-based method, ITCs on non-direct expenses are allocated based on a proportion of non-exempt sales vs. exempt sales. CRA has stated that an output-based method should be used in situations where the preferred direct allocation method is not reasonable or is overly difficult to calculate.

For example, Dr. Thomas's total sales for the year are \$500,000, of which \$100,000 are taxable or zero-rated for HST purposes and \$400,000 are exempt. He has collected HST of \$15,000 and has paid HST on expenses of \$25,000.

- 1) **Direct Allocation Method** – HST paid on costs directly related to exempt supplies is \$10,000, HST paid on costs directly related to taxable or zero-rated supplies is \$4,000, and HST paid on general or overhead costs is \$11,000.

Net HST payable to CRA would be calculated as follows:

HST Collected	\$15,000
HST ITCs (Direct = \$4,000+Indirect \$11,000 x 4,000/25,000)	(5,760)
Net tax payable	<u>9,240</u>

- 2) **Output Based Method** – ITCs on overhead and general items are claimed based on proportionate sales. Taxable or zero-rated sales are \$100,000 while exempt sales are \$400,000.

Net HST payable to CRA would be calculated as follows:

HST Collected	\$15,000
HST ITCs (Direct = \$4,000+Indirect \$11,000x100,000/500,000)	(6,200)
Net tax payable	<u>8,800</u>

#### Associate and Locum Arrangements:

As a new dentist, you will likely begin your practice as an Associate to an established dentist (principal) or possibly covering for a dentist in a locum situation. Where an arrangement has been entered between the Associate and the principal to share fees, HST will not apply on the fees paid to the Associate. If as an Associate you bill patients directly for your services, you will not have to pay HST to the principal for the portion of the fees you pay to him, provided the arrangement is structured as a fee sharing arrangement. If instead the Associate is collecting his own billings and the agreement is that he is paying the principal dentist for use of his facilities or for an administrative service, then HST will apply on the fee paid to the principal dentist. Associate and locum arrangements should be carefully structured to ensure HST does not apply. It would be a good idea to have your professional advisor involved in the process.

#### Other Types of Arrangements:

Dentists will often operate their practice in combination with one or more other dentists. The arrangements can be structured in a number of ways, such as a cost sharing arrangement, a partnership, or a management corporation. The HST implications of each type of arrangement vary and your professional advisor should be involved in structuring the arrangement.

## CHAPTER 6

# BUYING OR OPENING A DENTAL PRACTICE AND SELLING A DENTAL PRACTICE

### Buying a Dental Practice

It may be your goal to eventually own your own practice. You can accomplish this goal in one of two ways: by starting your own practice from scratch, or by acquiring part or all of an existing practice. This section will discuss the ‘ins-and-outs’ of buying part of or all of an existing practice. The next section will cover opening a new dental practice.

### How to Find the Right Practice to Buy

Your search for a suitable dental practice to acquire should include more than one of the following strategies:

- ✓ **Professional Development / Continuing Education Courses** – Industry Associations that put on professional development (PD) or continuing education (CE) programming may offer courses on retirement/selling practices. Attend these events and identify and network yourself as a prospective purchaser.
- ✓ **Professionals servicing the dental industry** – There are accountants, bankers, lawyers and other professionals that focus largely on servicing medical professionals, including dentists. Many play a central role in the buying and selling of dental practices and would appreciate an opportunity to meet prospective purchasers.
- ✓ **Dental Representatives** – reach out to representatives of dental equipment distributors. They may know of practitioners within their networks that are looking for a succession opportunity.
- ✓ **Information from other dentists** informally through word of mouth or more formally through the dental profession – vendors may advertise.

### Finding the Right Practice – Key Considerations

Finding the right practice to acquire will involve many critical considerations and each buyer may define their criteria differently. Some of the key considerations include:

- 1) Number of active patients
- 2) Location of the practice
- 3) Owning vs. leasing the premises and the lease terms (on clinic space and equipment)
- 4) Sole practitioner vs. group practice
- 5) Valuation issues
- 6) Due diligence
- 7) Non-compete agreements
- 8) Tax considerations – income taxes and other taxes

9) Practice management capability – particularly the use of technology in the practice

The preference of any prospective buyer will vary. The key considerations are discussed below.

1) **Patients**

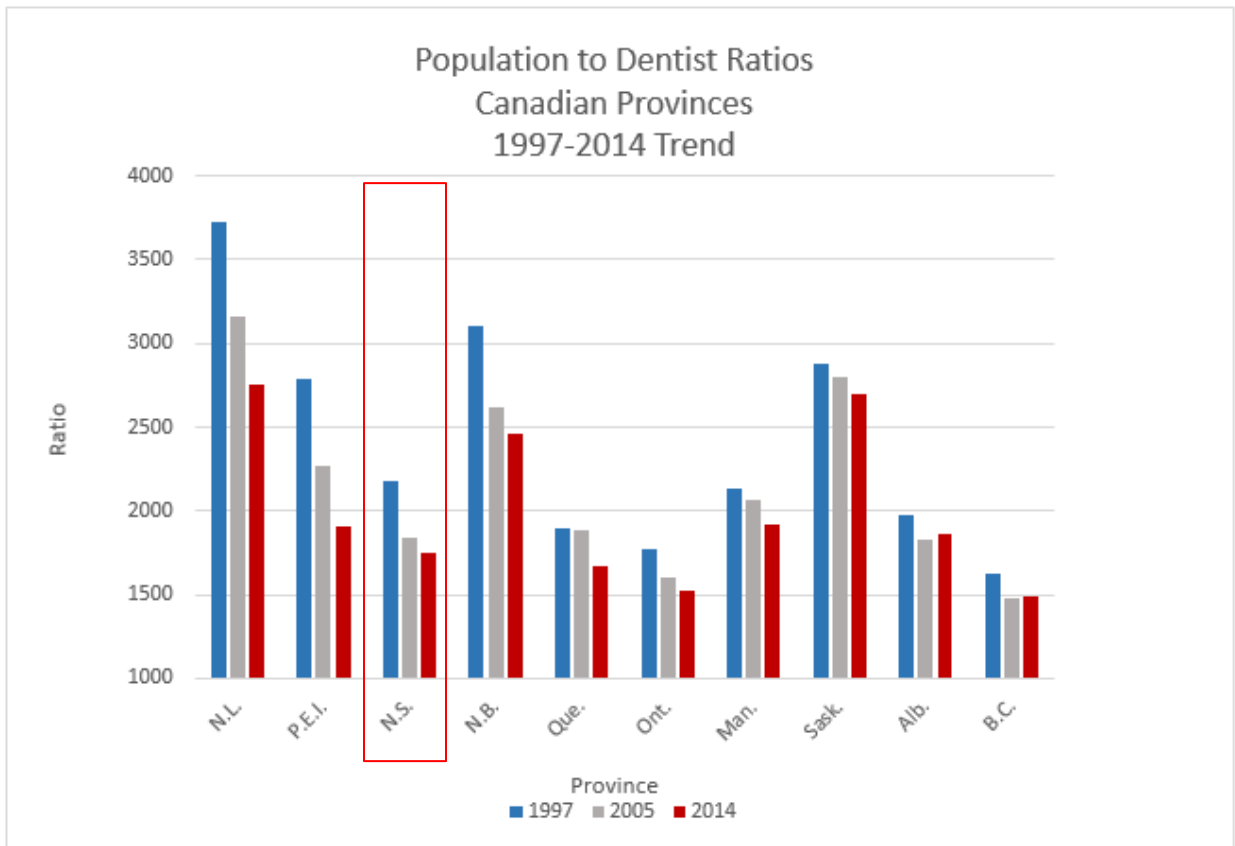
The number of active patients is perhaps the most important factor to consider. Active patients – defined as patients that have historically visited the clinic regularly for treatments and check-ups and are expected to continue doing so – are the single most significant driver of clinic-value and, in general, more active patients will result in a higher price. The right number of active patients will be unique to each prospective purchaser – some dentists may be comfortable with a clinic of 2,500 active patients while others may prefer a clinic with 1,500 patients; some may be comfortable with hiring an associate dentist to handle excess volume while others may wish to operate as a sole practitioner. *Desired* active patient counts should also be considered relative to *actual* active patient counts in a particular clinic as patient attrition is often experienced during clinic succession.

Patient demographics are also important – younger patients may have children that they will bring to the clinic while older patients may have an increased need for services as well as a greater capacity to pay for services. Generally, diversity in patient age/demographics is preferred. However, dental practices are increasingly adding specialized services to their practice offering including implants, orthodontics, cosmetic dentistry and geriatric dentistry. Geriatric dentistry as a specialization in particular may grow in popularity in Nova Scotia given our prevailing and projected demographic trends.

2) **Location**

Location is important not only from the personal perspective of where one prefers to live and work but also on the patient-focused level considering the importance of ease of access to the clinic. With current demographic trends and an inevitable shift in patient population to a greater representation of those more advanced in years, accessibility for seniors including access to dental clinics via public transit, limited mobility access, parking availability and related considerations become increasingly important.

Moreover, the population to dentist ratio in Nova Scotia – which as of 2014 was approximately 1,700: 1 (Canadian Dental Association) – remains an important factor. Urban settings commonly have lower population-to-dentist ratios than are found in many rural locations.



(Dentistssupply.ca)

The population to dentist ratio in Nova Scotia remains higher than those found in Quebec, Ontario and British Columbia.

### 3) Building Ownership vs. Leasing

Building ownership vs. leasing presents a considerable difference in terms of investment in, and operation of a clinic. The pros, cons and key considerations for each are summarized below:

OWNERSHIP	LEASING
<b>PROS</b>	
<ul style="list-style-type: none"> <li>- Represents an investment opportunity</li> <li>- Provides control over clinic appearance/maintenance</li> <li>- Property can be refinanced to fund future renovations/growth</li> <li>- Provides indefinite certainty of practice location</li> </ul>	<ul style="list-style-type: none"> <li>- Simpler, presents a lower administrative burden</li> <li>- Avoid risks/responsibilities of being a landlord</li> </ul>
<b>CONS</b>	
<ul style="list-style-type: none"> <li>- Higher professional fees re. ownership structure, risk mitigation</li> <li>- Greater administrative burden</li> <li>- Downpayment generally required up front</li> </ul>	<ul style="list-style-type: none"> <li>- Risks associated with lease terms and clauses               <ul style="list-style-type: none"> <li>• Relocation - Landlord can force a relocation on short notice</li> <li>• Demolition - Landlord can demolish the building on short notice</li> </ul> </li> <li>- Lease renewal is dependent on landlord agreement and cooperation</li> </ul>

### KEY CONSIDERATIONS

- Commercial property ownership has the dual effect of mitigating the risk of clinic relocation while also constituting a potentially low risk, long-term investment. If building ownership is not desired immediately but is a future goal, the selling dentist may agree to a building purchase option or right of first refusal being included in the dental practice acquisition, allowing for a building purchase at a later date.
  - Distinction: a building purchase option allows the buyer to trigger the building purchase within a defined time period; a right of first refusal allows the vendor to determine the timing of any real estate transaction.
- If the clinic space is leased, a buyer must carefully review the lease terms, including term remaining, renewal options (generally longer is better), tenant-landlord relations are important as any hostility harms the chance of renewing. Relocation and demolition clauses present additional risk.

### 4) Sole Practitioner vs. Group Practice

Another consideration is whether you wish to own and operate a clinic independently or as part of a group practice. In a group practice setting, multiple dentists could form a practice under a formal partnership or informally under a cost sharing arrangement.

In a Partnership set up, each dentist (partner) would own a portion of the Partnership and the Partnership itself would own the physical assets of the clinic. Profit from operations may be split between partners pursuant to their respective ownership interest in the partnership or through some other formula defined and agreed to by the partners.

Under a cost sharing arrangement, each dentist may own an interest in the physical assets. Overhead functions and related costs would be jointly managed and paid but each dentist would attract, service and manage their own patient portfolio. These arrangements are effective since overhead costs are shared and the economies of scale can make for lower overhead per dentist relative to solo practices.

Both forms of group approach to clinic organization can allow for greater flexibility in working hours and better patient service delivery since one dentist may cover for another in the event that vacation, illness or any other factor prevents one practitioner from attending to the needs of a patient.

#### 5) **Valuation Issues**

When dentists are looking to sell their practice they may engage an advisor to appraise (value) the practice and assist in the sales process. If so, it is prudent to remember that the advisor was engaged by and could strive to optimize the outcome for the vendor. Thus, any prospective buyer must look upon the opportunity with a critical lens. Professional advice is always recommended when making an investment of such significance both in dollar amount and career implications. If a prospective vendor has *not* engaged a professional to appraise their practice, a prudent prospective purchaser *should*.

While asset vs. share purchases are discussed in further detail later in this section, it is worth noting here that if a transaction is taking the form of a share purchase, it is important to ensure that the purchase price considers the vendor's equity in the equipment (i.e., the market value of the equipment less any outstanding debt or future lease payments). Accountants or other professional advisors can help ensure this distinction is reflected in the purchase price.

#### 6) **Due Diligence**

A buyer must always commit to performing a thorough due diligence review as early in the process as possible. Your due diligence effort should include (but not be limited to) the following procedures:

- ✓ Completing an audit of patient charts and fees
  - Ultimately you must find comfort with the number and quality of active patients in the practice
- ✓ Review of financial information
  - Financial statements, tax remittances (HST, payroll remittances, corporate income taxes), collections and payables balances
  - An accountant can and should be engaged to assist in this process
- ✓ Review of current leases and renewal terms
- ✓ Inspection of office equipment to ensure proper functionality

Performing this exercise as early in the process as possible is important if your findings are not to your satisfaction to minimize the time investment both from you and the prospective seller.

As with practice valuation issues, it is always recommended that an experienced professional be engaged to assist you in this process.

## 7) **Non-Compete Agreements**

In purchase and sale agreements of almost any business, a non-compete agreement is customary. These terms are particularly important to dentists purchasing an existing practice since population-to-dentist ratios are so important to a dentist's enduring success and achieving any degree of desired growth.

Non-compete agreements in dental practice purchase and sale transactions generally include terms of three years and a five kilometre radius in urban locations and similar or longer terms and even larger radii in rural locations. Experienced advisors can define appropriate non-compete terms depending on the location and circumstances.

## 8) **Tax Considerations**

### Incorporating vs. Personal Ownership

The advantages of owning a practice through a corporation are discussed in detail in chapter three, from the perspective of establishing a PC as a dental associate. Many of the benefits and considerations are the same when determining whether to own a dental practice in a corporation. We will briefly revisit the major points discussed in chapter three, while also discussing factors which are unique to determining whether a dental practice should be owned through a corporation or not. The benefits are twofold:

- i. ***Tax deferral opportunities*** result from the ability to hold cash in the corporation rather than having to receive it personally since corporate tax rates are generally lower than personal tax rates.
- ii. ***Ease of servicing clinic-related debt***, as corporate tax rates are lower than personal tax rates, it is generally faster to repay debt borrowed by a corporation as opposed to that borrowed personally.

To illustrate point (ii) further, consider the tax rates applicable to corporate income vs. personal income: the corporate income tax rate in 2018 is 13 percent on earnings under \$500,000, and 31 percent on earnings over \$500,000. Personal income tax rates graduate through a series of tiers until a max rate of 54 percent is reached on all taxable income over \$205,842. Therefore, if a loan is borrowed personally, higher rates of tax must be paid before a dentist's earnings are available to pay down loan principal compared to a loan borrowed by a corporation where the lower corporate rates of income tax must be paid before cash is available for principal repayment.

The tax benefits of incorporating should be considered in light of the costs such as the cost to set up the corporation followed by the annual cost and administrative burden of maintaining the corporation (tax and other compliance work).

### Buying Assets vs. Shares

The tax and legal ramifications of buying assets vs. buying shares make this distinction well worth scrutinizing, and either option may be superior depending on the circumstances. In general, buyers prefer to purchase assets due to prospective tax advantages and limited exposure to liability while sellers prefer to sell shares to achieve optimal tax treatment on the disposition.

The key tax and other implications of an **asset** transaction vs. a **share** transaction from the perspective of the buyer can be summarized as follows:

- **Fixed assets of the business** – i.e., equipment, furniture, computers, leasehold improvements – will have a tax cost equal to their market value if those assets are purchased directly. Generally, this amount is higher than the depreciated tax cost that the buyer would inherit if they acquired the assets indirectly by purchasing shares. Thus, in an asset transaction the tax deductions from depreciating the newly acquired assets going forward will often be higher.
- **Liability exposure** – the liability (i.e., the risk that a dentist is sued for malpractice) associated with the practice stays with the corporation that legally performed the service and may extend to the individual professional dentist involved in the service. Therefore, if a buyer purchases assets of a practice rather than shares, they are not exposed to the same degree of risk of liability arising from past work by the vendor-dentist.
- **Tax implications to the seller** – in the event of a share sale, the vendor will incur a capital gain for which the tax treatment is very favourable to the seller. The Lifetime Capital Gains Exemption can be used to realize the first \$848,252 of capital gain tax-free (as of 2018). By contrast, selling assets results in corporate taxes on the asset dispositions and then personal taxes are paid when the net proceeds are paid to the shareholder.

In summary, buyers generally favour buying assets while sellers generally favour selling shares. For this reason, there is typically room to negotiate the terms of an agreement to accommodate the objectives of one or both parties.

### **Opening a Dental Practice**

It may be difficult to find the right dental practice to purchase. Factors such as location, fit with potential business partners, and price are hard to merge together to find the right fit. For some, the best option is to open a new dental practice.

Opening a new practice is not without its own set of challenges. Here are some considerations to take into account:

- Location of the practice and market demand in that location for a dentist
- Starting without a client list could impede cash flow until the practice gets off the ground
- Employees will need to be hired
- Dental and office equipment will need to be purchased

- Initial cash inflow will be low due to no patient list, and initial cash outflow will be high due to the investment in practice assets

Opening a new practice can mean beginning from scratch without a patient list, a riskier alternative to purchasing a practice; however, it may be the worth the rewards of making your own choices and creating a practice the way you envisioned.

#### Deciding whether to open a new practice in a Professional Corporation

The benefits, characteristics and implications of a professional corporation (PC) were discussed in chapter three and discussed further above from the perspective of buying a dental practice. Deciding whether to use a PC and the advantages and disadvantages of a PC are all applicable whether the PC will be a dental practice or whether it will be an associate PC. The ability to income split, income tax deferral, and considering the share structure of the corporation are all still important considerations when determining whether to incorporate a PC, however there are two considerations which merit further discussion when considering opening a new practice in a PC.

- Equity vs. dividend shares: as previously discussed, equity shares entitle the shareholder to dividends from the company, but the shares also grow in value as the company grows in value unlike dividend shares. The importance of determining which shareholder receives what type of shares is especially important when the PC is a dental practice, and not just an associate PC. When it is time to sell a dental practice, only those who own equity shares will realize a capital gain on the sale of the dental practice (if it is a share sale) and will have the ability to use the Lifetime Capital Gains Exemption (LCGE). The more people who own equity shares of the company, the greater the ability to multiply the LCGE.
  - o Example: the shares of a dental practice are owned by a dentist and his/her spouse and are sold for a total gain of \$1,200,000. Both the dentist and the spouse have never used the LCGE before, so have the ability to recognize up to \$848,252 of the gain tax free. If only the dentist owns equity shares, \$848,252 of the gain is tax free but the dentist's remaining gain of \$351,748 would be taxable to the dentist. If the dentist and the spouse each own 50 percent of the equity shares, each spouse could recognize a gain of \$600,000 which would fully be sheltered by the LCGE.
    - Sale could be subject to alternative minimum tax (AMT), this is discussed later in this chapter under "Sale of a Dental Practice"
- When opening a dental practice there will be many upfront costs with revenues being slow for a while. It is normal that a dental practice will realize net losses for a while after opening. If the dental practice is held in a PC these losses are trapped within the PC and can only be used against future profits of the PC. If the dental practice is held personally, the losses can be used against other personal income sources or carried back up to three years to be deducted against past income. This will allow personal taxes to be recovered which could then be further used to invest in the dental practice.

### Costs of Opening a Practice:

In determining whether opening a dental practice is feasible, the various costs to be incurred must be considered.

- Cost to lease space; this will vary greatly depending on location, size, and state of the space. Will the space accommodate future growth, or would it be necessary to move should the practice grow?
- Cost of leasehold improvements to the space; it is unlikely there is commercial space which will already be laid out perfectly to accommodate a dental practice. The space will likely need to be renovated and modified to suit the practice. The tax implications of leasehold improvements are discussed further below.
- Dental equipment; Consider whether new or used equipment will be purchased and what equipment is needed. There may be specialized equipment wanted for the practice, which may not be feasible to purchase until the practice grows and cash flow is generated, therefore weighing what equipment is necessary with available cash flow will be important.
- Office equipment; computers, desks, office chairs, filing storage, etc. will required.

### Leasehold Improvements

Leasehold improvements are any major renovation or addition to a leased commercial property. As discussed above, leasehold improvements will likely be necessary to any leased space in order to make the space useable for a dental practice. Costs incurred for leasehold improvements are capitalized and the costs are deductible as depreciation over time. The terms of the lease will determine how quickly the company can depreciate the cost of the leasehold improvement (i.e. the tax deduction each year). Leasehold improvements are depreciated over the greater of the initial lease period plus the first renewal term, or five years. The lesser amount of years in the lease term and the renewal term, the greater the annual deduction for leasehold improvements.

### Incorporating at a Later Date

The choice to incorporate is not a one-time event. Individuals may find that early in their careers the costs do not justify the benefits of having a corporation. Self-employed individuals can incorporate their practice at any time, and if done properly, without a negative tax impact.

### **Selling your Practice**

Selling your practice can be a very emotional process, and the result of the sales process is typically one of the most significant components of a dentist's retirement plan and ongoing livelihood. For a consequential life transition, it is imperative that you plan as **early** as possible and enlist the appropriate help to ensure that you optimize the outcome.

### **Knowing when to Sell**

The transition to retirement can be challenging for many and dentists are no exception. While no business owner makes the decision to sell lightly, occasionally the process will be triggered and executed before the individual is truly ready. Examples include burnout/stress and private matters. A dentist should carefully reflect on their situation as they near retirement age for signs that the timing is right on a personal level. Common signs would include:

- Physical or mental impairment
- True desire to pursue new interests/hobbies
- True willingness to give up the practice and relationships, including patients, staff and other professionals alike
- True loss of love or enjoyment for the work
- Having the financial ability to retire with an acceptable quality of life

When none of these or similar factors seem to ring true yet a practitioner proceeds with a sale they risk experiencing a void in their life and may feel the desire to return to practice. The dentist should realistically measure their financial security and reflect on their desire to permanently transition before committing the time and energy to pursue a sale.

### **A PROCESS, not an EVENT...**

Succession planning of any kind, including the sale of a business is a **process**, not an event. Done properly, the process starts years in advance of any single event and continually evolves and changes as circumstances (life) changes. If focus is kept on the sustainability of the practice, retention of active patients and effective transfer of staff and other supplier relationships over time then a selling dentist will maximize the likelihood of a successful and financially rewarding transaction. **It is strongly recommended that any dentist begin discussing their retirement plan at least five years in advance of the desired retirement date.**

### **Finding a Suitable Buyer**

A suitable buyer is one that fits the culture of the clinic and has the professional and personal skills and qualities to earn the confidence and respect of the clinic. Suitable candidates are often found among a clinic's existing associate dentists, from the network of other professionals your accountants or lawyers may know and work with, and from professionals you know through the dental community and industry associations. Many retiring dentists want to ensure that the current patients and staff are treated properly through periods of transition and after a dentist's retirement.

## **Preparing for Sale/Retirement:**

### **Mentally/Emotionally**

How you spend your time after retiring is a major point to consider. While owning and operating a practice you may not have had time for extracurricular activities, but retirement could be the perfect time to explore teaching at universities or colleges, volunteering (whether in a dental health field or not), pursuing other hobbies or careers, or even arranging to associate part-time if it helps segue into full retirement.

### **Practice Valuation**

Do not base your retirement planning on an unrealistic assumed selling price for your practice. It is recommended that you engage a professional to value the practice – a buyer may scrutinize it and financing partners will require it. This process will require numerous business matters to be considered:

- i. **Patient charts** – review your patient charts and precisely quantify and organize your active patient list
- ii. **Commercial lease** – buyers will have difficulty securing financing needed to close the transaction if property lease terms present risks – a remaining term of seven or more years including renewals and avoiding unfavourable terms like relocation/demolition clauses as discussed in the section on owning your own practice are important steps
- iii. **Equipment leases** – penalties for early termination may reduce what otherwise appears to be the market value of the equipment
- iv. **Retaining key staff people** – employment contracts for key associates and hygienists could be instrumental in achieving a smooth ownership transition
- v. **Rectifying any deficiencies in clinic operations** – any other staffing or product/service offering shortfalls that can reasonably be addressed should be to optimize operations and maximize value

All of these factors if properly reviewed and managed will contribute positively to clinic value and IF your preparation has begun well in advance of your desired retirement date then these issues can be reasonably addressed long before any transaction date.

### **Tax Planning**

Tax planning considerations when selling a practice bring back the major considerations discussed when purchasing a practice – the issue of selling assets vs. shares. However, a third option is becoming increasingly common in the market place: hybrid asset **and** share sale. These are discussed from the seller's perspective below.

### **Selling Assets – Corporate Sale**

When selling the assets of your incorporated practice, the taxable event is between the buyer and your corporation rather than you personally. Therefore, the taxes that are incurred on asset dispositions are subject to corporate income tax rates. Generally, short term assets such as supply inventories and prepaid expenses are purchased for amounts equal to their tax cost and no taxes are applicable. However, the sale of fixed assets such as equipment, office furniture, computers, leasehold improvements or land and buildings, as well as goodwill, trigger capital gains rather than active business income. Capital gains in Nova Scotia are 50 percent taxable at a tax rate of 54 percent. In other words, the effective tax rate on these gains is 27 percent.

Another negative outcome from selling assets is the effect of **recapture**. Recapture refers to the amount, if any, by which a depreciable asset's sale price exceeds the depreciated tax cost of that asset but, does not exceed the original cost of that asset.

**Example:** A piece of equipment is sold by a dentist for \$5,000 as part of the sale of the business. The equipment was purchased three years earlier for \$7,500. Depreciation for tax purposes over the last three years, referred to as 'capital cost allowance', was \$3,180, so the tax cost of the equipment was  $\$7,500 - \$3,180 = \$4,320$ . Because the equipment was sold for \$5,000, the equipment was over-depreciated by \$680 ( $\$5,000 - \$4,320$ ). This 'over-depreciation' of \$680 is subject to active business income tax rates, and the taxes payable on this recapture would be \$88 ( $\$680 * 13$  percent, assuming income was under \$500,000).

For the purposes of this discussion on the tax consequences of selling assets, goodwill can be defined as the portion of the purchase price over and above the value that can be attributed to the net tangible assets. It represents the premium paid by the purchaser in return for intangible assets such as the quality of the active patient listing, the location of the clinic, the quality of systems put in place in clinic operations or the strength of support staff, etc. For example, if a dental practice with no debt was purchased for \$500,000 and the clinic included \$200,000 in equipment, \$100,000 in leasehold improvements, \$50,000 in accounts receivable and other supplies on hand, the goodwill value in this business would be \$150,000 ( $\$500,000$  price minus equipment, leasehold improvements, receivables and supplies of \$350,000).

The 50 percent of goodwill and capital gains on fixed assets that is *not* taxable is recorded in a tax account called the capital dividend account. The balance that you accumulate in this account can be paid out to the shareholder(s) of the corporation via a tax-free dividend. The rest of the net proceeds from asset sales, which would be a cash balance in the corporation, can be paid out to the shareholder(s) whenever they choose via a dividend, on which personal income taxes must be paid.

Therefore, when selling assets rather than shares, both corporate taxes (recapture and capital gains) and personal taxes (dividends) must be paid before the dentist has any cash in the personal pocket.

Planning opportunities exist in asset sales given that the timing of the dividend to take cash out of your corporation and into your personal accounts is entirely at your discretion. This presents a tax deferral opportunity. In effect, your personal corporation, which will likely only contain a cash balance in it, can be used as a retirement vehicle paying you dividends over time. Given the graduated nature of personal income tax rates, taking less in dividends over a longer period of time can reduce the taxes you incur on withdrawing the funds compared to a one-time lump sum dividend. Once a dentist turns 65, income splitting opportunities may exist as well since dividends (for shareholders) can be split with a spouse.

The key takeaways from an asset sale situation is that (1) both corporate and personal taxes must be paid to access the cash personally; and, (2) you do not have access to the Lifetime Capital Gains Exemption.

### **Selling Shares of a Professional Corporation**

The major advantages of selling shares include:

1. **Lifetime Capital Gains Exemption (LCGE)** – As discussed in chapter three, and further explained above under “Opening a Dental Practice”, the first \$848,252 of capital gain incurred may be tax-free. In Nova Scotia, this could potentially represent a tax savings of \$231,870. Moreover, a corporate reorganization can be executed to make a family trust the owner of the corporation’s common shares so that when they are sold, the beneficiaries of the trust can **each** use their own LCGE to shield their gain from tax. Careful planning with your tax accountant or lawyer is required to realize this strategy.
2. **Capital Gains Reserve** – a share sale can be structured such that the proceeds are received over time and the capital gain that would otherwise be incurred can be deferred up to five years and incurred incrementally over each year that a new portion of the proceeds is received.

Engage your accountant and other advisors at least three years in advance of any contemplated sale to determine whether your corporation qualifies for the LCGE and to take steps to ensure compliance if needed.

If your LCGE is available to you (i.e., you have not already used it) and your corporation qualifies, you will generally be better off selling shares rather than assets.

#### **Specifics of qualifying for the LCGE**

Access to the LCGE depends, among other things, on your corporation meeting the requirements of a Qualified Small Business Corporation. The key requirements of this status are as follows:

1. For 24 months immediately preceding the sale, the shares must not have been owned by anyone other than the individual or a person or partnership related to the individual;

2. For 24 months immediately preceding the sale, more than 50 percent of the fair market value (FMV) of the assets in the corporation must have been used principally in an active business carried on primarily in Canada;
  - \* In other words, more than 50 percent of the FMV of assets in the business must be actively used in the business; *inactive* assets would include excess cash balances, portfolio investments or investments in non-business real estate
3. At the time of the transaction, “all or substantially all” (greater than 90 percent per CRA) of the FMV of the corporation’s assets must be actively used in the business;
4. The shares must be owned by an individual resident in Canada.

Your professional advisor can help you navigate the details and planning required regarding these issues.

We note also that the LCGE can be used by a taxpayer without having to sell the shares of the corporation. This is possible via a corporate reorganization that triggers a gain on the shares of your company in a notional sale. This may be useful if a dentist anticipates that excess cash and portfolio investments may accumulate in their corporation over time potentially compromising the corporation’s QSBC criteria. Consult your tax accountant to discuss the benefits and drawbacks of this planning option.

### **Alternative Minimum Tax (AMT)**

AMT is a special tax calculation that ensures taxpayers who are taking advantage of breaks such as the LCGE are still paying a certain minimum amount (their *fair share*) in taxes. If, as a result of using the LCGE, a dentist has incurred tax payable for the year that is below this particular minimum amount, the AMT level of tax will apply, and the blocked tax savings will be released to the (now retired) dentist over the next seven years in the form of reductions of tax payable relative to what would otherwise be owing in those years.

Planning for the sale of your business, be it an asset sale or a share sale, is crucial to realizing the greatest value on the sale, maximizing the after-tax proceeds for your retirement and minimizing stress and frustration along the way. If nothing else, remember that selling your practice is a **process**, not an **event**, and planning at least three to five years ahead is vital to optimizing the outcome.

## CHAPTER 7

### PLANNING FOR RETIREMENT

Entering retirement can be full of new opportunities; with the newfound spare time the options seem limitless, whether you are planning to travel, pursue new hobbies and interests, volunteer, or begin a new job path.

When planning for retirement, it's best to begin planning early in your career and to re-evaluate your plan at regular intervals throughout your working life. Determining the best personal and investment plan for retirement will require a team of advisors – accountants, lawyers, financial planners, investment and insurance advisors.

As retirement approaches, it is important to determine what your retirement and lifestyle goals are and whether you are on track financially to meet those goals and live the desired lifestyle upon retirement. Thus, an important first step is to identify what your goals are, what type of lifestyle you desire and the associated costs – this will be compared to the assets you hold upon retirement and your expected sources of income during retirement.

#### **Retirement Goals and Key Questions**

- At what age do you plan to retire? The timing of retirement will have a significant financial impact.
- How long might you live? Obviously, there is no way to accurately know the answer to this, but consider your current health, hereditary trends, lifestyle choices, etc.
- What are some of the larger plans or projected expenses to happen during retirement, such as:
  - o Building a cottage
  - o Home renovations
  - o Downsizing your home
  - o Travel plans
  - o New hobbies and interests
- What are your personal spending habits and lifestyle? This could fluctuate significantly over your retirement; consider:
  - o Will your mortgage be paid off? Will you be downsizing to a smaller home or condo? Consider changes to the cost of living in retirement after any expected changes to your living situation.
  - o Increases in the cost of living due to inflation.
  - o Supporting dependents: it is not uncommon for retirees to support their parents and children. Children may need support with post-secondary education, the cost of living, buying their first home, etc., while parents may need support for medical costs and cost of living.
- What are your expected investment returns? Are your expected returns on investment in line with your retirement goals? Generally speaking, a higher expected return on investment also means a higher level of risk, conversely a lower level of return means a

lower level of risk. If a high level of return is expected are there safeguards in place should there be a significant decline in the value of your investments?

- Funds should also be set aside for contingences, such as a health or other emergency, or in case investments decline significantly.

### **Valuating Assets upon Retirement:**

It's important to determine what the value of your assets should be upon retiring and what are the resulting inflows of income. This likely is not a simple answer, consider:

- o The value of your RRSP, TFSA, and other investment accounts
- o The value of your dental practice
- o The value of any assets held in an investment holding company
- o Value of Canada Pension Plan payments
- o Value of Individual Pension Plan or Personal Pension Plan
- o The value of any investment properties

### **Sources of Retirement Income**

After your goals, lifestyle, and spending needs upon retirement have been determined, it is necessary to look at sources of retirement income to determine if there will be enough to get you through retirement. Below we discuss the various sources of retirement income.

#### Canada Pension Plan (CPP):

Canada Pension Plan (CPP) benefits will be available upon retirement if contributions have been made to CPP during your career. As discussed in chapter three, one of the benefits of paying a salary from a PC is that it allows the ability to contribute to the Canada Pension Plan. If you have only paid yourself dividends from the PC over your career, you likely will have very little, if any, CPP benefits. The amount of CPP benefit payments will depend on how much you have contributed up to retirement.

The standard age to begin CPP benefits is at age 65, however you can opt to take the benefits at the age of 60 or defer them up until the age of 70. The amount of the benefit will decrease if taken before the age of 65 and will increase if taken after the age of 65. The benefits will reduce by 0.6 percent (in 2016 and later years) for every month they are taken out before the age of 65 and increase by 0.7 percent for every month the benefits are deferred past the age of 65. In other words, if CPP benefits are drawn at the earliest at age 60, the pension benefit will be fully reduced by 36 percent, alternatively, if CPP is deferred to the latest at age 70, pension benefits will increase by 42 percent (in comparison to taking the pension at the standard age of 65).

If you continue working after the age of 65, and begin receiving CPP benefits, you can choose to stop making CPP contributions; to do so an election must be filed with Canada Revenue Agency.

### Old Age Security (OAS)

OAS is a monthly benefit available to Canadian residents over the age of 65 who have lived in Canada for up to 10 years after age 18, and available to non-residents of Canada if they have lived in Canada for 20 years.

Starting in 2023, the age of eligibility for OAS will gradually increase from the age 65 to 67 (thus will impact Canadians born after March 31, 1958).

OAS is limited based on an income threshold. OAS begins to be clawed back if annual income exceeds an income level threshold (\$75,910 in 2018). For every dollar of income over this threshold, OAS is clawed back by 15 percent of that income.

Like CPP, receipt of OAS benefits can be deferred until the age of 70. By deferring receipt of the benefits, OAS payments increase by 0.6 percent each month they are deferred until the age of 70, to a maximum increased benefit of 36 percent.

### Registered Retirement Savings Plan (RRSP) and Registered Retirement Income Funds (RRIF)

If you have taken advantage of RRSP contributions throughout your career, retirement is the time to consider withdrawing those contributions. Throughout your career, you enjoy the tax deductions from contributions to an RRSP, and upon withdrawal, RRSPs are 100 percent taxable. To maximize the benefit from an RRSP, it's worthwhile discussing withdrawal options.

The longer time it takes to withdraw funds from the RRSP, the greater the opportunity to take advantage of lower tax brackets each year. The benefit of an RRSP is not only the tax deferred income and growth, but that the income will be withdrawn at a lower tax rates than your marginal tax rate during your career. This rule of thumb doesn't work for everyone, therefore several factors should be considered in determining your personal strategy:

- What is your income level from other retirement source income? If you already have income from other sources, such as CPP, non-registered investments, and a pension in excess of \$150,000 (the top income bracket), your RRSP withdrawal will be taxed at the top rate, therefore some of the benefit of withdrawing early may be lost.
- Consider the OAS claw back discussed above. If income can be smoothed over a longer period of time, this could minimize the potential of the OAS being clawed back. If making voluntary withdrawals early, consider the OAS claw back.
- RRSP withdrawals can only be deferred until December 31 in the year you turn 71, at which time, the RRSP is converted to a Registered Retirement Income Fund (RRIF) or an RRSP annuity.
  - o A RRIF is similar to an RRSP, in that income continues to accrue in the account tax free, and funds are only taxed once they're withdrawn. The difference is that minimum amounts must be withdrawn each year; this minimum amount is based on the amount in the account and age. There is no maximum amount of withdrawal. The percentage of the plan to withdraw increases with age. If you have a younger spouse, you can use their age to determine the minimum withdrawal, which would reduce the minimum withdrawal.

- An RRSP annuity provides the option to receive guaranteed regular payments for either the rest of your life, or for a set number of years.

Between the ages of 60-70 there are many choices to control the flow of retirement source income, whether it is deferring CPP and OAS, receiving CPP benefits early, waiting until the mandatory age of 71 to make a withdrawal from a RRIF or starting early withdrawing from your RRSP. There are many factors to consider in making the decision when to draw from these sources of income and when to defer them, and making the right choice depends heavily on personal circumstance. Speaking to a financial advisor and accountant about these decisions can help determine the best financial and tax strategy.

#### Tax Free Savings Account (TFSA)

The income earned and the growth in a TFSA is tax free and any withdrawals made are tax free. Since withdrawals from a TFSA will not affect your income level, a TFSA can be an important tool if funds are needed and you're close to the OAS claw back threshold, or any additional income would be taxed at a high tax rate.

#### Investment in real property:

Whether you continue to own the building from the dental practice, or a residential rental property, the property may not only provide additional income into retirement but, may also appreciate in value. The sale of the property may be subject to a taxable capital gain, and timing of the sale could impact the amount of tax paid on the capital gain.

#### Non-registered investments:

Unlike an RRSP, the contributions to a non-registered investment account do not provide a tax deduction and unlike a TFSA any income earned in a non-registered investment account is taxable. If RRSP and TFSA accounts have been maximized, a non-registered investment account is still a valuable savings vehicle. The original investment is not taxable when withdrawn from the account; therefore, a withdrawal from a non-registered investment may not create the tax shock that a withdrawal from an RRSP or RRIF would. Furthermore, income earned in a non-registered account maintains its preferential characteristics (capital gains 50 percent taxable, and reduced tax rates for dividends), whereas all income from an RRSP are 100 percent taxable at a non-preferential tax rate.

#### Investment Holding Company

As discussed in chapter four, the use of an investment holding company is common when there are excess funds to flow out of the PC. Upon retirement or sale of the PC, the investment holding company can still be used to split income between lower income family members to realize reduced tax upon withdrawal.

#### Insurance

There are numerous insurance products available to assist with unexpected illness, disability, or death. In addition to providing comfort that there will be financial assistance should an unfortunate event occur, insurance also provides a potential investment opportunity.

Term life insurance provides coverage for a period of time and once that period of time expires, no payments would be made to beneficiaries upon your death. Term insurance premiums are typically lower than permanent life insurance premiums and they do not have an investment component.

Permanent life insurance provides insurance coverage upon death, however a portion of the premiums are also saved and invested. The insurance company will invest these additional premiums and as this grows, it accumulates to what is referred to as the cash surrender value. A related benefit is that a loan can be taken against this cash value, and upon death, the insurance payout could cover any outstanding loan balance.

#### Individual Pension Plan (IPP)

An IPP is a defined benefit pension plan, meaning the pension benefits received upon retirement will be a fixed amount based on past service, salary and age and the benefit to the retiree will not increase or decrease depending on the performance of the investments within the pension plan. A PC can make tax deductible contributions to an IPP. If the investments in the IPP perform poorly, the PC would be required to contribute additional funds to the IPP to maintain the defined benefit, and these additional contributions would also be tax deductible. The investments grow in the IPP and are tax deferred and are only taxed once they are withdrawn in retirement. There are costs associated with maintaining an IPP. For example, an actuary is required to value the plan on a regular basis and determine the contributions required to be made into the plan by the PC.

#### Personal Pension Plan (PPP)

A PPP is like an IPP except that there is flexibility for the plan to be either a defined benefit plan (as described under the IPP), or a defined contribution plan, meaning the contributions into the plan by the PC are fixed, the amount received by the retiree upon retirement could fluctuate depending on the performance of the investments within the plan.

#### Retirement Compensation Arrangements (RCA)

An RCA is like a trust. The PC would make contributions to be held in trust until it is to be paid upon retirement. The contributions to the RCA are tax deductible to the PC and income earned in an RCA is tax deferred until it is withdrawn in retirement.

One unique factor of an RCA is when a contribution is made to an RCA, 50 percent of the contribution goes into the trust and 50 percent goes to CRA as a refundable tax. No income is earned on the portion paid to CRA. The tax paid to CRA is refunded once the benefits are paid out to the retiree.

### **Tax Savings for Retirees**

Once individuals reach a certain age and begin receiving pension and other retirement income, there are a number of additional tax credits available to them:

**Age amount:** individuals 65 or older are entitled to a federal age credit of \$7,333 and a provincial age credit of \$4,141 (in 2018). The federal credit begins to be reduced when income is over

\$36,430 and is eliminated when income reaches \$84,597. The provincial credit begins to be reduced when income is over \$30,828 and is eliminated when income reaches \$58,435.

**Pension credit:** individuals who receive eligible pension income are entitled to a federal credit of up to \$2,000 and a provincial credit of up to \$1,173 (in 2018). If pension income is split with a spouse, who would otherwise have no pension income, they could also be entitled to this credit.

**Pension income splitting:** individuals who earn certain types of pension income can split up to 50 percent of that pension income with their spouse. This is beneficial when one spouse earns a lower level of income than another spouse and that income can be taxed at a lower tax bracket. The following is a table of the types of pension that can be split with a spouse:

PENSION SPLITTING WITH SPOUSE		
	65 or Older	Under 65
<b>Pension annuity payments</b>	Yes	Yes
<b>RRIF payments<sup>1</sup></b>	Yes	No
<b>RRSP annuity payments<sup>1</sup></b>	Yes	No
<b>RRSP lump-sum withdrawals</b>	No	No
<b>CPP Benefits</b>	Yes <sup>2</sup>	Yes <sup>2</sup>
<b>Old Age Security benefits</b>	No	No
<p><b>1. These payments can be split if under 65 years old, if the payments are received due to the death of a former spouse.</b></p> <p><b>2. These payments can generally be split; however, this is administered by the Canada Pension Plan Act and not through the Income Tax Act.</b></p>		

With retirement comes many changes – lifestyles become dramatically different, financially you are required to shift from a saver to spender and there are a plethora of tax considerations to be made in the process. It is important to remember that a team of advisors can assist in ensuring you get the most out of the savings you worked so hard for during your career and how to make the most of your retirement years.