



Incorporating Your Medical or Dental Practice

What's New?

On January 1, 2006, new legislation came into effect allowing Ontario physicians and dentists to issue non-voting shares in their professional corporations to family members. These non-voting shares can be arranged so that dividends are paid to lower income family members. This change has resulted in a surge of medical and dental practice incorporations as the ability to income split with family members can have a substantial tax savings. Incorporation of your practice also provides access to the capital gains exemption, the ability to repay practice debt more rapidly, and income taxed at a lower small business rate.

Personal tax rates in Canada are based on a marginal rate system whereby lower income taxpayers pay much less than higher income taxpayers. Currently, an Ontario taxpayer pays 46% on every dollar of professional income in excess of \$120,000 where the lowest marginal rate is 21%. This benefit is amplified by various tax incentives including the dividend tax credit. An Ontario resident who has minimal other income can earn about \$37,000 of dividends paid from a professional corporation on a tax-free basis.

The income splitting and dividend tax rates have a tremendous impact on physicians or dentists who issue tax free dividends to either spouses, adult children, or elderly parents. The tax savings on these dividends can result in a permanent tax savings of up to 30%. For professionals supporting adult children attending post-secondary school or assisting parents with retirement home costs, the savings are significant.

Another advantage with respect to incorporation is the ability to earn up to \$500,000 annual taxable income in Ontario subject to a corporate tax rate of approximately 16%. The after tax dollars are significantly more than a professional paying a personal tax rate of 46%. The 30% tax savings can be reinvested within the professional corporation, used to pay dividends to family members, or repay debt incurred to purchase a practice at a quicker repayment term.

An additional benefit to carrying on your practice through a corporation is the potential to receive up to \$750,000 tax free upon the ultimate disposition of the shares of your professional corporation. This is accomplished by ultimately selling the shares of the incorporated entity as opposed to the sale of assets held personally.

To learn more about how Collins Barrow Ottawa LLP can assist you in this area, please contact our office.

What You Can Expect

Quality Services

- You can depend on us to develop plans and strategies that maximize shareholder wealth while at the same time complying with tax laws. As Chartered Accountants, our experts maintain continual professional development to remain on the cutting edge of tax saving ideas and up-to-date with tax legislation, regulations and court cases.

Proactive Advice

- We are qualified as experts in Canadian and US tax, personal financial planning and commodity

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tax. We will provide you with forward thinking, easy to understand and practical tax advice.

Plain Language

- Our objective is to communicate our tax planning strategies and advice in a clear, straightforward manner that removes ambiguity and possible misinterpretations.

Respect for Your Timelines

- We understand the pressures of tax filing deadlines. We will do anything and everything to meet government filing timelines – short of compromising the quality or accuracy of our work.

Peace of Mind

- When a member of our team is on your case with the Canada Revenue Agency, you can rest assured that you will have a senior experienced professional – someone who will handle all aspects of your case in a thorough, objective, and professional manner.

Our Professional Services Leaders are:

Randy Tivy, CA, is the Managing Partner of the firm and brings over 25 years of management advisory and assurance services to his clients in a variety of sectors. Contact Randy at: rtivy@collinsbarrow.com

Robert Rock, CA, CFP is a Partner of the firm and brings over 25 years of professional expertise providing income tax, executive compensation planning commodity tax, business reorganization and succession and financial planning advice to a wide range of clients. Contact Rob at: rock@collinsbarrow.com

Nancie Anderson, CGA, is a Senior Manager specializing in medical and dental partnerships and the incorporation of professionals. Contact Nancie at: nanderson@collinsbarrow.com

Why Collins Barrow Ottawa LLP

We are a well rounded **tax, accounting and business advisory firm**. Our extensive experience spans various industry sectors including manufacturing, retail, construction, service, not-for-profit, technology, petroleum, health care, education, and transportation. That means we can quickly and efficiently apply our cross-industry experience – and add significant value to the work we do for you.

With Collins Barrow Ottawa, you are always assured of **partner involvement** – someone that will oversee a dedicated team of professionals and researchers and ensure your requirements are met.

In addition, we are part of Collins Barrow, one of Canada's leading accounting organizations. We are represented globally in 110 countries through **Baker Tilly International**, an alliance of independent accounting firms. For you, this means we can:

- Access specialized resources and performance tools, if needed.
- Seamlessly service you across Canada, in the U.S. and around the world.
- Confidently tackle a wide range of complex financial and operational issues.

For more information on our approach, solutions for specific client groups, and the credentials of our experienced team, please visit:

www.collinsbarrowottawa.com

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