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Preparing for the future of your business

*Taxation, succession planning and other
important considerations for a healthy practice*

Today's Objectives

1. Introduction
2. Taxation highlights
 1. Basic rates and principals
 2. Professional corporation and updates to private company tax regulations
3. Succession Planning
4. Next steps/Questions



Tax System



- Canadian taxes are self-assessment based
- Taxes should be calculated, remitted and filed on time
- CRA will charge penalties and interest (all non-deductible)
- Reasonable expenses can be deducted against practice income
- Repeat offenders have a greater chance of being selected for review
- A corporation is a separate taxpayer and needs to be treated with even more care than personal tax filings in certain circumstances

Rates

- Corporate
 - Small business tax rates on active business income decreasing
 - 2018 – 13.5%
 - 2019 – 12.5%
 - General rate on active business income remains at 26.5%
 - Investment income rate remains as 50.7% (before refundable)
- Personal
 - Regular income – 53.53%
 - Capital gains – 26.76%
 - Eligible dividends – 39.34%
 - Ineligible dividends – 46.84% (increased)



Professional Corporation

- Common planning to save tax was to incorporate a professional corporation and run practice through the structure
- Historically Major Benefits
 - Income splitting
 - Savings planning (including retirement)
 - Capital gains exemption on eventual sale of corporation



Professional Corporation

Benefits

- PC is entitled to the small business deduction on first \$500,000 of taxable income. There is a large tax deferral as long as funds are retained in the corporation.
- Other potential benefits
 - Planning for maximum benefit of tuition tax credits
 - Accumulation of more wealth inside the corporation
 - Corporate life insurance
 - Individual pension plans



Professional Corporation

Income Splitting

- Common planning techniques
 - Salary to family members
 - Setting up family members as non-controlling shareholders (spouse, children, parents and grandparents) and paying dividends. Very few restrictions on dividend payment thresholds
 - New tax on split income (TOSI) rules where if the payments are offside these rules the income will be taxed at highest marginal rates



Professional Corporation

Income Splitting

- Changes announced (TOSI)
 - Salaries are allowed based solely on market value of role performed in organization and contributions must be regular on an average of 20 hours per week
 - Dividends can be a substitute but can only be paid up to a reasonable compensation level based on work or capital investment made to the practice
 - Strict rules for taxpayers under the age of 25
 - Opportunity to income split with spouse if practitioners is 65 or older



Professional Corporation

Passive Income – saving inside a corporation

- Common planning techniques
 - Income earned inside corporation and business expenses deducted inside corporation
 - Only funds required to support personal lifestyle would be taken out from the corporation
 - Remainder would be invested inside corporation with only 15% taxes paid as opposed to over 50% effective rate if all funds are taken personally from the corporate bank account



Professional Corporation

Passive Income – saving inside a corporation

- Changes confirmed as part of budget 2018
- Initially considered that every dollar saved for passive investment purpose would be subject to penalty tax
 - Revised proposal to a cap of \$50,000 of investment income (approximately \$1,000,000 value of a portfolio)
 - Any passive income over \$50,000 will result in a proportionate reduction (grind) to the company's small business limit
 - Lost tax deferral is equal to approximately \$70,000



Professional Corporation

Drawbacks

- Increased administration and cost
 - Separate set of books to be maintained for the PC
 - Payroll remittances for employees of the PC
 - Corporate tax filings
 - T4 and T5 filings



Succession Planning



Succession Planning

- Mindset - your business will not last forever as “status quo”
- Planning takes an exceptionally long time and should keep in mind key points as follows:
 - What can be done to improve operations, cash flow, customer and employee experience today
 - What are the external market forces that impact the business (e.g. regulatory bodies, student enrollment in the discipline, outside competitors)
 - Always have in mind at least 3 business/practitioners that you can acquire and at least 3 that can acquire you
 - Working on the business is just as important as working in the business



Succession Planning

Business evolution and possible outcomes

- Sale to colleague working in the business
- Passing down business to family member
- Close doors



Succession Planning – Sale to colleague/family member

Pros

- Knowledge of practice and relationships with employees and patients
- Good working relationship with the successor
- Collaboration and input of ideas and decision making
- Easier to transition and less likely to disrupt business

Cons

- Purchase price might be lower
- May have to help bridge/finance some of the purchase price
- Prolonged retirement
- Will have to spend more time teaching and helping to run business
- If practice has issues or starts to fail, may have to jump back in



Succession Planning – Sale to third party

Pros

- Likely a higher purchase price and full pay-out on closing
- Will be able to fully retire faster
- No responsibilities or risk of being dragged back in to run or manage the practice

Cons

- Drastic changes to the practice can occur
- More likely to disagree with new ownership
- Working as an employee with no autonomy
- Legacy of practice is likely lost



Succession Planning – How to make a decision

Need to weigh the factors that are most important to you

- Legacy of the practice?
- Impact on employees/team members?
- Highest purchase price?
- Cash flow needs and risk of loss after sale?
- Desire for involvement in day to day operations?
- Family considerations?



Succession Planning - Key stakeholders in the process

- Patients
- Colleagues/staff
- Professional advisors (accountants, lawyers, insurance)
- Banks
- Family
- Other?



Succession Planning



Succession Planning



QUESTIONS?

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