



# Incorporating your practice

A guide to “why” and “how”  
for new health care professionals





# Are you thinking about incorporating your practice?

The medical\* and dental professions unquestionably combine challenge and reward in ways few other careers can.

The educational and internship issues doctors have faced by the time they begin practicing professionally are significant, and they may have gone through some financial hardship as well. As a result, those who are opening or acquiring a practice want to make sure they set it up to maximize their financial well-being and capitalize most effectively on their hard work. To that end, the question of incorporation always enters the picture.

Whether to incorporate or not, however, is only one of a dizzying multitude of concerns new doctors and dentists have to deal with. And the decision is not always simple. While there are, unquestionably, significant financial benefits to incorporating a medical or dental practice, there are also a few potential drawbacks you should consider. Moreover, there are certain aspects—around tax and insurance, for example—that you may not have considered, but that should be understood and taken into account with respect to your specific goals and situation.

This guide is designed to take some of the pain out of the incorporation decision-making process for newer medical and dental professionals who are dealing with a host of other issues related to launching a career. It will focus on whether incorporation is an appropriate option for you, the steps involved should you decide to go ahead and what you'll have to think about once your corporation is established and functioning.

## **The big question: Should I incorporate?**

Incorporation is a big step. It will change the nature of your practice and have long-term implications for you and your family, many of which can be highly beneficial. But is it the right step for you? Consider the following pros and cons as you make the determination:

### **Tax deferral**

In most cases, as soon as doctors or dentists begin work, they will be at the high end of the wage earning scale. This means that, if they take no steps and pay taxes at their personal marginal rate, significant earnings will be taxed at a very high rate. Clearly, finding ways to pay less tax and defer tax will be a key financial planning strategy, and incorporation can be an excellent way to do it.

When you create a professional corporation, practice assets are transferred to the corporation and you become a shareholder and may also become an employee (as opposed to a proprietor) whose salary is paid by the corporation. The immediate benefit is that professional corporations, via the small business deduction (SBD), pay less tax—substantially less than the personal income tax rates paid by individuals. The legislation proposed in the 2016 federal budget will restrict the ability for some professional corporations to claim the small business deduction, depending on how the professional corporation operates within the overall corporate structure. Please consult with an advisor to determine if this impacts your business.

If you are in a situation where your personal cash needs are less than your earnings potential, you can leave money in the corporation where it will be taxed at the lower corporate rate. Not only will you then have more after-tax money to invest in the corporation, but when you do eventually retire and withdraw it, you will pay less tax on it as your personal income level will presumably be lower. This step may not only bring retirement closer, but will also ensure it's better funded. In addition to retirement savings, tax savings could be considerable in the short term if you use corporate retained earnings to fund a sabbatical or maternity/paternity leave, or if you simply take extended periods of time off. Remember though, if you are not able to retain enough earnings in the corporation, the cost of operating it may not be justified by the tax benefits.

#### Income splitting

Do you have a spouse who has no income or earns significantly less than you do? If so, the possibility of income splitting is another advantage of incorporation. By making your spouse a shareholder in the corporation (permitted in most provinces), you can split your income with them by paying them corporate dividends—which will then be taxed at their lower personal rate. You can use those dividends to ensure you and your spouse have similar income levels, thereby maximizing both of your marginal tax brackets.<sup>5,6</sup>

If you have children, there are also ways to income split with them. They can be made a shareholder of your corporation, but under specific rules, you are unable to income split with them until they turn 18. Once they turn 18, they can be paid dividends that would be, again, taxed at their lower marginal rate. If you don't wish to put shares directly into their hands, you can create a family trust of which your child or children would be the beneficiaries, letting you allocate discretionary funds to them each year as required to maximize your income splitting opportunities.

Paying a salary to your spouse or children from the corporation is another possible income splitting strategy, but be careful, as the salary must be “reasonable.” By “reasonable,” the amount must be equivalent to what you would pay a third party for the same level of work. Dividends, on the other hand, do not need to meet the definition of reasonable as dividends are a form of investment income.

#### Increased complexity, higher administrative costs

One of the potential drawbacks of incorporation is that you will have a more complex business structure with higher administrative costs.

Additional complexities include the following:

- As a separate, distinct business and financial entity, the corporation will need separate corporate bank accounts, corporate credit cards, etc.
- Accounting is more rigid and regulated in a corporate scenario.
- You will have to make additional filings, including
  - > a corporate tax return, and
  - > T4/T5 slips to report salary or dividends.
- There is also a cost to the act of incorporation itself.

Ultimately, you must weigh these increased costs against the potential benefits of tax deferral and/or income splitting to determine the value incorporation may offer to you.

#### Creditor protection

Creditor protection is another issue you may want to consider. Look at creating a separate holding company where you can invest excess funds not required for personal spending to protect them from your corporation's creditors. This does, of course, further escalate administrative costs and complexity. You will also want to weigh whether litigation risk justifies increasing your insurance protection in addition to establishing the holding company.

# Steps to incorporation: What do I have to do?

In some ways, assessing your situation and making the decision to incorporate is the hardest part. While the actual process has its complexities, with the right preparation and experienced advice, it's really a matter of following the right steps, in the right order:



#### Meet with your advisor

Your first discussion will be to determine your shareholding options, which are based on your profession and the rules set out by the regulatory body for the jurisdiction where you practice:

in an efficient manner and on a continual basis. This type of planning should be done from the outset to avoid unnecessary reorganization costs in the future. In certain jurisdictions, such as Alberta, Ontario and Newfoundland, structuring in this manner is restricted.

Shareholder	BC	AB	SK	MB	ON	QC	NB	NS	PE	NL
Spouse <sup>1</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Family member <sup>2</sup>	✓	✓ <sup>3</sup>	✓	✓ <sup>4</sup>	✓	✓	✓	✓	✓	✓
Holding company	✓	x	✓	✓	x	✓	✓	✓	✓	✓
Family trust	✓	✓ <sup>5</sup>	✓	x	✓ <sup>6</sup>	✓	✓	✓	✓	✓
Other professional	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

In terms of the types of shares you will issue, you must consider whether shareholders will actively participate in the growth of the corporation and, if so, which ones. You also need to determine if their shareholdings will be limited to only dividends and whether or not they will have votes on corporate decisions.

Determining the nature of your corporate structure is the next step, and it's particularly important if you foresee selling your practice in the future. If that's the case, you should ensure you have a means to remove all excess earnings from the corporation

If such restrictions apply to you, your advisor can help you determine which alternative planning strategies to consider.

When it comes to determining a corporate investment strategy—which is another key step in the process—it's critical to get advice from an experienced advisor, as some interpretation of the relevant rules and expectations is required. Generally, governing bodies in the various jurisdictions do not want professional corporations to carry on business activities that go beyond the practice of the profession. However,



Incorporated professionals moving their practice between provinces or territories will be required to file a legal continuance if they wish to transition their corporation into the new jurisdiction. As this can be a time-consuming process, it's often easier to simply wind down the previous corporation and set up a new corporation in the new jurisdiction.

what constitutes a “business activity” is unclear. Investments in instruments such as publicly traded stocks, bonds and mutual funds that are generally available to the public are acceptable for the most part, as they typically don't constitute a business activity. On the other hand, investment in real property such as a rental property or commercial use buildings could constitute a business activity, although real property used in your own professional business activities seems to be generally acceptable. Understanding your long-term goals with respect to your

investment strategy, and any restrictions that may be imposed on that strategy, will help you develop a structure that will fit your needs while reducing future reorganization costs.

Finally, you must select a name for your corporation (subject to the naming requirements within your jurisdiction of practice) and choose a year-end, which can be anytime within 53 weeks of the date of incorporation.

Once you make these initial decisions, your advisor will prepare a letter instructing your lawyer to proceed with drafting the appropriate incorporation documents.

R<sub>x</sub>

Although it is generally advisable to use a lawyer to complete the incorporation process, there are other options available. If you choose not to use a lawyer, your advisor can provide you with the guidance you need to complete your incorporation application and any other applications required to authorize your corporation to practice your profession.



### Prepare to transfer your business

As a self-employed professional transitioning your practice into a professional corporation, you must take certain steps to prepare your corporation so you can practice your profession:

- Transfer your personal business assets to your corporation (asset purchase agreement). You will require guidance on completing this agreement and any accompanying resolutions, including direction on determining fair market value of the assets.
- File a section 85 rollover form (transfer of property—tax deferred) and, if applicable, section 22 election (sale of accounts receivable) with the Canada Revenue Agency.
- Transfer leases, contracts, etc. to your corporation.
- Ensure invoicing, stationary, telephone, signage, etc. have been changed over.

Please note, practicing without a Certificate of Authorization is an offence; care must be taken not to hold the corporation out as practicing as a professional corporation until the certificate is received.



### Sign prepared legal documents

Once the legal documents have been prepared, you will need to sign them, file the articles of incorporation with the Ministry and file the necessary documents to your College.



### Timeline and practicing in the interim

While you wait approximately three to five weeks for your College to issue your Certificate of Authorization to practice out of your professional corporation, you should proceed with opening up your practice chequing account (have your articles of incorporation with you when you approach your financial institution).

Some Colleges will deem the effective date of the Certificate of Authorization to be the date of application. In this case, you can consider practicing “in trust” on behalf of the professional corporation, effective on the date of application for your Certificate of Authorization. This could be quite beneficial, as the processing delay could mean that three weeks of your professional earnings will not be reported in your professional corporation.



### Receipt of Certificate of Authorization

Once you receive your Certificate of Authorization allowing you to practice out of your professional corporation, you will need to communicate with your insurance companies and any other entities that your services will be provided through your corporation going forward. If you are practicing “in trust” for the corporation as discussed above, you should notify them of the effective date noted on the Certificate.

# After-incorporation considerations: What should be top of mind?

Once you have incorporated and are successfully operating through the new structure, you will have to make some key decisions as to how certain aspects of the business will run going forward:

## Remuneration

You have three options when considering a remuneration plan for yourself and any corporate shareholders or employees: salary, dividend or a combination of the two. There are several factors to consider in determining which strategy suits your situation:

- Assess the level of cash flow required to meet your personal lifestyle needs.
- Look at your family profile, for example, whether you have a spouse with little or no income and/or kids 18 years of age or older whom you are supporting.
- Retirement planning—what investment vehicles are you using, for example, RRSPs, corporate investments, etc.?
- Your province of incorporation—each province has different tax rates for salary and dividends.
- Professional standards—be sure you are aware of which ones affect you, as they may also affect what options are available.

This is the basic information you need to consider with respect to remuneration, but actually determining the right compensation mix is a complex task and should be done in consultation with your accounting advisor.<sup>7</sup>

## Bank accounts

This is an area that may require more attention than some professionals expect when they make the decision to incorporate. First, the corporation will require its own bank account, and all income from your professional practice must be deposited into this account. This means you must ensure all entities making direct deposits are informed of your new banking information.

It's also critical, immediately following incorporation, that any income earned before incorporation is deposited to your personal account, not your corporate account, as confusion can have legal and tax consequences. As well, any income earned under an employment-type arrangement—for example, through teaching or by doing research—and for which you will receive a T4 slip should be reported as personal income and deposited into your personal bank account.

To simplify expense tracking, pay all corporate expenses out of your corporate account or with a corporate credit card, and if you pay business expenses with personal funds, retain all receipts and reimburse yourself with a corporate cheque. Your corporate bank account and credit card should only be used for business purposes, and maintaining these accounts as clearly distinct entities, with clear separation between personal and corporate expenses and deposits, is critical.

## Incorporation doesn't have to be a dilemma

There's no question that incorporation can be a complicated process, but with a careful plan and the right accounting and legal advice, making and carrying out your decision doesn't have to be a burden. If you are wondering whether to incorporate, these guidelines—and consultation with your advisors—should help you decide when the time is right for you. If that time is now, your understanding of the key steps, as outlined above, will help make for a seamless transition.

## About Grant Thornton in Canada

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has approximately 4,000 people in offices across Canada. Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member firms operate in over 130 countries worldwide.

## About Grant Thornton International Ltd

Grant Thornton is one of the world's leading organizations of independent assurance, tax and advisory firms. These firms help dynamic organizations unlock their potential for growth by providing meaningful, forward looking advice. Proactive teams, led by approachable partners in these firms, use insights, experience and instinct to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions. More than 40,000 Grant Thornton people, across over 130 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

**For more information or if you need assistance incorporating your medical or dental practice, please contact a Grant Thornton advisor at:**

**Kelly Kolke Partner**  
National Professional Services Leader  
T +1 902 896 2535  
E Kelly.Kolke@ca.gt.com

**Central Canada**  
**Dennis Tmej, Partner**  
T+1 416 607 2795  
E Dennis.Tmej@ca.gt.com

**Dawne-Marie MacLeod, Partner**  
T+1 807 346 7317  
E DawneMarie.MacLeod@ca.gt.com

**Colin MacLean, Partner**  
T+1 204 926 3465  
E Colin.MacLean@ca.gt.com

**Western Canada**  
**Bryn Gilbert, Partner**  
T +1250 712 6827  
E Bryn.Gilbert@ca.gt.com

**Dan McKinley, Partner**  
T+1 780 401 8200  
E Dan.McKinley@ca.gt.com

**Cheralee Rutledge, Principal**  
T +1 403 260 2521  
E Cheralee.Rutledge@ca.gt.com

**Atlantic Canada**  
**Nathalie Amirault, Senior Manager**  
T+1 902 491 7749  
E Nathalie.Amirault@ca.gt.com

<sup>1</sup> Includes common-law partner (definition subject to jurisdiction incorporated)

<sup>2</sup> Includes parents and children of the professional

<sup>3</sup> In Alberta, parents cannot be shareholders

<sup>4</sup> In Manitoba, parents cannot be shareholders

<sup>5</sup> In Alberta, beneficiaries of a trust are limited to minor children

<sup>6</sup> In Ontario, beneficiaries of a trust are limited to minor children

<sup>7</sup> See the Grant Thornton white paper When it's time for a little payback, at <http://insights.grantthornton.ca/i/203268-when-its-time-for-a-little-payback>, for a more detailed explanation of remuneration planning

\* All references made to medical professional(s) refers to physicians and surgeons

