STARTING UP YOUR PRACTICE
Lesson 5 | Incorporating a Medical Practice
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INCORPORATING A MEDICAL PRACTICE

Incorporating a Medical Practice (Professional Corporation) is something that every physician should, at least, look at to see if it would benefit them. An incorporated practice is a separate business entity from a sole proprietor. In an incorporated practice the physician becomes a shareholder (owner), director and employee of the practice. Depending on personal circumstances, a physician can save significant amount on taxes. It is extremely important to have a qualified accountant and/or lawyer review your circumstances to provide the best options for you.

Two of the main benefits of incorporation include tax deferral and income splitting. The main disadvantages of incorporation are the initial set up costs (usually around $2,000 - $4,000) and the additional administration such as corporation tax return. This cost should be discussed with your accountant and is based on the complexity of the company. Some examples to show the potential benefits are:

Scenario 1: A physician is a sole proprietor (not incorporated) and earns $200,000 in 2011. This physician would have to pay approximately $79,000 in taxes for a net after tax income of $121,000.

Scenario 2: A physician earns $200,000 in 2011 and is incorporated but does not have the ability to split income with family members and needs all of the money (cannot defer) for expenses. He/she decides to pay him/herself $100,000 in salary and the remainder in dividends. The physician pays approximately $31,000 in taxes on the $100,000 in salary. The physician pays $15,500 in corporate taxes on the $100,000 left in the company. He/she can now pay a dividend of $84,500 ($100,000 less the corporate tax of $15,500) to him/herself and will have to pay approximately $27,000 in personal taxes associated with the dividend. The net after tax income for the physician is $126,500 ($200,000 - $31,000 - $15,500 - $27,000). Compared to Scenario 1, the physician receives an additional $5,500 ($126,500 - $121,000) after tax income but will also have to pay additional corporate tax return and start up costs. The small tax savings may not be worth the additional work/costs.

Scenario 3: A physician earns $200,000 and is incorporated, does not have the ability to split income
with family members but can defer income in the company to future years. He/she decides to pay him/herself $100,000 in salary and defer the remaining $100,000 to the future. The physician pays $31,000 (similar to Scenario 2) in taxes on the $100,000 in salary and $15,500 (again, similar to Scenario 2) in corporate taxes on the $100,000 left in a company. The net after tax income for the physician is $69,000 ($100,000 - $31,000) and there is also $84,500 ($100,000 - $15,500) left in the company that can be used to purchase investments at the corporate level. Compared to Scenario 1, the family pays $21,800 ($79,000 - $31,000 - $15,500 - $6,000 - $4,700) less taxes and is able to pay out all of the income in year. ¹

Note: The corporation could use different share classes which does not have any restrictions on payments to other classes. Another option is to use a discretionary family trust to provide flexibility with the payment of dividends. You should talk with a lawyer about the various options.

For the above examples – only the federal and provincial basic personal tax credit were used in calculating taxes payable. There could be a number of other tax deductions or credits that could be used to lower taxes but were not incorporated in the analysis. Based on these examples, it shows that depending on your circumstances,
incorporation can provide the opportunity for significant tax savings.

**DIVIDEND VERSUS SALARY**

As an incorporated business, the physician can receive income as salary, dividend or a mixture of both. Dividends are more tax friendly than salaries but are not considered “earned” income for tax purposes and not used for the calculation of Registered Retirement Savings Plan (RRSP) room. Therefore RRSP contribution room is not generated with the receipt of dividend income. If a physician just paid him/herself a dividend and no salary, they would not earn any RRSP contribution room.

If a physician pays him/herself a salary, they have to pay the employee and employer portion of the Canadian Pension Plan (CPP). In 2016, the maximum annual pensionable earnings are $54,900 and the maximum annual employee contribution is $3,500.00 per year. This means the physician would have to pay $7,000.00 ($3,500.00 * 2) per year. When you retire at age 65, the 2016 maximum monthly CPP benefit is $1092.50. The monthly CPP benefit is based on the contributions made per year and the number of years that you contributed to CPP. There is an opportunity to apply for a reduced CPP benefit at age 60.

It is best to have your qualified accountant review your situation to determine what salary, dividend or a mixture of both is to maximize your after tax income.

**MEDICAL PROFESSIONAL CORPORATIONS ACT**

In Nova Scotia, the Medical Professional Corporations Act is the guideline that physicians have to adhere to for incorporating a practice. It states that the majority of issued shares and issued voting shares of a professional corporation that is engaged in the practice of medicine must be owned by one or more physicians. All directors of a professional corporation engaged in the practice of medicine must be physicians. This rule provides incorporated physicians the opportunity to have spouses and adult children as shareholders and, if an advantage, pay them dividends. It should be noted that incorporating a practice **DOES NOT** provide the physician protection against being sued for malpractice. For more information regarding the rules and information relating to
the Medical Professional Corporations Act, go to http://nslegislature.ca/legc/statutes/medprof.htm.

It is important to note that every province has legislation regarding incorporation and could be significantly different than Nova Scotia’s legislation. If you decide to practice outside of Nova Scotia, it is important to understand the legislation for the province that you practice in.

**STEPS TO INCORPORATE YOUR MEDICAL PRACTICE**

There are a number of steps that need to be taken (although not a lot of physicians’ time) to incorporate their practice. They include:

1. The physician meets with a lawyer to determine the name of the corporation (can be as simple as Dr. XX M.D. Inc.) and which family members with whom the income will be split.

2. The lawyer then submits the corporate name for approval with the Registry of Joint Stock and the College of Physicians and Surgeons of Nova Scotia (CPSNS). For the CPSNS, Form A (start up) and Form B (renewal) can be found at http://www.cpsns.ns.ca/Registration-Renewal/Medical-Incorporation-Permit. Note: It is illegal to practice medicine in Nova Scotia under a company without a permit from the CPSNS.

3. The physician will then meet with an accountant who will then contact the lawyer to address any issues specific to the incorporation. An example would be a tax free roll-over of assets, such as a medical library, into the company.

4. Once the lawyer receives approval of the corporation name, the lawyer registers the corporation name, drafts documents and establishes the share structure in accordance with what was decided at the initial meeting with the accountant and in compliance with the rules and regulations of the CPSNS.

5. The lawyer then seeks approval from the CPSNS for the physician to begin using the company.

6. Once the lawyer is granted approval from the CPSNS, the physician will meet and review how the company is set up. The lawyer will typically provide a letter to summarize the incorporation.

7. The physician is then given a company minute book, seal, and documents which are required to open a bank account for the company. The lawyers provide the accountants with
the company’s business number and any other information required.

8. Once the bank account is opened, the accountant can help choose a date on which to begin operating the company.

Once you incorporate your medical practice, you will need to file personal and corporate income tax returns each year.

Doctors Nova Scotia cannot stress enough the importance of finding qualified accountants, lawyers and financial planners. Some tips for finding these professionals are:

1. Ask peers for recommendations.

2. Look for professionals that have designations. For example – Chartered Professional Accountants (CPAs) for accountants and Certified Financial Planners (CFPs) for financial planners. The designation guarantees a minimum level of education and experience and that the individual has taken exams to meet competency requirements.

3. Sit down with 2-3 professionals and interview them. Ask about how many physician clients they have? Do you have lots of small business clients? Can you provide references? Ask about rates but remember that the lowest price is not necessarily the best.

4. Select the professional that you feel most comfortable with and that will meet with you at your convenience.