Doctors Nova Scotia’s position on the proposed tax changes

Background
On July 18, 2017, the Federal Department of Finance announced proposed changes that will affect private corporations. The proposed changes, if enacted as written, will have a negative impact on physicians by removing some of the tax saving and tax deferral benefits currently available. Approximately 75% of doctors in Nova Scotia are incorporated.

Nova Scotia doctors were given the ability to incorporate by the Nova Scotia provincial government in 1995 through the creation of the Medical Professionals Incorporation Act. At the time, the province was facing economic challenges and physician shortages. The province offered incorporation in lieu of the ability to compensate doctors competitively in comparison to other provinces. Incorporation was designed as a way to compensate doctors through a revised tax system. By allowing physicians to incorporate, the provincial government deferred a compensation adjustment for physicians through providing them with federal government tax incentives. The proposed tax changes will redirect these pressures back to the provincial government.

Although the federal government is proposing the changes, the changes will have a significant impact on Nova Scotia physicians, patients, and provincial government. Nova Scotia physicians pay some of the highest taxes in the country, and the province is in the midst of a recruitment and retention shortage. Within the province, physicians largely use their corporations for retirement planning purposes, since physicians do not have pensions, sick leave and other benefits that employees would have. Changes to the tax rules for private corporations would affect 75% of the province’s physicians and create a disincentive for physicians to practise in Nova Scotia.

Recruitment and retention
Within Nova Scotia, one of the unintended consequences of the proposed tax changes is on recruitment and retention. There are approximately 90,000 Nova Scotians without a family doctor (Statistics Canada). The provincial government’s Physician Resource Plan identifies the need to recruit 512 full-time equivalent (FTE) family physicians over the next 10 years. Of those, 465 FTEs are to replace existing practising family physicians and 47 are new family physicians needed to address increased patient need (Nova Scotia Department of Health and Wellness, 2016). The province also needs to recruit 558 specialists over the next ten years (Nova Scotia Department of Health and Wellness, 2016). The Federal government’s proposed tax changes will impact recruiting and retaining doctors in the province. In addition to paying the highest personal taxes in the country, Nova Scotia doctors are paid less than two-thirds of their counterparts across the country.

In a province facing significant financial challenges, and where physicians are paid below the national average, physicians may choose to work in other jurisdictions if the impact of the proposed changes are not mitigated.

Doctors Nova Scotia surveyed members to determine how the tax changes will impact them. The survey was circulated from August 18 to 31 and 864 physicians responded. Highlights from the survey include:
56% of physicians who responded to the survey indicated that they know a colleague who will leave the province if the proposed changes are enacted.

52% of physicians who responded to the survey indicated that they are considering moving their practice or professional activities to another jurisdiction if the proposed changes are enacted.

43% of physicians who responded to the survey indicated that they’ll consider reducing the number of hours they dedicate to their practice or professional activities if the proposed changes are enacted.

42% of physicians who responded to the survey indicated that they’ll consider changing their practice profile (this is, cease offering less remunerative services) if the proposed changes are enacted.

Practice environment
The impact of the tax changes is compounded by the current practice environment in Nova Scotia. Physicians have been vocal with their concerns about physician shortages and physician burnout with the Nova Scotia Health Authority and the Dept. of Health and Wellness.

In a 2017 survey obtained when Doctors Nova Scotia partnered with Dr. Michael Leiter, PhD, and the Centre for Organizational Research and Development at Acadia University, 50 percent of 372 physicians reported experiencing symptoms of burnout and another 20 percent reported feeling ineffective.

The Physician Burnout Survey measured a range of variables critical to physician well-being, including work engagement, workload and fairness. In the survey results, 70 percent of the physicians who participated reported feeling overextended, disengaged, ineffective and/or fully burned out.

Dr. Leiter’s research found that burnout among Nova Scotia physicians is systemic and related to the basic organization of work, which is outside of the physicians’ control, rather than to personal failings regarding inadequate self-care or poor work practices. Contributing factors included administrative hassles, financial concerns, uncompensated work, billing problems and constraints on physician autonomy.

These feeling of burnout, combined with compensation and tax changes, could result in physicians leaving the province, working fewer hours, or retiring earlier than anticipated – all of which negatively impact patient care.

Recommendations
Based on the current practice environment, recruitment and retention challenges, personal tax rates, physician compensation levels, and the potential impact on patient care, Doctors Nova Scotia strongly opposes the proposed federal tax changes.

Both the federal and provincial governments have a role to play in addressing the challenges raised by the proposed tax changes. Below are recommendations on how the federal and provincial governments can offset the impact of the proposed tax changes on physicians and patients.

Federal government
Recommendation #1: The federal government withdraws its proposed tax changes and continues to provide physicians with the opportunity to use their corporation to fund retirement planning, sick leave, and other benefits employees would have.
**Provincial government**

**Recommendation #2:** The provincial government should lobby the federal government to reconsider their proposed tax changes because of the impact they will have on physician recruitment and retention in the province.

**Recommendation #3:** The provincial and federal governments must work together to help physicians adjust to any tax changes that may be enacted and ensure that physicians are not significantly financially impacted. The provincial government should work with the federal government to offset the impact the proposed tax changes will have on physicians.

Physicians, unlike other small business owners, only have one payor. They are unable to advertise their services or charge more to their patients. Physicians will be disadvantaged by the proposed tax changes because they are unable to alter their practices to adjust to the new environment. The provincial and federal government should offer physicians incentives to offset the impact of the proposed changes should they be enacted.

**Recommendation #4:** If the federal government moves forward with the proposed tax changes, the provincial government must work with DNS to explore options for mitigating the risk to family doctors and specialists practising in Nova Scotia.