



Waterhouse

Private Client Services



Incorporation for Healthcare Professionals

Apel Investment Group

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Opinions expressed are those of the presenters, and not necessarily of TD Bank Financial Group.



Please consult your advisor. This presentation is for information purposes only. Solutions change, and we encourage you to update your plan to match your circumstances.





- **What is Professional Corporation?**
- **Who should incorporate?**
- **Benefits and drawbacks of incorporation**
- **Investments**
- **Retirement planning**
- **Estate planning**



- **Professional corporation is a separate legal entity.**
- **Rules are defined by various Colleges and Associations**
- **Income Tax Act, Family Law Act**



All professionals who do not need all of their income to pay for current personal expenses should incorporate in order to reduce their overall tax burden and maximize the financial potential of their practice.

Note: salaried employees cannot incorporate



- **Control over when and how income is taxed**
- **Speculation that income tax will be lower in the future and it makes sense to defer taxation**
- **Enhanced income splitting with family members, especially children**
- **Capital Gains exemption possibility**
- **Can use IPP**
- **Can pay certain expenses with cheaper corporate dollars**
- **Faster accumulation of wealth**



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Medical Professional Corporations CAPIH Conference - 2011

*Presenter: Dale Durand, CA, CFP
VP Estate and Tax Planning*

September 28, 2011



Invest better: Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their value changes frequently and past performance may not be repeated. The payment of distributions for Dividend Tax Credit Class and the Return of Capital Class should not be confused with a mutual fund's performance, rate of return or yield. If distributions paid by a mutual fund are greater than the performance of the fund, then your investment will decline. Distributions paid as a result of capital gains realized by a mutual fund and income and dividends earned by a fund are taxable in your hands in the year they are paid. For Return of Capital Class, your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, then you will have to pay capital gains tax on the amount below zero.

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After-tax cash flow based on distributions of \$100



* Return of capital distributions are not taxable in the year they are received but typically lead to a higher capital gain when the investment is eventually sold.





Example assumes an Ontario investor in 2011, who is subject to combined federal and provincial income tax rates of 46.41% on interest, 28.19% on dividends and 23.20% on capital gains.



NEXGEN – Options for Tax Efficiency FUNDS

Taxable Investors
TAX MANAGED FUNDS

Non-Taxable Investors
REGISTERED FUNDS

| | | | |
|---|---|---|--|
|  ANNUAL CAPITAL GAINS Capital Gains Class |  MONTHLY DIVIDEND Dividend Tax Credit Class |  MONTHLY ROC DISTRIBUTION Return of Capital Class |  COMPOUND GROWTH Compound Growth Class |
| ANNUAL INCOME | MONTHLY INCOME | | TAX DEFERRAL |

| |
|--|
|  REGISTERED FUNDS Registered Funds |
| TAX DEFERRED INVESTING |



Investors can switch between All Funds and All Tax Classes without triggering a taxable event.

Tax Classes are available for all NexGen Tax Managed Funds except NexGen Canadian Cash Tax Managed Fund which pays Capital Gains and Return of Capital through a corporate series.



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Incorporated Investment Portfolios

Two Gifts from CRA to the Corporate Owner



- Applies to Medical professionals, lawyers and accountants
- Each provincial professional body sets rules on the structure of these corporations.
- All provinces allow PC to have direct family (spouse and children) members to own “special shares” for income splitting purposes.
- These special shares are non-voting and usually retractable.
- Professional must own all voting common.
- Some provinces (i.e. BC) allow a special share to be allocated to a Holdco to allow for tax free dividends and investments to be housed in Holdco away from the PC. Otherwise not available.

PCs are a subset of all Canadian Controlled Private Corporations and except for the above, all rules and strategies apply.



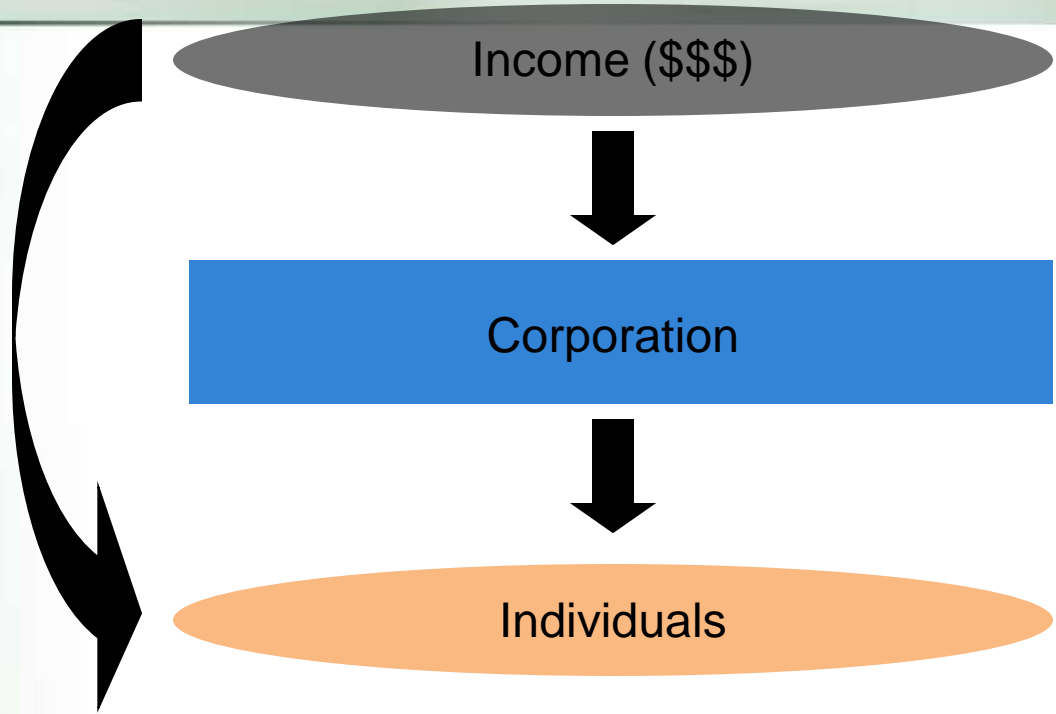
| | | (voting) | | Blood | | | Connected by | | | |
|----------|---|----------|--------|----------|---------|-----------|--------------|---------|-------|--------|
| | | Member | Spouse | Children | Parents | Relatives | Marriage | Company | Trust | Others |
| Ontario | | x | x | x | x | | | | | |
| Quebec | a | x | x | x | x | x | x | x | x | |
| BC | | x | x | x | x | x | x | x | x | |
| Yukon | | x | x | x | x | x | x | x | x | x |
| PEI | | x | x | x | x | x | x | x | x | x |
| NB | | x | x | x | x | x | x | x | x | x |
| NS | b | x | x | x | | | | | | |
| Alberta | c | x | x | x | | | | | | |
| Manitoba | | x | x | x | | | | x | | |
| Nfld | | x | x | x | x | x | x | | | x |
| Sask | | x | x | x | x | | | x | x | |

Member must control all entities.

(a) Only dentist and doctors get this structure. Others members only.

(b) Member must own majority of all classes of shares.

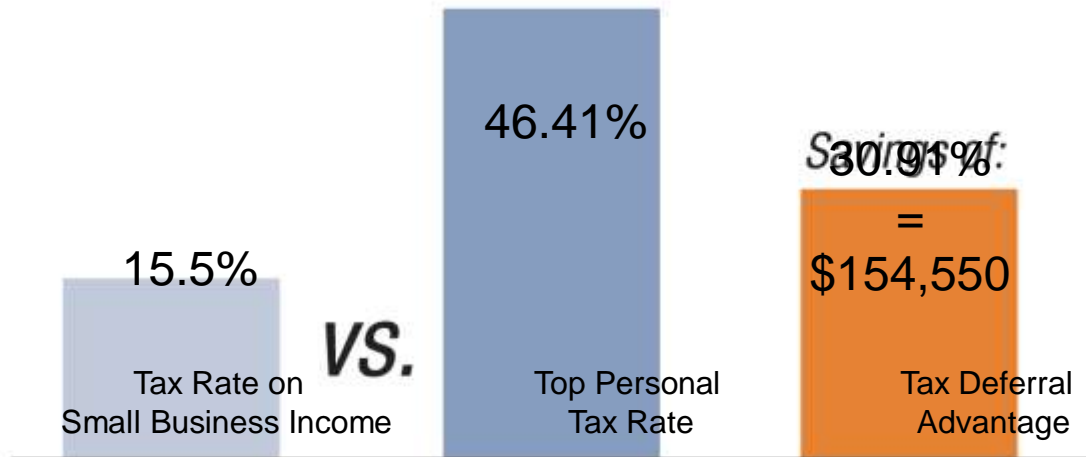
(c) Newly expanded for all PCs.



***Earning Income directly or indirectly,
the tax is (supposed to be) the same!!***



- Canadian Private Corporations in Ontario enjoy a very low tax rate on the first **\$500,000** of Active Business Income (\$500,000 Federal)
- Comparison of 2011 Corporate Small Business Rates to Top Personal Tax Rates (Ontario)



Invest Low-Taxed Corporate Income Within the Corporate Structure to defer taxation and achieve Higher Wealth Accumulation



Okay, I'll keep the investments inside my own corporation, but How do I manage the investments properly?



Example: Compare interest bearing security against a NexGen Fund with **Compound Growth Class**

Assumptions:

- > Initial Investment: \$1,000,000
- > Annual Return: 5%
- > Incorporated Investment Portfolio
- > Liquidate after 20 years

| | Interest Bearing Security | NexGen Fund with Compound Growth Class | The Tax Efficiency Advantage |
|--|---------------------------|--|----------------------------------|
| Taxes (Corporate and Personal) | \$921,723 | \$632,880 | \$288,843 (31% less tax) |
| 20 Year After-Tax Result | \$1,364,094 | \$2,020,418 | \$656,324 (+148% greater ROI) |

Current Ontario Corporate and HMTR personal tax rates

Result:
 148% higher after-tax investment return
 Long term tax deferral and conversion from high tax rate to "half taxed" capital gains

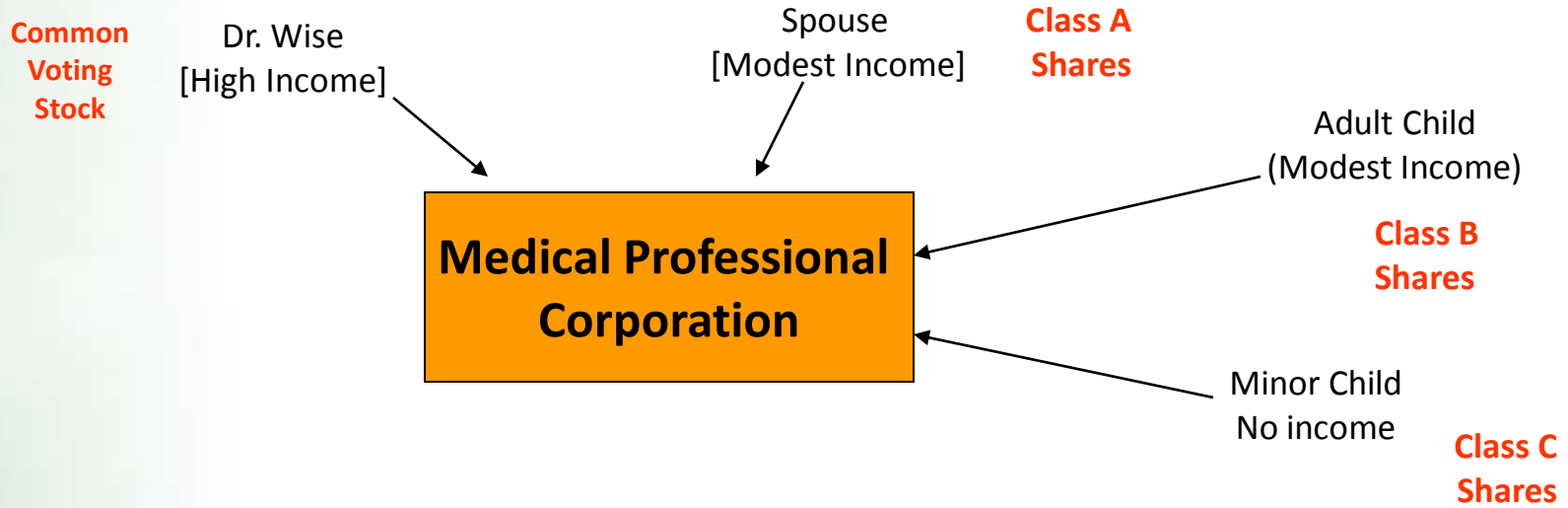
The rates of return, annual distribution rates and income components comprising a given distribution contained in the tax cases and reflected in certain graphs and tables are for illustrative purposes only utilizing various assumptions to demonstrate the importance of compound growth and the effects of taxation on a given investment. They are not intended to reflect, nor should they be interpreted, as an indication of future values or returns on investment in respect of any NexGen Fund.



Deferrals are fine, but how do I get the funds out to spend in an efficient manner?



A Tax-Efficient Family Income Strategy – An Example



Strategy: Allocate Income to Family Member that will pay the least income tax on that income!

Result: Minimized Tax Payable



Let's assume you require \$85,000 in annual after tax income from the PC

Compare *Non-Eligible* Dividends to Salary

| | <u>Salary</u> | <u>Dividends</u> |
|-----------------------|---------------|------------------|
| Income from the PC | \$122,000 | \$100,000 |
| Personal tax (approx) | 37,000 | 15,000 |
| Net | 85,000 | 85,000 |

Annual Savings and Cash retained in PC \$22,000

No RRSP room created or CPP paid.....Save those dollars in the PC

**More Tax Efficient Exit (withdrawal) strategies out of PC than RRSP
= More money for you to spend in retirement (or leave to Estate).**



Based on \$1,000 of investment income created in the Corporation, once paid out as a dividend to the shareholder, they would receive net of all taxes the following:

(Ontario 2011, shareholder in the highest tax bracket)

| | |
|---------------------|-------|
| Interest | \$536 |
| Capital Gains | \$768 |
| Portfolio Dividends | \$718 |



Thank-you for taking the time to
hear our story!



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Tax advantages of incorporation:

- o Tax deferral “equals” tax savings
- o Enhanced opportunity for income splitting to children over 18, spouse, and parents
- o Use corporate dollars to pay for expenses: meals, beverages, entertainment, sporting events, life insurance premiums, club dues, conventions, automobile expenses, etc.
- o If shares of the CCPC are sold at a profit, may qualify for \$500,000 capital gains super-exemption



- Types of shares:
 - Common (Class A, B, C), voting, non-voting
 - Preference (fixed value), voting or non-voting

- Professionals are required to have control of the company, but in Ontario family members or, in some cases, trusts may own non-voting shares



- o Increased annual reporting
- o Adds complexity to financial management
- o Annual and set up costs
- o High passive taxation on investment income of 1.5%, in 2011



1. **Hire Financial Advisor** (Strategy)
2. **Check with Accountant** (Specifics of the structure)
3. **The Lawyer will then draft the necessary paperwork. You need permission from your association or college** (Register Corporation, check family law and estate implications)
4. **Pick a name of the corporation**
5. **Open a bank and an investment account** (Keep the earnings in the corporate account until you need it for lifestyle, legal, or tax reasons)



- o Key Person Coverage
- o Long-Term Disability Coverage
- o Critical Illness Coverage
- o Capital Gains Tax Protector



- o IPP, Individual Pension Plan
- o Corporate Estate Bond
- o Corporate Insured Retirement Program
- o Corporate Insured Annuity
- o RCA, Retirement Compensation Arrangements



An exceptional team of banking, estate, trust, and investment professionals working together from one location to develop integrated, comprehensive and customized financial solutions designed to save you time and give you confidence in your financial decisions.

We specialize in serving successful professionals, executives and entrepreneurs.

We hold in-depth discussions with you, enabling us to establish a comprehensive personal profile, through analysis of your needs based on your immediate and long-term financial goals.

We are able to draw upon the expertise of our specialists, the entire TD Bank Financial Group, as well as a myriad of external professionals when required.



TD Healthcare Practice Financing is designed to assist dentists and doctors to:

- oExpand an existing practice
- oOpen a new practice
- oPurchase real estate for their practice
- oPurchase an existing or an equity interest in an existing practice



Thank you!



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Questions?



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