

A short, solid blue horizontal bar.

# Incorporation

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**Now, for tomorrow**

CONFIDENTIAL

# Why Incorporate?

A corporation is a separate legal entity that has many of the powers of an individual

When a physician incorporates, a professional corporation carries on the business of the medical practice

There will be legal and accounting fees to set up a corporation and ongoing

Benefits can be far greater than the costs

# Benefits of Incorporating

Tax Deferral

Income Splitting  
– must be  
reasonable

Non-deductible  
expenses cost  
less

Limited Liability –  
may not include  
personal  
negligence

Lifetime Capital  
Gains  
Exemption



# Tax Considerations of Incorporating

	Corporation	Individual
Revenue Earned	\$100,000	
Tax at 11%	<u>(\$11,000)</u>	
After-Tax Corporate Income	\$89,000	
Dividend to Individual	(\$89,000)	\$89,000
Tax at 15% (at the \$89K income level)		<u>(\$13,000)</u>
After-Tax Personal Income		\$76,000
Effective Tax Rate		24.00%
<b>Tax Deferral</b>		<b>\$13,000</b>



## The Theory of Integration

The theory is that there should be no difference between earning income personally, or earning it in a corporation and then paying that income out to yourself as dividends. If integration is perfect, the amount of income in your hands would be exactly the same, either way.

# Salary

Monthly remittances for tax, CPP

Significant penalties if remittances are missed

Must be reasonable for work performed

Deduction to the professional corporation

Does increase RRSP room, CPP Pension

Essentially pre-paying personal tax

A young evergreen tree, possibly a spruce or fir, is the central focus of the image. It is growing on a thick bed of green moss. The background is a blurred forest scene with more trees and foliage, creating a sense of depth and a natural setting. The lighting is soft, highlighting the texture of the tree's needles and the moss.

## Dividends

For incorporated physicians only (otherwise taxed as salary):

- No CPP to remit, but no CPP room generated
- Now must be reasonable to family members
- Generally leads to a bill at personal tax time
- Not a deduction for the company
- Does not increase personal RRSP room
- May not help with certain formal retirement arrangements
- Overall, arguably cheaper with CPP savings

# Salary Scenario

	Corporation	Individual
Revenue Earned	\$100,000	
Salary paid	<u>(\$100,000)</u>	
After-Tax Corporate Income	\$0	
Salary to Individual		\$100,000
Tax at 23% (at this \$100K income level)		<u>(\$23,000)</u>
After-Tax Personal Income		\$77,000
Effective Tax Rate		23%





# Dividend Scenario (Repeated)

	Corporation	Individual
Revenue Earned	\$100,000	
Tax at 11%	<u>(\$11,000)</u>	
After-Tax Corporate Income	\$89,000	
Dividend to Individual	(\$89,000)	\$89,000
Tax at 15% (at this \$ level)		<u>(\$13,000)</u>
After-Tax Personal Income		\$76,000
Effective Tax Rate		24%
<b>Advantage: Salary by</b>		<b>1%</b>



# Salary Scenario with CPP Add On

	Corporation	Individual
Revenue Earned	\$100,000	
Salary paid	<u>(\$100,000)</u>	
After-Tax Corporate Income	\$0	
Salary to Individual		\$100,000
Tax at 23%		<u>(\$23,000)</u>
After-Tax Personal Income		\$77,000
Effective Tax Rate		23%
CPP: E'er + E'ee: \$7,000		
<b>Total CPP and Tax cost – salary: \$30,000</b>	<b>Advantage: dividend by 7%</b>	





## Benefits Of Being An Employee

- Taking a salary from your corporation makes you an employee
- Employment income creates RRSP contribution room
- Shareholders who are employees may participate in an Individual Pension Plan (IPP) and/or a Private Health Services Plan (PHSP)

# When is it Time to Incorporate?

When you are earning more income than you need for personal expenditures

If there's an opportunity to split income with a spouse/partner

You may be able to sell your business in the future (e.g. clinic) and make use of your lifetime capital gains exemption

Estate Planning

# How to Incorporate?

At an Alberta registries office

With the assistance of a lawyer

There isn't always a lot of guidance when done on your own at registries

Lawyer will ask you the appropriate questions regarding set up of your corporation

We recommend using a lawyer to help you incorporate

# Thank you

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