



THE MEDTAX GUIDE TO INCORPORATION



THINKING ABOUT INCORPORATING?

As a physician, you're probably familiar with the option of incorporating your practice.

Incorporation depends on many personal factors and should be evaluated on a case-by-case basis. There's a lot to consider when deciding whether or not incorporating your practice is right for you. As a general rule of thumb, incorporation is favourable if the advantages are greater than costs associated with the incorporation process. The main reason why physicians choose to incorporate is to benefit from the tax savings that a corporation is entitled to, under Canada's Income Tax Act.

IF YOU ARE A



A new physician, thinking about incorporating your medical practice, or;



A practicing physician looking for ways to increase your tax savings and maximize your wealth,

...THEN THIS GUIDE IS FOR YOU.

WHAT IS INCORPORATION?

Incorporation is the process of creating a distinct legal entity, called a corporation, to become the owner of your medical practice. You are then paid out by this entity, either as an employee or a shareholder, in the form of a salary, dividends, or bonuses.



Under the Canadian Income Tax Act, a corporation is a separate taxpayer, and has the same rights and obligations as a natural person. It can enter into contracts, acquire assets, and go into debt. While you, the physician, continue to control the corporation, its debt remains separate from its shareholders- shielding you from bearing responsibility. Its separate legal status, property rights and liabilities will continue to exist until the corporation is dissolved.

WHY DO PHYSICIANS INCORPORATE?



- **TAX DEFERRAL**
- **LOWER CORPORATE TAXES**
- **INCOME SPLITTING**
- **LIFETIME CAPITAL GAINS EXEMPTION**



BENEFITS OF INCORPORATION

1. Tax Deferral

The biggest advantage of incorporation is the ability to defer taxes. When you incorporate, you have the flexibility to defer personal taxation on the after-tax professional income retained in the corporation until the time you withdraw it. Generally, the longer you can leave the funds in your corporation, the greater the deferral advantage will be.

2. Lower Corporate Taxes

Since incorporated medical practices are taxed separately from their owners, the corporate tax rate is generally lower than the income tax rate on income earned by the physician while operating as a sole proprietor, where the income would be taxed at the individual marginal tax rate. These lower corporate tax rates allow for more after-tax professional income, which can be used to invest within the corporation.

3. Income Splitting

Incorporating your practice gives you the opportunity to add a lower income spouse as shareholder, so the practice can pay them dividends, allowing them to take advantage of their lower individual tax rate, thus reducing taxes. Alternatively, you can pay them salaries for services provided without having to add them as shareholders, in which they would also benefit from generating RRSP contribution room.

4. Lifetime Capital Gains Exemption (LCGE)

In Canada, each resident is entitled to a cumulative lifetime capital gains exemption (LCGE) on net gains realized on the disposition of qualified small business corporation (QSBC) shares. Incorporating your practice may enable you to sell your practice and shelter the growth from tax, up to the LCGE limit. The amount of the exemption is based on the gross capital gain from the sale, and the exemption is a lifetime cumulative exemption meaning that the entire amount does not need to be claimed all at once. Additionally, if your family members are shareholders of the corporation, you may be able to multiply the LCGE available to increase the total sheltered amount of capital gains.



YOUR INCORPORATION PROGRAM TIMELINE

Client Meeting to Collect Information Needed

Review incorporation memorandum, confidentiality package, and Canadian privacy protection

01

Information we require from you:

- Preferred name for MPC
- Address
- Name of directors/officers
- Type of medicine practices
- Details of family shareholders
- Preferred banking institution
- Account representative's name and contact information
- CPSO number
- Practicing hospital address

Preparation of Incorporation Documents & Minute Book

- Search & reserve corporate name
- Personalized by-laws
- Organizational resolutions
- Personalized registers & ledgers
- Corporate organization
- Corporate share certificates
- Corporate seal

02

03

Register MPC with CPSO & Government Agencies

(Wait 6 weeks for CPSO Certificate)

Set Up

Work together to set up bank accounts and credit cards at the bank of your choice

04

05

Contact all hospitals you work for to ensure all income is deposited into MPC going forward

- Send them articles of incorporation
- Send them MPC CPSO certification
- Send them banking information

Value Added Services We Provide:

- Review expenses to transfer to corporation for tax efficient cash flow
- Take advice for more efficient results
- Your first years corporate tax return completed by our team at a preferred rate
- Phone, text and email support is always a click away

NEXT STEPS

There's a lot to consider when deciding whether or not incorporating your practice is right for you. At MedTax, our financial experts work with you to carefully evaluate your specific situation, to determine and implement the best tax structure for your long-term goals. If incorporation is right for you, we'll help guide you through the process, and have your corporation up and running in 21 days flat!



GET YOUR FREE, PERSONAL CONSULTATION.

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for a lifetime of savings.

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