

Dental Practice Incorporation

A member benefit of the CDA, the Canadian Dentists' Investment Program offers an individual pension plan called the **CDA IPP** (www.cdspi.com/cda-ipp). This plan allows dentists who operate their practices through professional corporations to build retirement savings faster than otherwise possible through an RRSP and reduce their tax bills further.

Since this plan was introduced, some dentists have contacted CDSPI requesting information about incorporating. **CDSPI and CDSPI Advisory Services Inc. do not provide incorporation services or advice.** However, this information sheet provides general information about some of the issues to consider when deciding if incorporation is right for you.

This information is provided for your general guidance only. Laws governing incorporation vary among governmental jurisdictions. Therefore, if you're contemplating incorporation, you should seek advice from a qualified lawyer licensed to practise in your jurisdiction. He or she can also explain the administrative steps involved when applying to incorporate. Additionally, you must check with your provincial/territorial dental regulatory body about what rules apply to corporations in your jurisdiction. Some regulatory bodies offer information kits that provide very helpful information.

What Does it Mean to Incorporate?

Dentists in all Canadian territories and provinces other than Quebec are permitted to incorporate their practices. When a dentist incorporates his or her dental practice, the business legally becomes a separate entity from its owner(s). A major advantage of incorporating is the limited liability of the incorporated company. If you're a sole proprietor, your personal assets can be seized to pay the debts of your business. But as a shareholder in a corporation, you are normally not responsible for the debts of the corporation unless you've given a personal guarantee.

However, it's important to note that dentists who operate their practices through a professional corporation retain personal liability for malpractice and professional misconduct.

What are Some Other Advantages of Incorporating?

If you operate a corporation, you are eligible to set-up an IPP to fund your retirement and potentially reduce your taxes by more than contributing to an RRSP would allow. But there are several other advantages, many relating to favourable tax situations:

- An incorporated business can take advantage of a "small business deduction" which reduces tax on the first \$400,000 of active business income each year
- Taxes can be deferred by leaving money in the corporation

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- Unlike self-employed professionals, a corporation may be able to have an off-calendar year-end for the purpose of deferring taxes
- Income splitting may also be possible. Corporations can pay dividends to their shareholders from the company's earnings. A shareholder does not have to be actively involved in the corporation's business activities to receive dividends. If permitted by the regulatory authorities in your jurisdiction, your spouse and/or children could be shareholders in your corporation, giving you the opportunity to redistribute income from family members in higher tax brackets to family members with lower incomes that are taxed at a lower rate
- A corporation also permits flexibility for shareholders on whether to receive compensation through salary or dividends
- On the sale of a corporation, it may be possible to take advantage of a \$750,000 capital gains tax exemption

What are Some Disadvantages of Incorporating?

Operating a corporation will result in costs that you otherwise wouldn't incur by running the practice as a personal business. Unless your practice generates a significant amount of revenue, it may not be to your advantage to operate it as a corporation.

- To incorporate your practice, you will incur legal and accounting fees
- You'll have to file two tax returns each year, one for your personal income, and one for the corporation. This could result in additional accounting fees
- Your dental regulatory body may charge a fee for registering the corporation as well as annual renewal fees
- In some situations, taxes may be payable where they wouldn't be by a self-employed dentist — such as provincial capital tax
- There is a lot more paperwork involved in maintaining a corporation compared to a sole proprietorship or partnership. Corporations must maintain a minute book, containing the corporate bylaws and minutes from corporate meetings. Other corporate documents must be kept up to date at all times

*For assistance or investment planning advice, please contact CDSPI Advisory Services Inc. at **1-877-293-9455** or **(416) 296-9455, extension 5023**. (Restrictions may apply to advisory services in certain jurisdictions.)*