

Professional Corporations

Presented to

Professional Association of Internes and Residents
of Ontario

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CHARTERED ACCOUNTANTS

Individual Tax Rates

- Taxable at graduated rates
- Maximum tax rate if taxable income greater than \$115,739 (2005)
- Maximum tax rate:
 - Professional income: 46%
 - Dividends 31%
 - Capital gains 23%
 - Other investment income 46%

Advantages of Incorporation

- Small Business Deduction
 - Tax on first \$300,000 corporate income taxed at 18.6% (17.5% from 2008)
 - Tax on income between \$300,000 and \$400,000 at 27.6% (26.5% from 2008)
- Tax Savings
 - Super-integration if corporate income below \$300,000
 - Combined corp/per tax rate 44.1%

Small Business Deduction

	Unincorporated	Incorporated
Income	250,000	250,000
Corporate tax @ 18%	N/A	<u>(45,000)</u>
Personal tax @ 46%	<u>(115,000)</u>	
After-tax retention	<u>135,000</u>	<u>205,000</u>

Small Business Deduction

Corporate income	250,000
Corporate tax @ 18%	<u>(45,000)</u>
After-tax income	205,000
Personal tax on dividends @ 31%	<u>(63,550)</u>
After-tax retention	<u>141,450</u>

Advantages of Incorporation

- Tax Deferral
 - Defer personal tax on dividends
- Other Tax Deferral Strategies
 - Choice of corporate year end
 - Bonus accruals

Advantages of Incorporation

Flexibility For Remuneration

- Salary/Bonus
- Dividends
- Pension plan
- Retirement Compensation Arrangement
- Employ family members

Advantages of Incorporation

Flexible Exit Strategy

- Sale of assets or shares
- Potential \$500,000 capital gains exemption on sale of shares or on death
 - Benefit can be multiplied if family members own shares

Advantages of Incorporation

Income Splitting (2005 Ontario Budget)

- Family members may become shareholders
 - Can receive dividends
 - Can realize capital gains on sale of shares of PC
 - Can claim capital gains exemption, if available
- Details not yet available
 - Uncertain whether family trust can be used
- Effective January 1, 2006

Requirements For Incorporation

- Shareholders must be members of same profession
 - Proposed: family members may be shareholders
- All directors/officers must be shareholders
- Name must include “Professional Corporation”
- Corporation cannot have a number name
- Cannot carry on business other than profession

Mechanics of Incorporation

- Apply for approval from College of Physicians & Surgeons
 - May take between 3 weeks to a month
 - Professional corporation cannot practice until approval received
 - Current fee: \$750
- Annual renewal fee of \$150

Mechanics of Incorporation

- If existing practice, assets to be transferred to corporation
 - WIP, goodwill, equipment, etc.
- May require tax elections to be filed
- May take back non-share consideration (e.g. promissory note) equal to cost of assets
- Consents may be required from third party (e.g. landlord, banker, equipment lessor)

Traps of Incorporation

- Corporation is separate legal entity and taxpayer
- Compliance costs
- Separation of assets of corporation and assets of shareholders
- Shareholder benefit issues
- EHT