INCORPORATION OF PROFESSIONALS

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Introduction

- Historical Background of the Incorporation of the Professional Practice
  - Physicians
  - Accountants
  - Lawyer

  - Dentists
  - Pharmacists
- We will focus on the incorporation of any business with the focus on the incorporation of the professional practice.

	ACCOUNTANTS	NOTARY/ LAWYERS	DOCTORS	DENTISTS	PHARMACISTS
Shareholders	Accountant Controls 50% + 1	Lawyer Controls 50% + 1	Doctor owns all votes but can have non-voting shareholders	Dentist owns all votes but can have non-voting shareholders	Exclusively pharmacist
Other Shareholders	Anyone	Anyone	Spouse, blood relatives connected by marriage, corporation or trusts with the same shareholders or beneficiaries	Lineal descendants, corporation or trust with the same shareholders or beneficiaries	Exclusively pharmacists
Directors	Majority are Accountants	Majority are lawyers	Only doctors	Only dentists	Only pharmacists
Other Special Rules to Note	•Conditions in Articles •Company constituted solely for professional activities •Notice to clients		Trustees of trust must be doctors or blood relative	Trustees of trust must be dentists or blood relative	Notice of 90 days in conspicuous place in pharmacy

SHOULD YOU INCORPORATE?

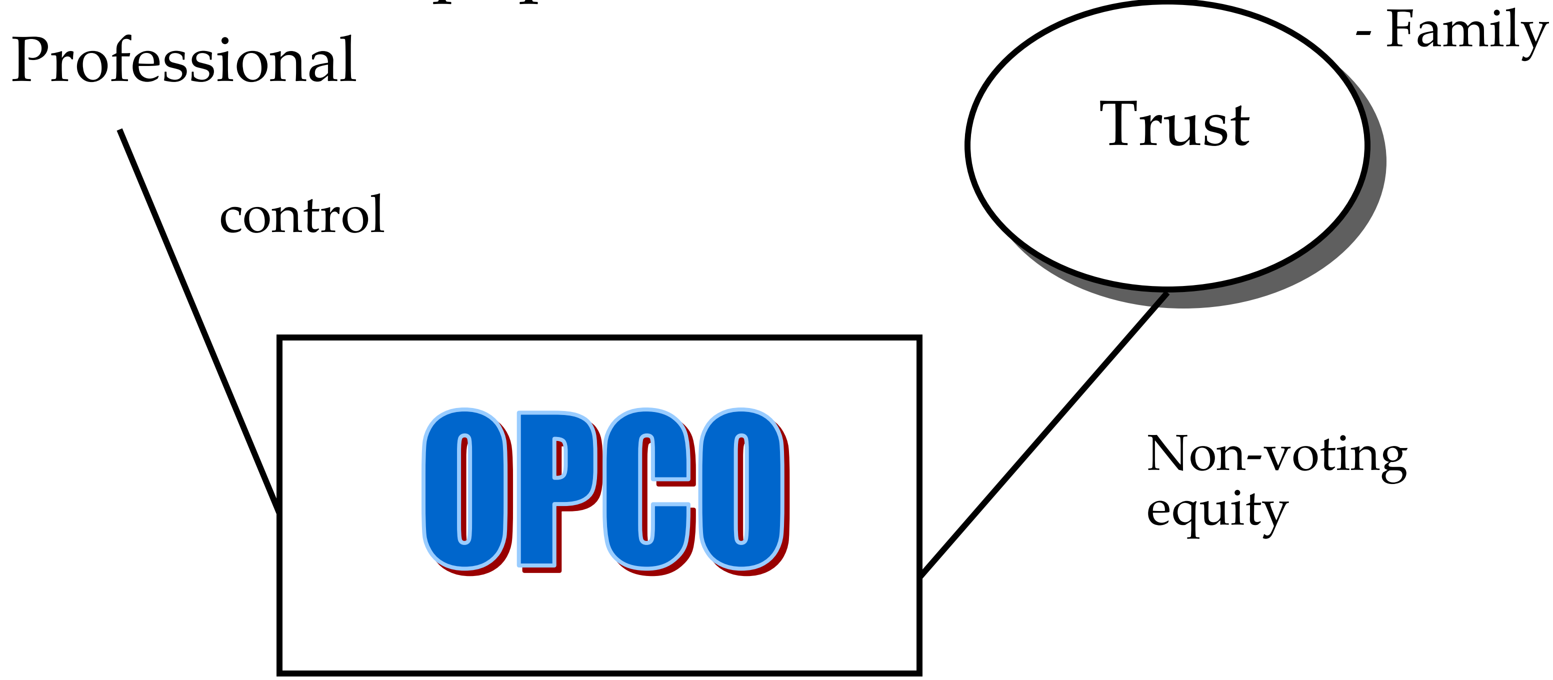
- It depends

1. Yes, if you do not require all of the income that you earn from your practice to live.
2. Yes, if you have income splitting opportunities with family members.
3. No, if 1 and 2 are not applicable.

1) Procedure-Simple Incorporation

2) Roll-over of goodwill?

3) Roll-over of equipment (if applicable)



Why Do It?

a) To save tax personally;
b) To income split;
c) Maybe to estate plan;
d) In some cases, to benefit from the capital gains exemption;
e) In some cases, to creditor proof.

CASE STUDY

- Assume that the professional’s spouse has no income and that there are two majority age children who also have no income;
- Income splitting is called for and is facilitated by using a corporation;
- The most flexible and adaptable planning relies on a discretionary trust and is dealt with further on;
- Assume corporation earns $250,000.

- Professional draws a salary of $123,000 (likes to contribute to RRSP);
- Corporation has $127,000 of income left and pays taxes of approximately $23,495 which leaves it with $103,505;
- Assume that the corporation distributes after tax income of $103,505 in the following manner:

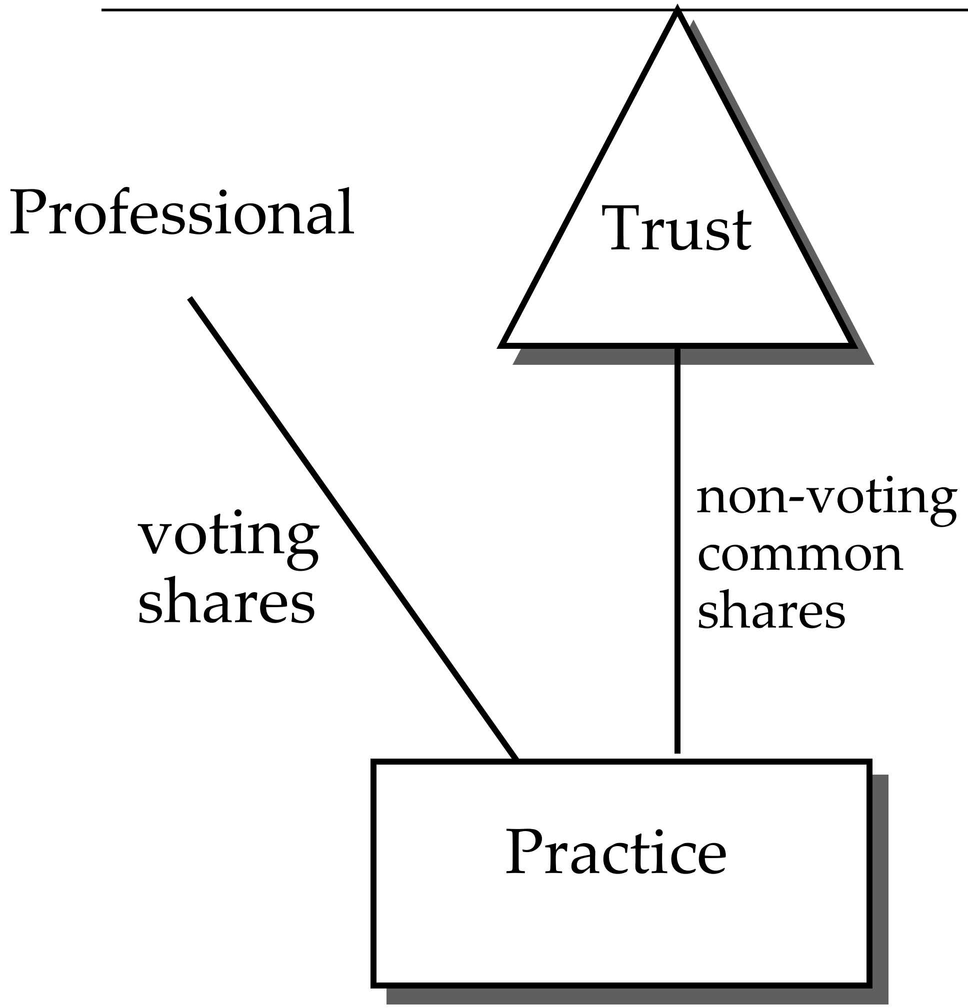
		Tax
Spouse	$ 40,000	$ 3,500
Child 1	$ 31,752.50	$ 1,400
Child 2	$ 31,752.50	$ 1,400
Professional	$123,000 salary	$ 59,000

Note: Children must be age of majority.

- After tax income of approximately $161,000 versus $129,000, if the doctor earned the $250,000 personally.

Independent contractor
or
employee of professional corporation?

- Zupet vs. Minister of National Revenue



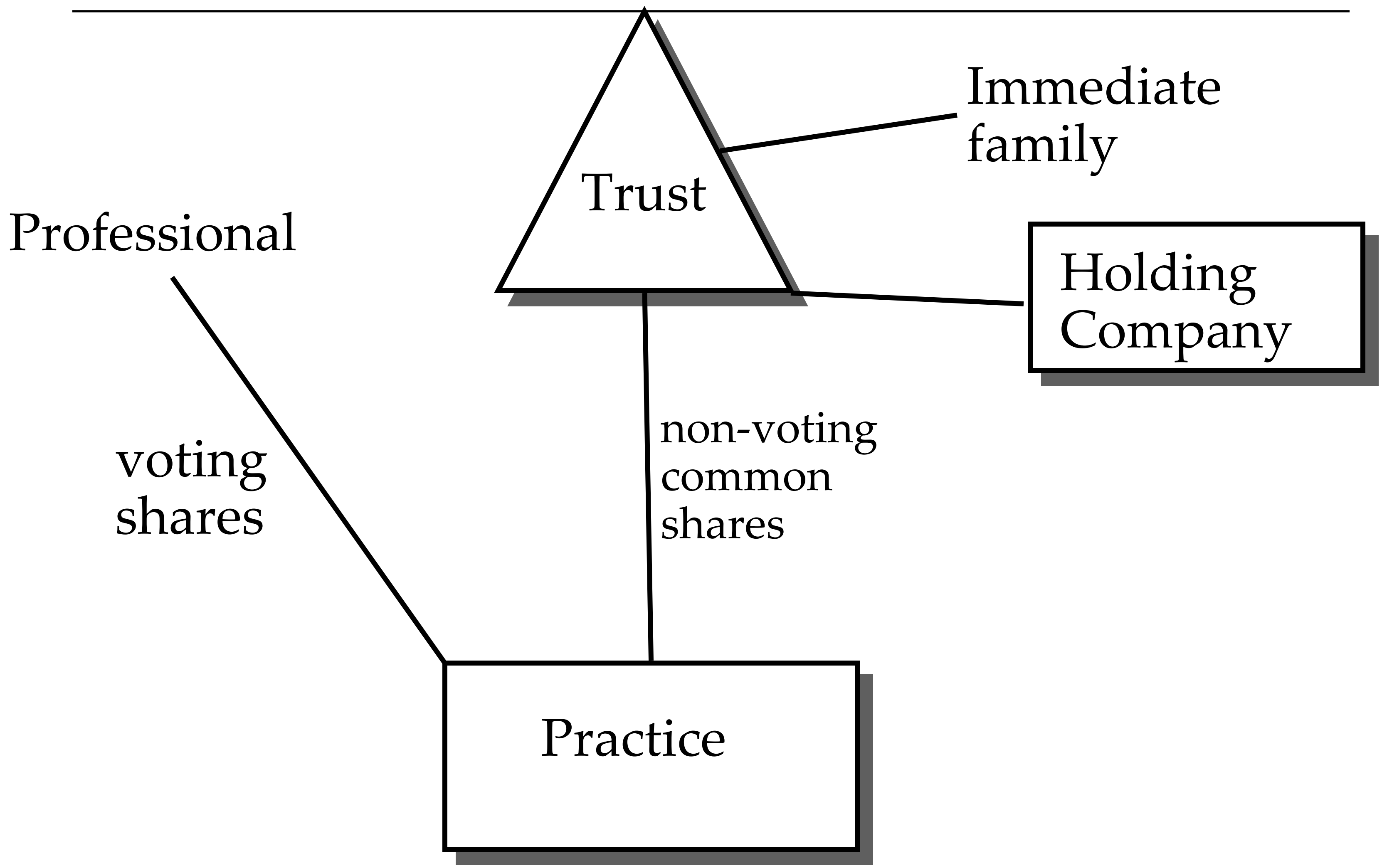
Benefits

- Income splitting
- Capital gains tax reduced on death
- Capital gains exemption

- The planning must provide for the ability to economically remove surplus funds from the corporation to be invested by means of another vehicle:

  - as a measure of asset protection
  - to satisfy requirements of the Order with respect to the professional corporation?
  - to qualify for the capital gains exemption.

Not for a Pharmacist



- One other benefit of the structure is the lower cost of insuring the professional’s life

- i.e. even though a corporation cannot deduct insurance premiums, still a significant benefit to having the company own the policy

- $6,000 of premiums will cost the professional approximately $11,600 before tax; $7,400 is the cost to the corporation.