

# TAX TALK

FOR HEALTH PROFESSIONALS



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***Tax Talk*** is prepared for the general information of our clients and other friends of Crowe Soberman. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this publication.



## A Message from the Editor

Aaron Schechter, CPA, CA, *Aaron Schechter Professional Corporation*, Partner - Tax

I recently visited both my family doctor and dentist for regular checkups. We engaged in the usual back-and-forth banter about changes to my overall health, and I was reminded of certain health risks to watch out for as I get a little bit older.

My health care professionals were there to advise, inform and guide me with their medical expertise; they are there to help me to achieve and maintain my optimal physical health.

Tax Talk for Health Professionals is the financial equivalent of my recent checkups. In this issue, and future ones, our Crowe Soberman Health Care Group experts will deliver financial food for thought, timely insights, and dependable advice that can help you achieve your financial objectives and maintain a healthy financial regime, tailored specifically to the special needs of those like you, in the health profession.

For this inaugural edition, we're touching on key moments in your personal and professional life cycle as a health care professional.

Alan Wainer, a partner in the Audit and Advisory group discusses why retirement planning is an important discussion to have with your accountant at any age; David Silber, a senior

tax manager, illustrates how transferring a life insurance policy into your professional corporation can result in savings; Amanda Giardino, one of our senior accountants, assures us that not all communications received by the Canada Revenue Agency are a cause for panic; and Ali Toyserkani, a tax specialist, explains why personal tax instalments are required and your options for calculating them.

It's also that time of year when personal tax season is quickly approaching; you should already be thinking about your personal and professional corporation tax filings. Flip to page seven for an easy-to-read and comprehensive list of due dates to help you navigate tax time. Remember: you should provide your accountant with required information to complete your tax filings in a timely manner to avoid unnecessary interest and penalties.

Just as you are there for your patients, we are here for you. Please feel free to contact the Crowe Soberman Health Care Group to make an appointment for a financial checkup, and we'll give you our prescription to maximize capital, minimize taxes and enhance your financial health.

*Welcome to Tax Talk.*


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### AARON SCHECHTER

Aaron's expertise lies in strategic tax planning for owner-managed private companies. He also provides specialized services to health professionals, catering to their unique needs in financial and tax planning. His client portfolio includes a range of industries, including manufacturing, construction, entertainment, software development, retail, and service-oriented businesses.

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### WE WANT TO HEAR FROM YOU

If you have a comment, question or concern, please feel free to contact the Crowe Soberman Health Care Group at [info@crowesoberman.com](mailto:info@crowesoberman.com).

# Retirement Planning:

## It's never too early to start

Alan Wainer, CPA, CA, CPA (Illinois), *Alan Wainer Professional Corporation*,  
Partner - Audit & Advisory Group



Retirement means different things to different people. When our medical professional clients meet with us for their annual financial checkup, our primary objective is to ensure that they leave informed and with a sense of relief and comfort. It is no different than when their patients come to see them to address their health issues.

The retirement discussion is not age specific, but it does become a more prevalent topic as we get older. The focus of this article is to address some of the financial aspects of retirement.

### Goal Setting

The second habit of Stephen Covey's *Seven Highly Effective Habits* is, "Begin with the End in Mind." It is much easier to plan for retirement when you know where you are heading.

It is our role as an advisor to first, ask questions; second, help identify goals and objectives; and third, provide some of the solutions and options available to help you get to where you want to be. Some of the questions that need to be addressed include:

- When do you plan or expect to retire?
- How much will you need to maintain your desired standard of living in your retirement years?
- What is your expected lifespan based on family history and lifestyle?
- What are your goals for retirement (e.g. to work part time, travel, get involved in community work, take up a new interest, etc.)?
- Will your children and/or dependents



have financial needs that will reduce your retirement pool?

- Will you have sufficient funds to cover your retirement years?

Based on the answers to these questions, we will often be able to establish goals and objectives. Once we know what the end game is, it is much easier to put a plan in place to accomplish those goals. Goals are not static, though. Retirement goals can be revised or, in some cases, *have* to be revised based on one's ever-changing life circumstances. It is important to revisit your retirement goals and financial plan every few years and make the appropriate changes.

### Assets Retained in the Professional Corporation

One of the main benefits of incorporating a professional practice is the ability to defer tax. For every \$100,000 that can be kept in a professional corporation and not withdrawn for personal living expenses, there is an opportunity to defer approximately \$34,000 in taxes. If this strategy is utilized, many professionals will have built up considerable assets in their corporation by the end of their careers. These assets, often invested in marketable securities, bonds, term deposits or real estate, can make up a significant portion of a professional's retirement nest egg.

In retirement, the professional will start to draw down these assets, withdrawing monies, generally, as dividends. Currently, in Ontario, dividends are subject to personal income tax rates ranging from zero per cent to 40 per cent, depending on the recipient's marginal tax rate and amount of other income. The timing and quantum of dividend distributions from the professional corporation should be discussed in advance with your advisor so that the personal income taxes can be minimized to the extent possible.

### The Use of Life Insurance

Some clients purchase a permanent-type

life insurance policy within their professional corporation. A permanent-type life insurance policy is unique in that the policy can be over funded, with the excess premiums going into a special account, which is invested and grows tax-free. If the excess premiums and tax-free growth are withdrawn from the policy, the monies become taxable immediately, which is why some professionals leverage their investment in life insurance policies. The monies received from leveraging the policy can provide funds for the professional's retirement. While we do not condone leveraging



“ It is much easier to plan for retirement when you know where you are heading. ”

a corporate-owned life insurance policy personally, if the funds from leveraging a corporate-owned policy are received by the professional corporation, they can be distributed as dividends. It is not always recommended to hold a permanent-type life insurance policy in a professional corporation, so prior to purchasing or transferring a life insurance policy to your corporation, proper advice should be obtained.

Retirement is just another chapter in your life. But like anything in life, if you are going

to do it right, you need to plan ahead. Goal setting is the first step. Proper advice and planning will allow you to achieve those goals. Taking advantage of the tax deferral opportunity afforded by your professional corporation and utilizing a permanent-type life insurance policy can enhance your retirement pool. So what are you waiting for? No time like the present to get started!

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### ALAN WAINER

Alan is a partner in Crowe Soberman's Audit & Advisory Group, a member of the Management Committee and Facilitator of the firm's Succession, Retirement and Estate Planning Group (SuRE Group). In 2003, Alan completed the Canadian Association of Family Enterprises (CAFÉ) Family Council Facilitator program.

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# Holding a life insurance policy in your professional corporation

David Silber, CPA, CA, Senior Manager - Tax

There are many reasons why an individual might purchase a life insurance policy – and owning life insurance is fundamental to a stable financial plan – but are you holding your policy in the most tax efficient manner?

Many professionals are not aware that a professional corporation can be the beneficiary and owner of a life insurance policy; this could be a significant advantage in your favour since your professional corporation is afforded a much lower tax rate on its income than you are personally. The lower tax rate means less gross income is required when the premiums are paid by your professional corporation. This can be best illustrated through the following example:

Suppose Joanne's monthly life insurance

premiums are \$500 and she pays income tax at the highest marginal tax rate. If she owns the policy personally, she will have to earn \$991 in order to have sufficient "after-tax dollars" to cover the monthly premium. By comparison, if the life insurance policy is owned by her professional corporation and the corporation pays the monthly premiums, the corporation will only have to earn \$592 to pay the monthly premium. By having the corporation own the life insurance policy and pay the premiums, Joanne will have an extra \$4,800 of cash in her professional corporation each year.

If a corporation owns a life insurance policy and the insured individual dies, the life insurance proceeds paid are received tax-free by the corporation. These funds are then treated as part of a special account

that can be paid out to a shareholder of the corporation tax-free.

If you currently own a life insurance policy, consideration should be given to transferring the ownership to your professional corporation and making it the beneficiary. Although the additional cash that may be realized on a corporate-owned life insurance policy is appealing, there are some traps that must be considered before the policy is transferred.

## **Potential Tax Liability on the Transfer of Your Life Insurance to Your Corporation**

The transfer of your life insurance policy to your professional corporation is considered a disposition and could be subject to income tax. If the cash surrender value (CSV) exceeds the adjusted cost base of your life insurance policy, you are required to pay tax on the difference. Term life insurance policies do not have a CSV, and therefore, would not trigger any tax on a transfer. However, permanent, universal life or whole life insurance policies often do have a CSV and therefore may result in a tax liability. Likewise, a future transfer of the policy out of the corporation could also result in tax consequences. Your insurance broker will be able to provide you with the CSV and adjusted cost base of your insurance policy.

## **Lack of Creditor Protection**

Where the life insurance policy is owned by a corporation, the policy's CSV is susceptible to any claims made by a creditor of the corporation. For example, if the professional and his or her professional corporation are sued and there is not sufficient professional liability insurance to cover the claim, the creditor may be able to encroach on the assets of the professional corporation, including the CSV of the life insurance policy. Again, there is no concern if the policy is a term life insurance policy since these policies do not have a CSV.

### Potential Loss of Capital Gains Exemption

In some instances, health care professionals who incorporate are eventually able to sell the shares of their professional corporation (generally, not applicable to medical professionals such as doctors). On the sale of the professional corporation's shares, shareholders are currently able to shelter currently up to \$813,600 of gains by utilizing the individual's lifetime capital gains exemption. If this is applicable to you, you should be careful what type of life insurance policy you transfer to your professional corporation. Transferring a term life insurance policy to your professional corporation will not pose any concern; however, a permanent, universal life or whole life insurance policy, which builds up its CSV over time within the professional corporation, may prevent the shareholders of the corporation from utilizing their capital gains exemptions on an eventual sale.

There are many factors to be considered when deciding if transferring your life insurance policy to your professional corporation is right for you. To avoid potential pitfalls and traps, we encourage you to discuss these issues with the Crowe Soberman Health Care Group.

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#### DAVID SILBER

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## Important tax deadlines

### March 2, 2015

- Filing due date for T4 Summaries and slips for salaries, bonuses, and retiring allowances paid in 2014.
- Filing due date for T5 Summaries and slips for interest and dividends paid by corporations to shareholders in 2014.

### March 2, 2015

- Last day to make a 2014 RRSP contribution.

### March 16, 2015

- Filing due date for Employer Health Tax (EHT) returns for employers with salary and bonuses paid of \$450,000 or more in 2014.
- First quarterly installment due for 2015 personal income taxes (if applicable).

### March 31, 2015

- Filing due date for T5013 Summaries and Slips for professional partnerships where the partnership's total revenues plus total expenses is \$2,000,000 or greater, or where any of the partners are professional corporations.
- Filing due date for annual filers of HST returns for corporations with taxation years ending December 31, 2014.
- Final payment of corporate income taxes due for most corporations with a December 31, 2014 fiscal year end.

### April 15, 2015

- 2014 US personal income returns and taxes due for US citizens and green card holders residing in Canada unless an extension is filed.

### April 30, 2015

- 2014 Canadian personal income taxes due; personal income tax return filing due date for most Canadian taxpayers.

### June 15, 2015

- Personal income tax return filing due date for Canadian taxpayers who report self-employment income.
- Second quarterly installment due for 2015 personal income taxes (if applicable).

### June 30, 2015

- Filing due date for corporate income tax return for professional corporations with a December 31, 2014 fiscal year end.





# When the Canada Revenue Agency checks up on you

Amanda Giardino, CPA, CA, Senior Staff Accountant - Audit & Advisory Group



and an adjustment was made to your return as a result, you are more likely to be selected for another review in a future tax year.



“ An audit is an extensive inquiry into one’s entire income tax return, usually for more than one taxation year. ”

- **A discrepancy was found between information reported on your return and information reported on a tax slip received by the CRA.** This is the result of the CRA’s matching program, where its computers match up the tax slips it has received with the tax slips reported by the taxpayer. If there is a discrepancy, your return is flagged for review.
- **Particular types of deductions or credits claimed.** We have found that the following types of deductions and credits are most likely to result in a tax review: tuition, rental amounts claimed for the Ontario Energy and Property Tax Credit, Federal foreign tax credits

claimed by individuals earning income outside of Canada, donations, medical expenses and childcare expenses.

**Consequences: Why the Canada Revenue Agency review request should never be ignored**

Neglecting a request from the CRA for information is never a good idea. The CRA will not simply go away, and there are many potential consequences if the request is ignored. If accurate and complete information is not provided in the specified time frame in the review letter (typically 30 days), the amount in question will be denied or modified based on the information available to the CRA.

For example, if the review request asks for the documentation to support the donation tax credit and all of your charitable donation receipts for the year are not sent to the CRA within 30 days, your donation credits will be disallowed and your net taxes owing will be adjusted accordingly. Any tax balance owing may be subject to interest and possibly penalties.

However, the CRA is fairly lenient and offers another chance at redemption. If you obtain and send your documents after the date indicated on the original review letter, the CRA will review these documents at the time that you send them and, more often than not, they will revise the amount in due course (although it is often a much longer process than if the supporting documents were submitted within 30 days of the original request).

Though they may seem intimidating, tax reviews are part of the system of “checks and balances” in our self-assessment tax system. As long as you ensure that accurate records are kept and all relevant receipts, slips and documentation are readily available, responding to these tax reviews is quick and painless. If you receive a review request letter from the CRA, the

Crowe Soberman Health Care Group can help you respond in a timely and professional manner.

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# What you need to know about personal income tax instalments

Ali Toyserkani, CPA, CA, Specialist - Tax

When we first meet with young health professionals, many are surprised when we inform them that they will owe personal income taxes come the following April. They are even more shocked when they learn that they are obligated to make quarterly income tax instalments on a go-forward basis. Let's explain why self-employed health professionals are required to make quarterly income tax instalments.

Medical residents and part-time workers are generally considered employees. The remuneration received is paid by an employer, who is legally obligated to withhold payroll source deductions (i.e. Employment Insurance premiums and Canada Pension Plan premiums) and personal income tax from the amounts paid. This is why your gross income may be, for example, \$1,000 per week but you only receive \$750 deposited into your bank account. When you receive your annual T4 slip it shows the total gross amount of income you earned in the prior year and the taxes and other deductions that were withheld at source. The deductions that your employer has withheld throughout the year have been remitted to the Canada Revenue Agency (CRA) as a prepayment of

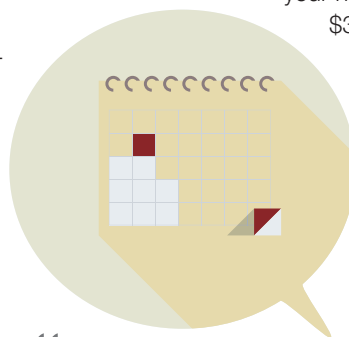
your personal taxes. As a result, when you prepare your personal income tax return, your personal tax liability is, more often than not, covered and you may be entitled to a refund (especially if you made RRSP contributions or have tuition, education or other tax credits available).

When you transition to practicing your health profession after graduating or after finishing your medical residency, you will likely be self-employed. In other words, you will be billing fee-for-service, receiving some form of compensation through an Alternative Funding Plan or will be an associate in a practice. As a self-employed practitioner, there is no employer that deducts payroll source deductions and personal income taxes from the remuneration you receive throughout the calendar year. This is why, after the first full year of being a self-employed health profes-

sional, there is usually a significant personal income tax liability owing by the following April.

An obligation to prepay the majority of your personal income tax by quarterly instalments for the following year will arise if your net tax owing is more than

\$3,000 in the current year and in either the prior year or the year prior to last year. For example, you can expect to have a quarterly income tax instalment obligation in 2015 if you had more than \$3,000 in net tax owing both in 2014 and either in 2013 or 2012.



“...many young health professionals are surprised when we inform them that they will owe personal income taxes in April.”

Instalment payments for a particular year are due on March 15, June 15, September 15, and December 15. Often the CRA will mail you a remittance form, which can be used to pay the instalments at your financial institution or by mailing a cheque to

them. You can also make your personal income tax instalments online via the CRA's website or through online banking.

There are three methods for calculating the instalment amounts that are owed. An individual may choose the method which results in the smallest instalment obligation:

#### **Option 1**

Calculating based on an average of the amount of taxes owed in the prior two years. This is the CRA default option and will be the amount that shows up on the instalment reminders they send you.

#### **Option 2**

Calculating based on the amount of taxes owed in the prior year. This option will result in the lowest instalment obligation if your current year income will be greater than your prior year's amount, but lower than the amount in the year prior to last; or

#### **Option 3**

Calculating based on what you estimate will be your current year taxes owed. This option will result in the lowest instalment obligation if your current year income will be lower than those in the last two years. However, if you miscalculate the amount of expected taxes owed and you have remitted an amount which is less than the actual amount of taxes that are owed for the current year or an amount which is less than what your instalment obligation would have been under the lesser of Option 1 and Option 2, you will be subject to interest and possibly penalties for the insufficient instalments remitted.

Failing to remit instalments on time can be costly. The CRA charges interest on the deficient amounts at a prescribed rate (currently five per cent). If this interest charge adds up to more than \$1,000, an additional penalty is added.

Transitioning to becoming a practicing health professional and launching your

career is an exciting time in your life. As your life circumstances and finances change, it is important that you remain aware of your new tax obligations. The Crowe Soberman Health Care Group can guide you through calculating the correct amount of personal income tax instalments for the upcoming year and can help you plan for these payment obligations.

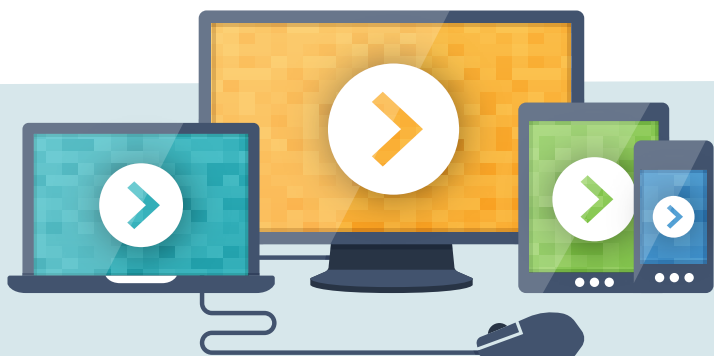
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Canada's Anti-Spam Legislation (CASL) came into effect on July 1, 2014. CASL impacts Crowe Soberman's ability to continue to send you our complimentary tax, accounting and advisory resources as well as invitations to networking events by email or other electronic means. We would like to ensure that you continue to receive the communications you want from us without interruption. Please visit our Stay Connected page to update your subscription preferences.

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At Crowe Soberman, we have always recognized our responsibility for protecting the privacy of your personal information. *Canada's Personal Information Protection and Electronic Documents Act (PIPEDA)* has made privacy an even greater priority.

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