



The
PROS & CONS
of
INCORPORATION
for
HEALTHCARE PROFESSIONALS¹



INCORPORATION PROS

TAX DEFERRAL



10%-17%

The tax rate on income earned inside a professional corporation that is eligible for the small business tax (in 2018, depending on the province), versus income earned that is directly taxed at the highest personal marginal rates (up to **47.50%-54%** depending on the province).



up to

35.5%-37%

Potential tax deferral if income is retained inside the corporation. Income retained inside the corporation can be invested (into a portfolio or back into the practice) or can be paid out later in the form of a dividend.

TAX SAVINGS

If dividends are paid out during retirement years when income is lower, potential tax savings can occur.



¹ This infographic is intended for Canadian resident Healthcare Professionals who are self-employed and are not considered to be an employee. If you are a U.S. citizen or green card holder, please consult with your cross-border tax and legal advisors prior to incorporation.



ACCESS TO INDIVIDUAL PENSION PLANS (IPP)



An IPP is a defined benefit pension plan funded by the corporation, has higher contribution rates than RRSPs, and can provide greater creditor protection than RRSPs. Contributions made by the corporation to an IPP are tax deductible to the corporation.

POTENTIAL ACCESS TO LIFETIME CAPITAL GAINS EXEMPTION (LCGE)



\$848,252

(for 2018)

Up to **\$848,252** (for 2018) in capital gains can be exempt from taxes if shares that qualify for the capital gains exemption are sold and the shareholder uses their LCGE to offset the gains. In addition, a corporation can provide estate planning flexibility and potential to multiply the exemption amongst family members.

LIMITED CREDITOR PROTECTION (NON-PROFESSIONAL LIABILITY)

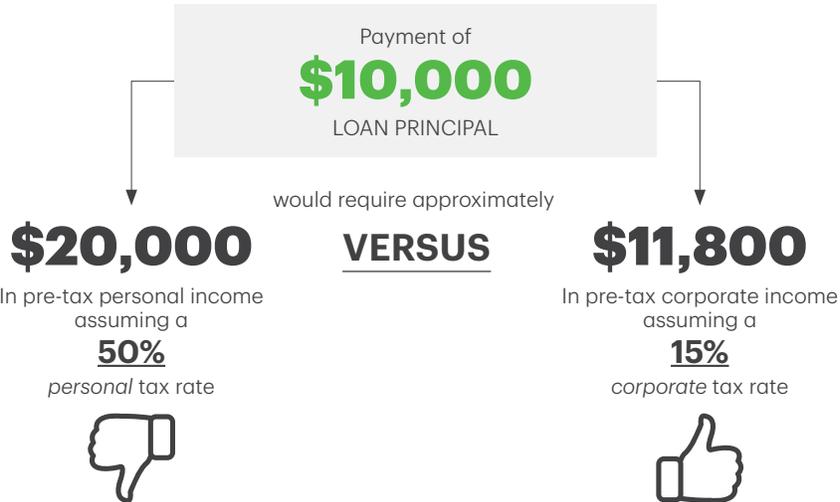


A corporation can provide some creditor protection. Claims from creditors may be limited to assets retained by the corporation as opposed to all personal assets being subject to creditor's claims.

MORE TAX-EFFICIENT USE OF CASH FLOW



For non-deductible cash flow items, such as principal repayment of loans on equipment or payment of life insurance premiums, using corporate funds can be more efficient than using personal funds. For example:



REMUNERATION FLEXIBILITY



Incorporated medical professionals can choose how much they wish to pay themselves out of the annual income earned inside a corporation. In addition, they can choose whether to pay themselves in the form of a salary or dividend (or combination of both).

ACCESS TO INVESTMENT TAX CREDITS



Under certain circumstances, incorporated medical professionals who conduct research and development may be eligible to claim Scientific Research and Experimental Development (SR&ED) credits.



INCORPORATION CONS

ADDITIONAL TAX FILING AND ADMINISTRATIVE COSTS



Increased administrative, accounting, bookkeeping, and/or legal fees. In addition, annual (T2) corporate tax return filings are required.

PROFESSIONAL LIABILITY



Incorporation does not protect a medical professional from professional malpractice liability. Professional malpractice liability is the same whether a medical professional is incorporated or not.

PROVINCIAL HEALTH TAX



Corporations in several Canadian provinces have to pay a provincial health tax once the corporate payroll has exceeded a certain threshold.

DIRECTORS' AND OFFICERS' LIABILITY



Directors and officers of a corporation have a fiduciary duty to act in the best interest of the corporation. If they fail to meet their duty, they may be personally liable.

Speak to your TD Wealth Advisor or TD Senior Private Banker about whether incorporating your practice is right for you.



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