

UNINCORPORATED VS. INCORPORATED...

The discussion surrounding unincorporated vs. incorporated has been ongoing; and it will likely continue for some time.

Why will this discussion continue? There are two main reasons:

/// **Firstly: not all Dentists are the same**

/// **Secondly: tax rules will continue to change**

I NOT ALL DENTISTS ARE THE SAME

Let's begin with reviewing the basic definition of incorporated (versus unincorporated).

How you choose to receive your income has a direct bearing on your tax outcomes.

If you are not incorporated, all income paid to you is taxed personally, as it passes through your hands alone. However, if you are incorporated, you have established a company – and positioned yourself as the controlling owner.

This means that you and your practice exist as separate entities for tax purposes. In addition to yourself, your company essentially becomes a “taxpayer” in this situation.

Here are some benefits of being incorporated:

- your company can pay your salary (plus give you a bonus)
- your company can pay you dividends from profits
- your company can pay you through a combination of the above

Overall, most prefer to incorporate. However, not all Dentists (or Practices) are the same.

For example, some incorporated Dentists prefer to be paid exclusively through salary, while others prefer to be paid through salary, dividends, and/or a combination of both.

Here are the key differences between salary and dividends:

Your salary (bonuses included) paid to you by your company represents a tax deduction to your company and taxable income to you.

Dividends paid to you are not tax deductible by your company. They are taxable to you – but at a lower rate than a salary (or bonus).

By retaining profits within your company (rather than personally), there may be an opportunity to pay less tax in total.

However, authorities have established a concept called “integration” – and their objective is to have you, plus your company, pay the same amount of taxes as someone who is not incorporated.

As you can see, navigating these waters can be very tricky – and because the situation is not the same for every Dentist, it is important to work with a professional who can help you make the right decisions after considering a wide variety of factors.

In 1789, Benjamin Franklin famously wrote:
“.. in this world, nothing is certain except death and taxes.”

At TMFD, we add an important certainty for Dentists: *“Nothing is certain except death, taxes, and ongoing changes to tax rules.”*



TAX RULES WILL CONTINUE TO CHANGE...

If you are a new Dentist, you are probably asking yourself “Should I incorporate?”

...and the answer is not simple.

In the past, the scales were tipped in favour of incorporation – however some legislative changes that came into effect in 2018 have changed things a bit. Today, there is no general “right or wrong” answer when it comes to incorporating vs. not incorporating.

If you’re facing this decision, here are some things to consider:

1. The costs related to tax filings are greater after incorporation.
2. The amount of unused tuition tax credits can reduce personal taxes (which tips the scales towards deferring incorporation).
3. If you are going to buy your first home in the near future, then the banks will look at your personal income (with less regard to the income you earn through dividends). This also tips the scales towards deferring incorporation.
4. If you are incorporated and you do not get paid a salary (in other words, if you exclusively “pay yourself” through dividends), then you will not be contributing to your Canadian Pension Plan (CPP) – which means you will not have this guaranteed pension income available for your retirement.
5. If you are incorporated and you do not get paid a salary, then your ability to begin saving for retirement through a Registered Retirement Savings Plan (RRSP) will be affected – and your RRSP contributions can reduce your personal income for tax purposes.

“Your situation is not exactly the same as anyone else’s; and tax rules will inevitably continue to evolve. So, you need to work with professionals who can consider your entire financial situation, in a holistic way.”

- Chris Molloy /// Senior VP of Advisory Services

After considering the specifics of your unique situation, we may conclude that you should incorporate after we examine several factors.

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For example, if your income exceeds your personal lifestyle expenses, or if you earn more than \$155k per year (at which point you cannot contribute any incremental amount annually to your RRSP or spousal RRSP), incorporation may be for you.

However as we’ve mentioned, every Dentist is different; and whether you’re incorporated or not, our proficient team will stay on top of an everchanging legislative landscape, in order to help ensure that you’re making the most tax efficient choices possible.

Please don’t hesitate to reach out to us today: **1-844-311-8633**

With sincere thanks for putting your trust in us,
- The Professionals at TMFD Financial

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