

Helping dentists build wealth



**The Importance of
Financial Planning
for Dentists**

**Strategies for Dentists Saving
Within a Professional Corporation**

**Buying the
Right Practice**

THE IMPORTANCE OF FINANCIAL PLANNING FOR DENTISTS

What is financial planning?

Financial planning is much more than merely planning one's finances. A financial plan looks at where you are today and where you want to be. It defines your short- and long-term financial goals and provides actionable steps you can take to reach them. It provides a roadmap, guiding you as your career develops and builds towards the future. A sound financial plan provides peace of mind, and a means by which to track your progress over time. For a dentist, planning is crucial given the complexity of buying, managing and selling a dental practice.

According to research from FPSC, Canadians with financial plans feel that they're saving more, living well, and experiencing higher levels of contentment in their lives. More than 80% of those with comprehensive financial plans say they feel on track with their financial affairs, vs. 44% without planning.

Elements of a comprehensive financial plan

A financial plan takes into account not only your current financial position, but also your individual goals, needs, and priorities. This foundation is then used as the basis to create your individualized plan, providing actionable strategies and recommendations to move you toward achieving your goals.

The six areas of financial planning are:

- Financial management (net worth and cash flow)
- Investment planning
- Insurance and risk management
- Tax planning
- Retirement planning
- Estate and legal

Your financial plan should address each individual planning area outlined above, and take into account the interrelationships between them, ensuring that they work together strategically and cohesively.

This process requires open communication between



you and your trusted advisor to ensure the plan accurately reflects your priorities. To derive maximum benefit from the planning process, you should ensure you provide up-to-date and complete financial documentation.

From plan to action

Just as a dentist develops a comprehensive treatment plan for his/her patients, your trusted advisor will develop a customized plan to guide you in achieving your financial goals. The financial planning process should follow the systematic steps below.

- 1. Relationship:** The terms of the relationship between you and your trusted financial advisor should outline expectations of the service to be provided and ensure mutual understanding.
- 2. Discussion:** An in-depth analysis of your financial goals and the collection of financial information should take place.
- 3. Evaluation:** The advisor evaluates the your financial situation based on the information provided.
- 4. Development:** Financial planning strategies and recommendations are developed and presented to you in a comprehensive written financial plan.
- 5. Implementation:** The agreed upon strategies as outlined in the financial plan are implemented.
- 6. Monitoring and evaluation:** The financial plan receives ongoing monitoring and revision, as necessary.

The financial plan should address, but is not limited to, the following:

- Listing and prioritizing goals and expected milestones, e.g. desired age of retirement, paying off debt, saving for



a home or child's education, and buying or selling a business (such as a dental practice)

- A written summary of the current financial situation, including a net worth and cash flow statement
- Analysis of the current investments and development of a strategy based on risk tolerance, time horizon and knowledge of investing
- Financial projections within the designated planning areas
- Tax planning strategies to optimize financial position and minimize taxes payable, including the use of Registered Retirement Savings Plans (RRSP), Tax Free Savings Accounts (TFSA), corporate investment accounts or Individual Pension Plans (IPP) for business owners
- Recommendations to meet the desired goals and objectives supported by relevant financial summaries
- Action plan to clarify next steps and implementation of selected strategies, with a timeline to manage expectations

An ongoing process

Your financial plan should be viewed as a living document, evolving with you and incorporating changes in your goals and circumstances over time. The plan should be reviewed with your trusted advisor on an annual basis, or as circumstances change and affect your financial health.

Some people decide to do their own financial planning, but you may want to seek the help of your trusted advisor if you:

- Want to better manage your finances but aren't sure where to start
- Don't have time to do your own financial planning
- Want a professional opinion about the plans you've made
- Don't have sufficient expertise in specific areas such as taxes, investments, insurance or retirement planning
- Have an immediate need or unexpected life event

At TMFD Financial, we have a team of professionals with the expertise to help new graduates, associates, practice owners, and retiring dentists with all of their financial planning needs. Call us today for your complimentary consultation.

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BRENT VILLENEUVE CPA CA, CPA(ILL), CGMA, CFP®, TEP.

Brent is the Executive Vice-President and Chief Client Officer of TMFD Financial. Brent is a Chartered Professional Accountant (CPA), Chartered Accountant (CA), Certified Public Accountant (CPA Illinois), and he holds the Certified Financial Planner (CFP®) and Trust & Estate Practitioner (TEP) designations. Brent comes with extensive experience integrating financial solutions for High Net Worth clients including investments, banking, trust, tax and estate planning.



JAY DAMANI CFP, PFP

Jay joined the TMFD Financial team in 2015 and works closely with clients in the design and execution of their personalized financial plans, including tax planning, risk management and investment analysis. He employs a goals-based, client-centric approach, developing strong relationships with his clients and successfully translating their personal goals into financial successes. Jay holds the CFP and PFP designations, and a degree in Business and Psychology from Wilfrid Laurier University.

STRATEGIES FOR DENTISTS SAVING WITHIN A PROFESSIONAL CORPORATION

In the last couple of years, dentists have witnessed a dramatic change in the tax planning landscape. Many of the common tax planning strategies have fundamentally changed—paying dividends to family members, setting up a hygiene corporation, or accumulating unlimited savings within a Professional Corporation. Today, much stricter rules have been put in place, causing dentists to pivot towards new approaches to ensure they can keep more of what they earn.

As it stands...

The latest changes affect investing within a Professional Corporation. The government views it as unfair to accumulate large sums of money inside a corporation while benefiting from a lower income tax rate on profits. They say this perceived advantage does not extend to those who are unincorporated, and that a business should pay more tax on its profit if the company has accumulated substantial savings.

Prior to the changes, the corporate tax rate was 13.5% on profits up to \$500,000, and 26.5% thereafter (Ontario 2018). Under the new rules which come into effect in 2019, the \$500,000 limit will reduce gradually

as investment income within the corporation exceeds \$50,000, such that once investment income exceeds \$150,000, all profits will be taxed at 26.5%. Under this scenario, it may be advisable to withdraw all profits annually; forcing dentists to pay the personal tax immediately, rather than defer to a later year.

A shift in focus

Despite the recent tax changes, dentists still have options when it comes to saving within a Professional Corporation. The focus should shift towards an approach that constructively reduces the effects of annual profits or reduces taxable investment income.

A change in strategy means thoughtfully considering tactics such as selecting a portfolio with low taxable distributions, establishing an Individual Pension Plan (IPP), purchasing Whole Life Insurance, crystallizing capital gains before 2019, and removing investment assets tax-free through the Capital Dividend Account (CDA). Let's take a closer look at each.

Relief from tax changes

Since the new rules specifically target investment income, it makes sense to consider a strategy that limits taxable distributions. Many investors (and investment professionals) pay so much attention to total return that they ignore the issue of tax-efficiency. While frequent trading within a portfolio might provide a sense of being productive, each transaction





potentially creates a taxable capital gain. The same scenario can even happen within ETF's and mutual funds, resulting in large distributions each year. A better solution may be to invest in a buy-and-hold strategy, or in a fund with low turnover. Your investment advisor can guide you through these and many other available choices.

An Individual Pension Plan (IPP) is a retirement savings vehicle that is funded by the company and allows greater contributions than an RRSP (for those over the age of 40). Since corporate contributions are tax deductible, business profits will be reduced each year, providing a buffer before reaching the \$500,000 threshold. The IPP strategy is even more effective for companies with profits above \$500,000, or with investment income above \$150,000 since the contributions create savings at the higher tax rate. For those who incorporated many years ago, the IPP allows the dentist to "catch-up" for missed years. This lump sum "catch-up" contribution can be very effective at offsetting a spike in profits in any given year, for example, when profits exceed \$500,000 or when a large capital gain occurs.

Life Insurance is traditionally regarded as an estate planning tool; however, tax-exempt Whole Life policies can be viewed as another type of savings vehicle. These plans have a unique quality that allows the Cash Value to accumulate tax-free each year. This feature provides a valuable way to reduce taxable investment income while retaining profits within the company. Over longer periods of time, say 15 years or more, the Cash Value can dramatically outperform a

fixed income portfolio. For those holding bond investments within a Professional Corporation, the Whole Life strategy is worth considering as a cornerstone for building and diversifying new worth.

Professional Corporations have been permitted for many years now, and in many cases, have seen the accumulation of substantial investment portfolios with a high proportion of unrealized capital gains. These gains will need to be incurred eventually, so depending on the year end it's a reasonable strategy to consider crystallizing them in 2018 to avoid paying tax at a higher rate later when the new rules take effect. Individual circumstances will dictate if paying tax now is a prudent strategy.

When crystallizing capital gains, it's also worth noting that half of the gain is tax-free to the Professional Corporation. This notional value is attributed to the Capital Dividend Account (CDA) and may be withdrawn tax-free from the company by the dentist. The CDA balance should be removed from the company, reducing the subsequent investment income and mitigating the impact of new tax rules. For those with a mortgage or other personal loans, this strategy provides an excellent opportunity to withdraw funds tax-free from the company and to pay down debt at the same time.

In the end, we hope you take comfort knowing that relief from the newest tax changes is possible and available through a variety of sound strategies. Please contact TMFD Financial for a complimentary consultation.

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CHRIS MOLLOY B.A.Sc., CFP

Chris is Senior VP, Advisory Services at TMFD Financial. Chris has over 20 years of experience at TMFD Financial working in the Ontario area. Chris specializes in tax, estate and investment planning for dentists and dental specialists. For a complimentary initial consultation with our team, we can be reached at info@tmfd.ca or by toll-free at (844) 311-8633.

BUYING THE RIGHT PRACTICE

Buying a dental practice is likely the most significant investment a dentist can make during his/her lifetime. There is immense pressure to make sure the purchase is the 'right fit'. At TMFD, we devote a considerable amount of time helping our clients assess whether the desired practice features the qualities that are right for them.

In many ways, finding the right practice is no different than finding the right home. You would never buy based on the price alone, nor would you forego a home inspection. You would carefully consider all aspects such as location, interior and exterior condition, local amenities, and all extra costs. The same diligence should be exercised when buying a dental practice.

There are two major aspects to consider when purchasing a dental practice. First, there are the financial numbers. Most buyers hope to generate enough earnings (after expenses and taxes) to repay the practice loan, while at the same time, make a decent living. However, the second aspect focuses on the soft issues, which can be just as important as the financial statements, if not more so. For the remainder of this article, let's focus on the soft issues.

The soft issues cover everything in the dental office

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not addressed in the financial statements or projections, such as location, number of treatment rooms, or treatment philosophy of the practice. Any of these factors could dramatically affect the buyer's success after the purchase.

One of the most critical factors in assessing a practice is the premises lease. Clauses to look for within include the amount of time remaining on the lease, a demolition clause, and an exclusivity clause.

It's crucial to assess the time remaining since the banks prefer not to lend for a period beyond the end of the lease. Ideally, it's best to see at least 10 years remaining on a lease to match or exceed the timeframe on a practice loan.

A demolition clause can be buried in a lease, and can have a devastating impact on your business because it allows the landlord to relocate your practice or terminate your lease. An exclusivity clause states whether another dentist can open up shop in the same plaza or commercial centre. The lease is a complex document, and it needs to be reviewed by an expert to guarantee full protection.

Another important issue to review is the presence of staff contracts. The absence of staff contracts creates enormous risk for a number of reasons, but most notably, potential termination pay for long-standing employees. The risk is much lower if the employees have been at the dental practice a relatively short amount of time. Although it would be ideal for a buyer if the selling dentist were to implement staff contracts before the closing date, it's usually not a practical option. You can protect your investment and purchase by obtaining wise legal advice to explore other methods of coming to agreement.

A trusted advisor will guide you through an extensive list of additional factors to consider ensuring your decision is the best possible, for example:



- **Location** – Is the location of the practice desirable with respect to travel from your home? Is it in a good area with high visibility, accessible parking, ground level access, or local competition?
 - **Structure** - Does the practice have the number of treatment rooms you desire? Is there room to grow? Many of these factors are very difficult to change, so it's vital you be satisfied with these elements in the decision process.
 - **Associate agreements** – Do associates have legal agreements? The lack of agreements could result in patient attrition upon the departure of associates after transition.
 - **Equipment & Software** – What is the condition of the aging equipment? Will the practice require significant investment to satisfy your needs? Is there a panoramic x-ray, or room to add as needed? Which practice management software is used?
 - **Marketing** – Does a current website exist? Which marketing strategy would you wish to implement? What is the reputation of the practice from online reviews?
 - **Transition** – Will the selling dentist stay after transition and for how long? Patient attrition rate tends to be lower with a proper handoff/ introduction from selling dentist to buying dentist.
 - **Patient Base** – What is the profile of the patients, including age distribution, ethnicity, and turnover? Is it an assignment or non-assignment practice? Are accounts receivable reasonable or out of control?
 - **Business Potential** – What are the current days/ hours of operation? Is a schedule change required? Are procedures performed consistent with the services you intend to deliver? Is the ratio of doctor vs. hygiene production consistent with an efficient practice?
- Purchasing the right practice can be a daunting endeavour filled with endless concerns, but only if you choose to proceed with a DIY mindset! With a trusted advisory team on your side, your biggest investment can prove to be the best decision you could make towards your financial future. At TMFD Financial, we look forward to reviewing your practice plans and answering your questions. Contact us at info@tmfd.ca



JOSH BELLIVEAU CFP

A member of the TMFD Financial team since 2009, Josh believes in providing sound financial advice to clients by taking in their entire personal and professional picture. This includes investment analysis with a focus on proper risk exposure, tax minimization strategies, retirement planning, and estate planning centered on minimizing estate tax and transfer to next generation. Josh's commitment is defining and achieving client goals in the best way possible while growing a lasting and beneficial relationship.

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Tax* and Financial Planning
Incorporation and Practice Transition
Practice Management
Payroll and Accounting*
Insurance Planning
Retirement Planning
Wealth Management
Estate Planning

For over 30 years, TMFD Financial has been providing dentists and dental specialists with complete tax* and financial solutions. We work with new graduates, associates, established dentists and dentists transitioning or in retirement.

We are proud to be leaders in the industry, but our client's satisfaction is our truest measure of success. To all of our clients,

"THANK YOU FOR PLACING YOUR TRUST IN US."

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Dr. Neil Gajjar, BSc, D.D.S. (Mississauga)

I find the unique approach that Mike has developed to integrate all of my bookkeeping, corporate filings, and wealth management needs the key to capturing tax savings opportunities that simply would not be apparent otherwise. The background preparation work undertaken by Mike and his team at TMFD directly resulted in real corporate and personal tax savings. I am now moving confidently through a well-planned strategy. I highly recommend Mike as your one source provider to manage all your tax, corporate and personal financial affairs.

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Dr. Tony Mancuso, D.D.S. (Welland)

TMFD has given me a comprehensive plan all under one roof – very detailed with tax efficiencies for both my Canadian and my US holdings. It was nice to have both the accounting and investment strategies all under one roof with one point of contact. TMFD is working with the dental team to increase the efficiency of the hygiene department and also better track our treatment acceptance. This overall benefits cashflow.

TMFD has amalgamated both the personal and professional sides of my life especially my exit strategy—making it more crystallized with wills, insurance and estate planning strategies.

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