

Helping dentists build wealth



**Budget 2018
Impact to Dentists**

**Robo-Advisor vs
Integrated Advisor**

**Practice Valuations –
Fact or Fiction?**

BUDGET 2018 IMPACT TO DENTISTS

For many months, dentists have anxiously awaited news regarding changes to the tax rules for small business corporations. Finally, the results are in and the budget offered a small victory in light of the potentially “disastrous” implications from last summer’s initial proposals. However, the government stood firm on its plans to curtail dividends payments to family members and they introduced limits on passive investment income within a professional corporation.

Can I continue to pay dividends to family members?

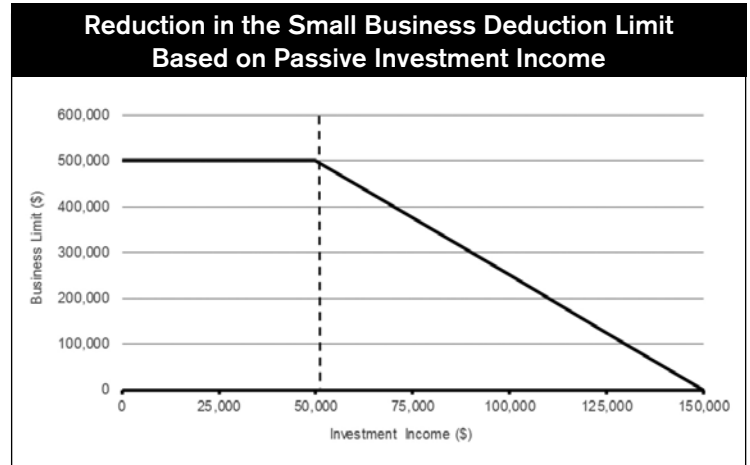
Beginning in 2018, dividends paid to family members who aren’t contributing in a meaningful way to a business will be subject to the top marginal tax rate unless an exception applies. The new rules are complex and contain a number of tests to determine if dividend payments are justified. There are some exceptions, but perhaps the most notable include:

- Aged 18 and older and make “regular, continuous and substantial” labour contributions to the business during the last five years (this is interpreted as exceeding 20 hours per week); or
- The business owner’s spouse, provided the owner meaningfully contributed to the business and is aged 65 or older (this aligns with current pension income splitting rules).

As a result of these changes, dividends to spouses, adult children or parents should be carefully scrutinized. An alternate strategy is to pay family members a “reasonable” salary for the duties contributed to the practice. Employers should be mindful of higher premiums towards CPP, and Employer Health Tax could apply once total salary from all associated companies exceeds \$450,000 (Ontario).

What are the new rules for corporate investments?

In 2019, the small business tax rate will begin to be phased out when passive investment income earned in the corporation exceeds \$50,000. Once passive income exceeds \$150,000, the corporation will no longer be able to access the small business tax rate. This means the corporate tax rate on business profits (under \$500,000) will rise from 12.5% to 26.5% (Ontario 2019). The chart below illustrates how the new tax rates will take effect.



Source: Federal Budget 2018

My investment portfolio distributes income in excess of the \$50,000 threshold. What should I do?

There are many potential strategies in this situation:

- Withdraw sufficient investment assets from the company so passive income falls below threshold. This will result in higher personal tax and possibly higher corporate tax resulting from capital gains.
- Increase your salary to reduce profit from professional activities to zero. Therefore, there will be no profit remaining subject to the higher tax rate. This will result in higher personal tax and possibly higher Employer Health Tax (Ontario).
- Consider other ways to minimize passive investment income (see below).

What can be done to minimize investment income to avoid exceeding the \$50,000 threshold?

There are many potential strategies to minimize investment income:

- Consider a buy-and-hold strategy and choose low-turnover investments to reduce taxable income.
- Establish an Individual Pension Plan (IPP) since the contributions are eligible deductions, which reduces profit and leaves less investible assets within the company for tax future years.
- Re-direct a portion of the investments to a permanent life insurance policy, such as Whole Life or Universal Life, since the annual growth of the Cash Value is tax-exempt.



- Avoid spikes in capital gains resulting from large dispositions in a single year; where possible, consider crystallizing capital gains in smaller amounts each year to remain under the \$50K threshold.

Should I separate my investment portfolio amongst multiple companies?

Unfortunately, this strategy will not avoid the new rules since all companies associated with the dentist (and related family members) will be subject to the \$50,000 limit. Further, there are certain anti-avoidance rules that make it punitive to pursue creative strategies to get around the new rules.

Should I invest inside my Professional Corporation?

Yes, the new rules allow investment income up to \$50,000 per year without affecting the normal tax on business profits. This is the equivalent of earning 5% per year on a \$1 million portfolio. These savings can be used towards future investment in the dental practice or towards retirement income.

I own the building in which I practice dentistry. Will the rental income be counted towards passive income?

No, since the rental income is related to the active business of dentistry, any net rental profit realized will not be counted towards the \$50K passive income threshold. However, if you hold a multi-tenant premises, only the rent related to your dental practice will be treated as active income; rent from other tenants will be passive income.

Are existing investment assets within the company "grandfathered"?

No, all existing corporate investments will be subject to the new rules. It will not be necessary to identify which assets were present before the new rules came into effect.

I no longer earn revenue from dentistry within my Professional Corporation. How do the new rules apply to the investments inside my company?

Under the old rules, where a corporation had RDTOH available, it could recover the previously-paid refundable tax on investment income whenever it paid out a taxable

dividend. Under the new rules, paying out eligible dividends that stem from earning active business income above the \$500,000 Small Business Deduction limit will no longer trigger a refund of RDTOH.

Is it worthwhile to remain incorporated, or to incorporate in the first place?

Absolutely, incorporation remains a viable option for most dentists because it is effective for the repayment of practice debt, the opportunity for tax-deferred savings, and use of the Lifetime Capital Gains Exemption (LCGE) upon a future share sale. However, those with investment income above the \$50K threshold should carefully review whether incorporation is still the best option.

The new rules will dramatically affect tax planning for all incorporated dentists. TMFD Financial is well-positioned to help dentists navigate through these changes. Our goal is to enrich the lives of dentists and their families by providing a comprehensive and integrated set of accounting*, financial planning and practice consulting services through one point of contact. If you have questions or need help implementing strategies mentioned herein, please contact us for a complimentary meeting at info@tmfd.ca or (844) 311-8633.

*All tax and accounting services provided by
TMFD Professional Corporation, Chartered Professional Accountants



MIKE LAKHANI B.Comm, FCCA, CPA, CGA, CFP, R.F.P.

Mike is the CEO & Founder of TMFD Financial, formerly Tax Matters for Dentists. Since 1987, Mike has been providing expertise in tax planning, accounting and personal financial planning to dental clients. He has created a 'Multi-Family Office' for

dentists geared to align their dental practices with their personal lives. With accessible, seasoned professionals all under one roof, each client's unique needs are considered with regard to tax planning, accounting, cash management, practice issues, retirement planning, structured portfolios, estate planning and insurance.

ROBO-ADVISOR **VS** INTEGRATED ADVISOR

Recently, the financial industry has observed a big push towards Robo-Advisors for investing solutions.

As a result, this has left investors asking a very important set of questions when it comes to obtaining financial advice in this day and age. What is a Robo-Advisor? How is Robo-Advice different than other forms of financial advice? And, is Robo-Advice right for my needs now and in the future?

What is a Robo-Advisor?

A Robo-Advisor is a computer driven software platform that intakes information via an online questionnaire concerning a client's current financial situation, which then develops an investment strategy based on the data collected. The major draws of Robo-Advisors are the low-cost investment solution, 24/7 accessibility via an internet connection, and no minimum starting asset level. A Robo-Advisor could be ideal for someone just starting to invest with a very simple life situation – tax, family picture, debts, etc. However, any individual or family finding themselves in more complicated scenarios will require customized financial advice, strategies and services designed to meet their short and long-term financial needs.

How is Robo-Advice different?

With anything in life, you get what you pay for. In the case of dentists seeking customized financial counsel, the cheapest solution may not be the best solution, or even applicable.

Investing is an important part of everyone's financial needs. Even still, it is not the most important or even the biggest part of a person or family's overall financial life. There are many planning opportunities and needs for every individual case that must not be overlooked. The areas or concern for most individuals and families include cash flow planning, tax planning (both personally and business), debt planning, long-term or retirement planning, family protection with insurance and estate planning. But due to the

complexity or trade-offs with these issues, they are most often overlooked with a Robo-Advisor.

Is Robo-Advice right for my needs?

Thorough and customized financial planning advice promises to cover an extensive list of items to get the financial answers most dentists require, such as:

- Do I incorporate, and if so, when? What should my corporate structure be for future needs?
- How do I pay myself from the corporation?
- How much money do I need to live my personal lifestyle on a





- How do I best pass on wealth to my children or heirs? How do I minimize estate tax along the way and when assets pass-on?
- How do I implement gifting strategies while alive, to children or others?
- How do I put this all together to make sure I am making all the right decisions for my family?
- How do I find the time to address all these issues and still be successful in my business?

Individuals make serious financial decisions throughout each year, and making the right decisions is crucial to long-term financial success. As dentists and business owners, the volume of decisions that you have to make are at a very high level, and your time is very precious. With the right financial team working for you, you can be confident you are making all the right financial and business decisions every step of the way, while truly gaining the biggest payoff – precious, irretrievable time for you and your family.

*All tax and accounting services provided by
TMFD Professional Corporation, Chartered Professional Accountants

- monthly/annual basis?
- Which debts do I pay first? Do I need to reorganize those debts? How does this affect my short and long-term planning?
- Savings strategies – do I save in an RRSP, TFSA, Individual Pension Plan (IPP), corporation or a combination of all?
- How much do I need for retirement? What is the best way to get to that goal?
- How do I fund my children's education needs?
- How do I structure my investments to account for tax efficiency, costs, diversification and risk exposure to meet all my goals?

- How do I best protect my family with life insurance? What is the right amount?
- How much disability coverage do I need? What features should I build into the policy for my long-term needs?
- What structure do I put into my Wills and Powers of Attorney? Do I need a Secondary Will?



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.

PRACTICE VALUATIONS – FACT OR FICTION?

For many professionals, the heated market of dental practice sales in recent years has made the dream of purchasing an elusive one. Although the obstacles to purchasing are varied, the execution of these transactions share many similarities.

In most, but not all cases, the process begins with the vendor seeking the services of a practice valuation firm. This process serves to render an opinion about the value of the practice, whether an asset or share sale.

There are a host of firms offering practice valuations. Many of the more prominent firms have been in the business for years and are familiar to dentists. Within this crowded space are CBV's (Certified Business Valuators) who are accredited to value businesses including dental practices. Regardless of the firm preparing the valuation, the result is a document containing information that details and supports the practice value.

Where the problems start....

The portion of the valuation that pertains directly to the practice statistics featuring active patients, active hygiene patients, production, procedure codes, accounts receivables, collection, the recall system, etc. is data that is extracted from the dental practice management software. Herein lies the issue!

As a dental practice

management consultant for over 30 years, I know first-hand that the active patient count information in dental software is rarely accurate. Why? One of the reasons has to do with the process of recording active patients within the software.

For example, does the software consider every new name as a new patient, or does the software only consider new patients as those with billing codes 01101, 01102 or

Whether you are a dentist looking to sell or interested in buying a practice, the practice valuation in many cases is the primary document used to facilitate and negotiate the buy/sell.

01103? This illustrates the issue that surrounds the collection of key practice valuation information such as active patient count.

Let's examine another data collection concerning the active patient base. Depending on the dental practice management software and the knowledge of the team or dentist extracting the data, this core valuation number can be tricky to retrieve. In my experience consulting with dentists, ascertaining an accurate active patient number can be a complicated process due to the way the software manages active patient data.

During a client practice assessment, we collect the active patient count for the owner and

use a 12-18-month date range, plus billing codes to identify an active patient. This process differs from software that deems every patient in the software as "active", or refuses data retrieval based on date range and procedure codes billed. In fact, dental software may leave the task of indicating patients with an "active" or "inactive" status to team members. Once again, there are obvious, inherent flaws in maintaining and managing core practice data in the software.

This begs the question—how do the practice valuers manage to collect this information with accuracy? The answer is, they don't. The professionals who prepare practice valuations depend on the integrity of the data





extracted from the software and on the dentist or team member's knowledge of dental software, and this speaks to my second point. The adage *garbage-in and garbage-out* certainly applies.

The (TMFD) Difference

Of course, a great deal of information is necessary to prepare the valuation document. The appraiser collects and compiles detailed information about areas like practice assets, lease, employment and associate agreements, business structure, financial statements and practice data.

Our team at TMFD Financial is thoroughly experienced with vetting practice appraisals and can

help the purchaser work through the appraisal document. From our point-of-view, the businesses that provide the valuation service are not practice owners, dental software experts or practice management consultants. They merely request information, all-the-while disclosing that in the end that "information contained

in the valuation may not be correct or audited".

Whether you are a dentist looking to sell or interested in buying a practice, the practice valuation in many cases is the primary document used to facilitate and negotiate the buy/sell. We can attest to the fact that the foundational document, the practice valuation, its accuracy and the due diligence process are less complicated if the valuation data is an accurate representation of the dental practice.

As we witness the evolution of dental practice management software in the future, let's hope that key practice data is accurate, managed, accessible and retrievable from all dental practice management software.



DALE TUCCI

Dale is President of Consulting at TMFD Financial. She and her team offer a wide variety of custom practice management services featuring transition planning, business coaching, associate recruiting, marketing and human resources. Dale has a 25 year record of success, trusted by thousands of clients for providing hands-on solutions.

Material in this newsletter is for educational purposes only. It is distributed with the understanding that neither the authors nor the publisher are rendering legal, accounting, tax, investment, or other professional services by publishing this newsletter. These publications are not a substitute for the advice of your financial advisor, or any of your other advisors, personal or professional. Certain employees of TMFD Financial maintain a relationship with Assante Financial Management Ltd. ("Assante") through which they sell mutual funds and bonds. The relationship that they have with Assante does not include tax preparation and accounting services for which TMFD Professional Corporation, Chartered Professional Accountants is solely responsible. TMFD Financial is not associated in any way with Assante, and Assante has no responsibility for the services offered by TMFD Financial.

TMFD **Financial**

Helping dentists
build wealth

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.”

*All tax and accounting services provided by
TMFD Professional Corporation, Chartered Professional Accountants

“



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.

”

Visit the TMFD Financial Team at Booth 1710

ASM18
Annual Spring Meeting

April 26-27, 2018

Metro Toronto Convention Centre, South Building



Book your complimentary consultation today | www.tmfd.ca | info@tmfd.ca | (844) 311-8633